

**REPORT OF THE
CHIEF LEGISLATIVE ANALYST**

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TO: Honorable Members of the Housing Committee

FROM: Sharon M. Tso 
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**Methods to Reduce Burden and Incentivize Landlord Participation in the Housing Choice
Voucher Program**

SUMMARY

On August 8, 2018, the City Council instructed the Housing Authority of the City of Los Angeles (HACLA) and the Los Angeles Housing and Community Investment Department (HCID), in consultation with the City Attorney, to report on policy options to increase acceptance and utilization of Section 8 vouchers and requested the City Attorney to draft an ordinance that would prohibit discrimination against Section 8 voucher holders in rental housing. HACLA, HCID, and the City Attorney presented the joint report and draft ordinance (CF 18-0462) at the January 23, 2019 meeting of Housing Committee (Committee). The Committee considered the HACLA report and instructed the Chief Legislative Analyst (CLA) to report on methods to incentivize owner participation and reduce landlord burdens and delays related to vouchers. This report summarizes existing practices by HACLA, outlines best practices from other cities, and identifies methods that could be implemented to incentivize and reduce the burden on voucher-accepting landlords. As HACLA solely administers the Housing Choice Voucher (HCV) Program, HACLA should be requested to report on the implementation of policies contained in this report, including any budgetary and staffing resources.

DISCUSSION

The HCV Program, formerly known as Section 8, provides vouchers for subsidized rental payments to low-income tenants. Voucher holders must find a unit within the private market, at which time the Public Housing Agency (PHA) that issues the voucher and administers the voucher program, pays a subsidy of the agreed rent directly to the landlord. All landlords may accept applications from HCV voucher holders, provided that their units meet the necessary safety requirements as mandated by the federal Department of Housing and Urban Development (HUD). Landlords who are willing to participate in the HCV Program may screen prospective tenants as they would do for any other tenants.

After identification of a prospective tenant with an HCV voucher, the landlord must inform the relevant PHA, in this case HACLA, and schedule a Health Quality Standards (HQS) inspection. If deficiencies in the unit are identified by the PHA inspectors, the landlord must correct the deficiencies and schedule a second inspection. Following the completion of a successful inspection, the landlord may execute a Housing Assistance Payment (HAP) contract with the PHA, at which point the landlord is informed of their rights and responsibilities regarding participation in the HCV Program. Subsidy payments commence following the beginning of the tenancy. Thereafter, the landlord must maintain the unit to HQS requirements and pass an annual HQS inspection.

Actual or perceived inconveniences created by the HCV process create disincentives for landlords to begin or continue participation in the HCV Program. These inconveniences range from the length of the initial application processing, inconvenient inspections, difficulty conforming to HQS standards, difficulties with tenants, and difficulties withdrawing from the program. A 2018 HUD report titled “Urban Landlords and the Housing Choice Voucher Program” identified three significant factors of landlord participation in the HCV program: financial motivations, perception of (HCV) tenants, and administrative factors. More specifically to Los Angeles, information received by HACLA has identified inspections, customer service, and dealing with difficult tenants as issues which burden participating landlords and serve as a disincentive to prospective participants.

According to the HUD report, financial motivations do not solely reflect a desire for profitability but whether landlords feel that they stand to reduce, not increase, financial risk through participation in the program. The HCV program provides several advantages which may serve as an incentive to landlords under the right market conditions, the most prominent being guaranteed monthly rent payments from the housing authority. There is also a constant tenant base resulting in substantially lower vacancy rates. Preconceptions and experiences with voucher tenants may also factor significantly into a landlord’s decision to participate. Beyond negative prejudices and discrimination, subsidized tenants are seen as a financial risk as a result of potential damage to property, potential citations that negatively impact the landlord, and the potential for costly evictions and vacancies. Dissatisfaction with the administration of the HCV Program also factored into the decision to participate among those surveyed by the HUD study. First and foremost, delays in tenancy created by an inefficient inspection process results in vacancy, the financial cost of which is taken by the landlord. Landlords have further reported inconsistent inspection requirements, which may result in inconveniences, costly repairs to the unit, and prolonged vacancies.

Existing Practices within HACLA

HACLA provided information regarding their current practices for incentivizing and reducing the burden on landlords. HACLA is in the process of implementing several measures targeted to reduce the burden on currently participating landlords, as well as to incentivize new owner participation thereby increasing voucher acceptance rates. These measures include:

- Provision of maximum subsidy payment
- The Homeless Incentive Program (HIP)
- HCV Program Outreach
- Data Sharing Agreement with HCID
- Streamlining Administrative Procedures
- Landlord Service Dedicated Staff

Subsidy payment increases are not possible as HACLA currently offers the maximum payment allowed by HUD (10% above the standard subsidy). HACLA offers financial incentives for acceptance of homeless voucher holders through HIP. The incentives provided include a holding fee incentive which provides up to one month’s rent per unit pending lease to an HCV tenant; move-in assistance which includes security deposit, utility, and furniture assistance; damage mitigation funding; and pre-qualifying inspections to streamline initial inspections. These incentives are currently only available to landlords leasing to homeless voucher holders. HIP currently serves 4,500 families and is funded by \$5,000,000 in Measure H funds. If the Council wishes to expand HIP, a source of funding would need to be identified for an expansion.

In order to reach out to potential participants HACLA conducts regular outreach through various media including radio, television, newspapers, and other publications. HACLA hosts information sessions and circulates informational materials to realty groups, owners' associations, property management companies, and elected representatives' offices. HACLA also performs outreach to landlords located outside high poverty and minority concentration areas where voucher concentration is high. For current participants, HACLA publishes the monthly Section 8 Owner Newsletter containing additional information of interest to program participants such as available incentives and options available for redress of problems. HACLA staff are also dedicated specifically to landowner outreach and services. In order to address complaints received, HACLA has recently purchased a new phone system which will streamline communication with landlords.

To address program participant concerns regarding inconveniences created by inspections, HACLA is reviewing several measures to streamline the HCV Program. HCID and HACLA are developing a data sharing agreement to decrease the number of inspections conducted on the same unit. HACLA also aids landlords who have problems with tenants, and informs them of eviction rights with just cause. Additional efforts include expedited processing for all new contracts, electronic document provision, flexible subsidy payments, online services, and upfront negotiation of rental rates.

HACLA and the City have taken measures to promote Fair Housing Practices and create a Source of Income Discrimination Ordinance that would protect those who use HCV vouchers or other types of housing assistance from discrimination. This would prevent landlords from denying applications due to voucher usage and would also prevent landlords from advertising units as not accepting vouchers or housing assistance. In addition, landlords are encouraged to screen prospective tenants prior to execution of a HAP contract in order to ensure that they do not have undesirable tenant or recent criminal history. This is in addition to the screening performed by the PHA prior to voucher award. This information is regularly provided through outreach sessions to potential and current participants of the HCV program.

Best Practices in other PHAs

The following provides a summary of best practices identified through research on housing voucher incentive programs in other cities. PHAs in other municipalities largely rely on financial incentives to encourage new landlord participation in the HCV Program. Many of these incentives are offered by HACLA through their HIP program. HACLA also provides several best practices incentives through it ongoing efforts to incentivize owners.

The types of assistance offered by programs in other cities vary but there are several incentives that are constant in every incentive program. Several cities offer a signing bonus payment for each lease executed with a voucher-subsidized tenant. The requirements for these incentives vary, with some targeting only new landlords, seeking to incentivize new landlord participation. Cities also target the incentive to leases executed with a specific population of tenants, such as homeless individuals or veterans. Other common financial incentives available to HCV landlords include funds made available for damage repair, to cover missing rent, and the application costs of the tenant. Another very common incentive is a vacancy hold payment by which the PHA covers up to one month's rent in order to cover the landlord's costs for the application process or the vacancies created between one HCV tenancy to the other. Vacancy hold payments also aid in providing time for HCV landlords to carefully screen their next tenant. Less common incentives offered to landlords include landlord liaison positions to specifically address landlord concerns (San Diego), covering of legal fees for

cases involving HCV tenants (Santa Cruz), owner-requested inspections (Santa Barbara), and financial incentives for referrals to the voucher program (New York).

Oakland has a very robust Owner Benefits Program which benefits from clear goals: supporting existing owners and recruiting new owners to the HCV Program, increasing the number of units available, increasing lease-up success rates, and increasing overall voucher utilization. The program is also centered on five incentives, including a New Landlord Incentive Payments, Vacancy Loss Payment, Prequalifying Inspections, an Owner Recognition Program that provides awards and special designations to highlight long-term providers, and an Apartment Repair Program. Many of these incentives are currently offered through HACLA's Homeless Incentive Program.

The "Consider the Person" Campaign in Maryland seeks to change the misconceptions and prejudices that landlords and community members may have regarding participants in the HCV Program. The campaign works to establish voucher holders as working professionals, veterans, and families that contribute to their communities.

Policies to Incentivize and Reduce Burdens on Landlords

In addition to the numerous efforts being undertaken by HACLA, there are several policies which may be enacted or studied in order to incentivize owners to participate and therefore increase the voucher acceptance rate. Efforts for the expansion of information and training sessions for participating landlords should be made to address issues regarding misinformation and questions regarding the HCV process. This outreach could focus on informing landlords of their rights and responsibilities under the HCV Program. Outreach efforts can also be targeted to specific geographic areas with low voucher concentration to increase acceptance in those areas. Outreach may also be targeted to specific topics that have been identified as issues by current participants such as effectively addressing problem behavior by tenants. Information sessions may also include strategies for effective screening of tenants and procedures for evictions of voucher tenants. Outreach efforts designed to help dispel popular misconceptions of HCV tenants should also be made.

The most effective methods of incentivizing participation are financial and risk reduction incentives. In order to align HACLA's efforts with the practices of other PHAs, the HIP program could be expanded to include all landlords, or to target additional populations (minorities, women, families, veterans). As noted earlier, HIP is currently targeted to landlords that rent to homeless voucher holders. Expanding landlords and populations eligible for HIP's incentives, including vacancy hold payments and damage mitigation funds, could increase the pool of participants. This would also extend prequalifying inspections offered as part of the HIP program to more landlords. Incentives may also be expanded individually to regulate the budgetary impact, for example only expanding the prequalifying inspections but not the financial incentives.

Voucher subsidy payment standards are determined by every PHA using Fair Market Rent (FMR) figures provided annually by HUD. These are generally citywide or metropolitan area figures. An alternative is to calculate using Small Area Fair Market Rents (SAFMR) which calculate FMR by ZIP codes. This allows for a higher FMR in high-income areas and therefore increases the voucher payment standard a PHA is able to provide. Citywide FMRs result in a high concentration of vouchers in low-income neighborhoods and disincentives to accept vouchers in more affluent areas. HACLA currently provides voucher payments calculated using an FMR for the Los Angeles metropolitan area. SAFMR calculations were not implemented by HACLA as the initial program guidelines created by HUD required lowering voucher payment standards in lower income areas in

order to accordingly increase payments in high income areas. As the vast majority of HACLA's vouchers are located within low income areas, using SAFMR as originally proposed would result in a rent increase for a majority of voucher holders.

Parameters have recently been amended to allow PHAs to use reserve funds for payment increases in high income areas. HACLA is currently studying the feasibility of utilizing SAFMR to calculate housing assistance payments in high-income areas. The implementation of SAFMR calculations would increase the allowable voucher payment standard in high-income areas, thereby creating financial incentive for landlords in those areas to accept vouchers. HACLA also plans to implement a mobility program which would assist voucher holders with relocation to these new areas. This would provide an additional screening process for applicants in high income areas, on top of already providing other benefits.

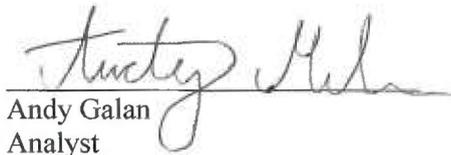
It may be possible to target incentive programs to geographic regions with low voucher concentration, high homeless count, or large minority concentrations. Limiting factors preventing the expansion of HIP Citywide could be alleviated by applying incentives solely in areas of low voucher concentration. Furthermore, SAFMR could be applied solely in these areas as well, which would provide increasingly targeted incentives. These geographic regions may be selected through studies to determine the greatest need or through request by elected officials in areas which meet certain requirements.

HACLA engages with over 13,500 landlords, 88% of which are small landlords who own properties with five or fewer units. The development of a policy that recognizes the wide range of landlords and properties would also aid in incentivizing new landlords to participate. Challenges faced by smaller landlords differ significantly from those faced by larger, commercial landlords. Smaller landlords are naturally more risk averse. Creating a policy that considers the needs of landlords based on building size rather than general policy all landlords must conform to may result in a reduction of burden to current participants and may result in incentivizing new participants. In addition to the information sessions currently provided by HACLA, smaller landlords participating in the HCV Program could be provided with management, property preservation, or financing classes as an incentive for continued participation.

Property factors such as size and age affect a landlord's risk in participating. For example larger properties could complicate the scheduling of inspections. Older properties often mean increased and more frequent repairs in order to comply with HQS. Properties which were constructed prior to 1978 must also comply with the Rent Stabilization Ordinance (RSO), adding another layer of regulations that HCV landlords must consider. Alignment of regulations between the HCV program (namely HQS regulations) and the RSO should be studied. Financial incentives such as the provision of low interest loans for renovations to older properties which are available to voucher holders may be effective in the retention of landlords. Financial incentives for the owners of older properties may also result in the preservation of RSO properties citywide. A targeted approach may also be attempted using these considerations, for outreach to either smaller landlords or similarly to target older properties.

In order to incentivize new landlords to participate in the HCV Program, policies acknowledging that market conditions in Los Angeles are not conducive to voucher acceptance should be considered. Other cities have larger success with the voucher program due to market conditions in which participation without additional incentives provide sufficient benefits to encourage landlord

participation and retention. Policy to incentivize landlords in Los Angeles should be developed with consideration of the City's market conditions, namely high rental rates and low vacancy rate. Identifying successful HCV landlord practices in current market conditions would likely serve to provide a framework for the success of the voucher program in current market conditions.



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