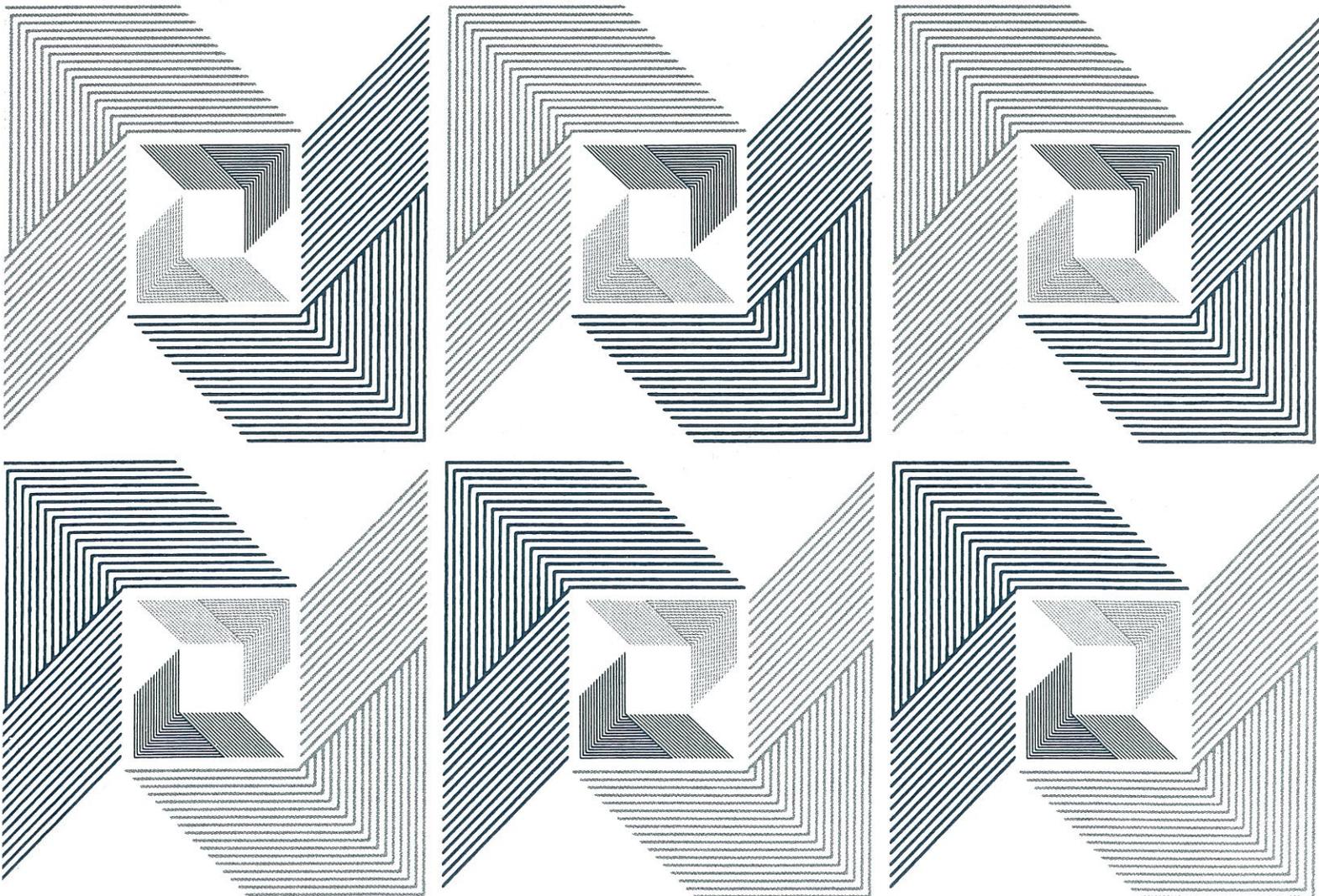


Report No. 90-7
January 1990

AUDIT OF THE RENT SUPPLEMENT PROGRAM OF THE HAWAII HOUSING AUTHORITY

A REPORT TO THE GOVERNOR AND THE LEGISLATURE OF THE STATE OF HAWAII



THE OFFICE OF THE LEGISLATIVE AUDITOR

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OVERVIEW

AUDIT OF THE RENT SUPPLEMENT PROGRAM OF THE HAWAII HOUSING AUTHORITY

Honolulu, Hawaii

January 1990

Summary

The Rent Supplement Program is one of several programs managed by the Hawaii Housing Authority which provide rent support to low and moderate income families in Hawaii. It pays up to \$160 per month to families and individuals who rent in the open market and whose adjusted incomes do not exceed applicable limits.

The law establishing the program was originally directed at helping families and individuals being displaced from public housing projects because their incomes exceeded the allowable limits.

However, with changes in federal and state requirements for public housing, such displacements have become rare. The program now makes rent supplements available to qualified applicants on a first come, first served basis.

Section 105 of the General Appropriations Act of 1989 requested the legislative auditor to examine various financial and management aspects of the Rent Supplement Program and its administration by the Hawaii Housing Authority.

FINDINGS

The program has not kept pace with changes in housing needs. Policies on how the program assesses need and eligibility and where it concentrates its efforts require clarification. The program is providing questionable support to nonimmigrant student aliens and to persons already receiving other types of housing subsidy. Other aspects that need attention include obsolete and unnecessary provisions in the statutes and rules, questionable limits on income and assets, and inadequate efforts to verify the information provided by applicants.

General accounting controls are proper and in compliance with applicable laws, rules, and regulations, but certain expenditure constraints should be observed. Out of the program's appropriation for FY 1989-90, the Hawaii Housing Authority is setting aside \$1 million for other uses while cutting back

on supplement payments. It is also not transferring certain moneys to the Housing Revolving Fund for proper accountability.

RECOMMENDATIONS

1. The Hawaii Housing Authority should conduct a comprehensive review of the program and submit its findings, conclusions, and recommendations for legislative consideration. Attention should be given to the policy issues of subsidizing nonimmigrant alien students and combining housing subsidies for the benefit of particular families. Other obsolete and deficient features of the program should be updated and revised.

2. The Hawaii Housing Authority should reconsider its position of setting aside \$1 million for purposes not related to the Rent Supplement Program and for which there is no legislative appropriation. The

\$399,000 in the program's appropriation that is legislatively earmarked for other uses should be transferred to the Housing Revolving Fund to provide for better accounting of these funds.

RESPONSE

The Hawaiian Housing Authority concurs with the recommendations that call for a comprehensive review of the Rent Supplement Program and with other issues raised in the report. The housing authority will be proposing statutory changes to restrict rent supplements relative to nonimmigrant aliens. The agencies do not concur with the audit's financial management recommendations.

The East-West Center will cooperate with any future reviews that the housing authority may conduct with regard to East-West Center families.

**AUDIT OF THE RENT SUPPLEMENT PROGRAM
OF THE HAWAII HOUSING AUTHORITY**



A Report to the Governor and the Legislature of the State of Hawaii

Submitted by

**Legislative Auditor of the State of Hawaii
Honolulu, Hawaii**

**Report No. 90-7
January 1990**

FOREWORD

Section 105 of the General Appropriations Act of 1989 requested the legislative auditor to examine various management and financial aspects of the Rent Supplement Program within the Rental Housing Augmentation and Assistance Program. The Rent Supplement Program is one of several programs administered by the Hawaii Housing Authority which are aimed at providing rent support to low and moderate income families in Hawaii.

This report looks at the Rent Supplement Program in the context of Hawaii's network of federal, state, and local rent support programs. It contains our assessment of the Rent Supplement Program, including policy framework, overall administration, and financial management.

We wish to acknowledge the cooperation and assistance of officials and personnel in the Hawaii Housing Authority; the Housing Finance and Development Corporation; the Honolulu office of the U.S. Department of Housing and Urban Development; the Department of Housing and Community Development, City and County of Honolulu; the Housing Division, Department of Human Concerns, County of Maui; the Housing Agency, County of Kauai; the Office of Housing and Community Development, County of Hawaii; the Affordable Housing Alliance; and other public and private individuals contacted during the course of this examination.

Newton Sue
Acting Legislative Auditor
State of Hawaii

January 1990

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Chapter 1

INTRODUCTION AND BACKGROUND

Section 105 of the General Appropriations Act of 1989 (Act 316) called for the auditor to examine various financial and management aspects of the Rent Supplement Program within the Rental Housing Augmentation and Assistance Program, with emphasis upon the implementation by the Hawaii Housing Authority (HHA) of the legislation passed in 1988 to raise the limit on rent supplement payments (Act 217). This report sets forth the results of the examination.

Objectives of the Examination

The examination had the following objectives:

1. To identify and describe the Rent Supplement Program and how it relates to other federal, state, and county programs aimed at meeting the rental housing needs of families and individuals with low to moderate incomes.
2. To review the policy framework for the Rent Supplement Program in terms of providing clear, complete, consistent, and meaningful guidelines for implementation by the Hawaii Housing Authority.
3. To assess the performance of the Hawaii Housing Authority in carrying out the Rent Supplement Program.
4. To examine the Hawaii Housing Authority's financial management of the Rent Supplement Program, particularly with regard to expenditure controls.
5. To make recommendations for changes in the Rent Supplement Program and its

implementation, where appropriate, so as to improve the provision of rental housing assistance to Hawaii's low and moderate income population.

Scope of the Examination

The focus of this examination was on the management of the Rent Supplement Program as carried out by the Hawaii Housing Authority within the context of federal, state, and local rental housing support programs which exist in Hawaii and in which the Hawaii Housing Authority is involved. We looked at how the program functioned and who participated to see whether the assistance rendered seemed reasonable, equitable, and consistent. We made use of a review of participants by staff of the Hawaii Housing Authority.

The scope of the project also included a review and examination of the financial operations of the Rent Supplement Program for fiscal years 1985-86 through 1988-89 and for the first quarter of fiscal year 1989-90.

Organization of the Report

This report is organized into four chapters. Chapter 1 includes this introduction and some background information on governmental support programs in the field of rental housing. Chapter 2 describes the Rent Supplement Program and several closely related programs. Chapter 3 contains our overall assessment of the Rent Supplement Program. Chapter 4 sets forth the results of our examination of the financial management of the Rent Supplement Program.

Some Background on Governmental Rental Housing Support Programs

Hawaii's Rent Supplement Program is only one of a variety of federal, state, and local governmental programs aimed at providing suitable rental housing at an affordable cost to low and moderate income families and individuals in Hawaii. These programs are both similar and different in terms of administering agencies, clientele, and the financing, development, and ownership of rental housing facilities. It is therefore important to view the Rent Supplement Program within the context of related governmental activities.

Range of governmental programs. Governmental efforts to provide rental housing at affordable rates in Hawaii take a variety of forms. In some instances, governments--either singly or in combination--have directly financed and developed housing facilities that are then rented to qualified tenants with government serving as the landlord. In other instances, private interests have developed facilities with governmental financial assistance and subject to governmental requirements and controls relative to rental rates and eligibility to rent. Governments have also acquired existing housing facilities and then have made them available to qualified renters at fixed or subsidized rates. In some cases, governments directly operate and manage the affected housing facilities; in other cases, they turn over or contract out these functions to private profit or non-profit organizations. Such activities may be generally termed as facility- or project-oriented.

In addition, governments have developed programs that are more client- or tenant-oriented. Under these programs, tenants are allowed to secure housing throughout the community rather than just in government-supported projects, and governments then help the tenants pay the rents charged. Governments usually set standards such housing must meet and may set the maximum rents that can be charged. Although these governmental subsidies are normally paid to

the landlords and not to the tenants, the payments are contingent upon the tenants' meeting established eligibility requirements.

Organizational framework for providing rental housing support. With federal, state, and local governments all providing rental housing support to families and individuals with low to moderate incomes, their respective roles are briefly described below.

Federal role. Generally speaking, the federal government does not become directly involved in the day-to-day administration of rental support programs. Its primary functions are to provide funding assistance to subsidize such housing and to set standards and requirements for the proper use of its funds. It may also become directly involved in the development of particular projects. When working with state and local governmental agencies, it monitors their activities but leaves administrative and operational matters to be handled by the agencies. When working with private developers, it oversees their activities during the development process and contracts out the management of projects when the projects are completed and become operational. The affected federal programs are handled through the U.S. Department of Housing and Urban Development (HUD), which has a local office in Honolulu.

State role. The State of Hawaii plays a broad role in the field of rental housing support, ranging from the financing and development of projects to the day-to-day operation and management of projects to the disbursement of rent support payments throughout the islands. Until 1987, all of these functions were centered in a single agency. Currently, however, the functions are divided between two agencies as described briefly below.

Hawaii Housing Authority. In line with events that were occurring nationally, the Hawaii Housing Authority (HHA) was created in 1935 to replace slums with low rent housing. It is a corporate body with perpetual existence and

until 1959 it operated as a completely separate agency. With the reorganization of the state government that accompanied statehood for Hawaii, it was attached for administrative purposes to the Department of Social Services and Housing (now the Department of Human Services). Over the years, the functions of the HHA were broadened to encompass a wide range of housing activities.

Prior to 1987, the HHA had the powers to lease, rent, own, develop, and administer housing and, with the approval of the governor, to issue bonds. It was also authorized to obtain financial assistance and cooperation from the federal government in such areas as the planning, construction, and operation of housing projects. With the passage of Act 337, *Session Laws of Hawaii 1987*, many of the financing and development functions were transferred to the newly created Housing Finance and Development Corporation, and the HHA was left with the major responsibility of managing and operating housing facilities and programs that were subject to state ownership or control. In those areas where the HHA still retains responsibility for housing financing and development, it works closely with the Housing Finance and Development Corporation and delegates much of the actual development administration to the latter.

As of February 1989, the HHA was administering and managing 6,360 low rent housing units throughout the state which had been developed or acquired under various programs. Table 1.1 provides a breakdown of these units by island and by project category. The HHA also contracts for the administration of some housing projects that are federally subsidized but are privately owned.

In addition to the rental housing units shown in Table 1.1, the HHA manages 385 units in projects for the elderly developed under Section 8 of the United States Housing Act of 1937, as amended. These include 313 units in four projects on Oahu, 36 units in one project on Hawaii, and 36 units in one project on Kauai.

The HHA is further responsible for administering several tenant-oriented rent support programs. These include the state-funded Rent Supplement Program and the federally funded certificate and voucher programs provided for in the Existing Housing Program under Section 8 of the United States Housing Act of 1937, as amended. They also include the State Rental Assistance Program, which is under the policy direction and control of the Housing Finance and Development Corporation but which is administered by the HHA. These tenant-oriented programs are described more fully below.

| Project Category | Total | Oahu | Hawaii | Maui | Kauai |
|----------------------|--------------|--------------|------------|------------|------------|
| Federally-aided | 5,213 | 4,106 | 669 | 142 | 296 |
| State permanent | 716 | 686 | 30 | - | - |
| Act 105 | 188 | 60 | 128 | - | - |
| DOT rentals | 12 | 12 | - | - | - |
| Farm labor housing | 31 | - | 31 | - | - |
| State rental housing | 200 | 200 | - | - | - |
| Total | 6,360 | 5,064 | 858 | 142 | 296 |

The number of participants in these HHA-administered programs exceeds 3,000.

Housing Finance and Development Corporation. In 1987, the Legislature determined that Hawaii's overall housing shortage had become so severe that it could no longer be dealt with effectively by existing institutions. Accordingly, the Legislature set up a new agency with broad powers to finance and develop housing (Act 337, SLH 1987). As part of the statutory process of establishing this new agency, most of the financing and development functions of the HHA were transferred to the new agency and the HHA was left with the prime function of managing and operating state-controlled rental housing facilities. The new agency, the Housing Finance and Development Corporation (HFDC), was initially attached for administrative purposes

to the Department of Planning and Economic Development. However, under Act 26, SLH 1989, the HFDC was reassigned to the Department of Budget and Finance.

Role of the counties. Along with the federal and state governments, Hawaii's four county governments have also become involved in the field of housing. Besides the HHA, all of the counties administer rental housing vouchers and certificates under HUD's Existing Housing Program as authorized by Section 8 of the United States Housing Act of 1937, as amended. Indeed, while the HHA has about 2,000 clients under the voucher and certificate programs, the counties have more than 5,000. Using their own funds and federal funds, the counties are also involved in the development and management of various rental housing projects.

Chapter 2

DESCRIPTION OF THE RENT SUPPLEMENT PROGRAM

This chapter, describes features of the rent support programs currently operating in Hawaii. These are (1) the state Rent Supplement Program, which is the focus of this study, (2) the state Rental Assistance Program, and (3) the federal certificate and voucher programs under Section 8 of the United States Housing Act of 1937. The Hawaii Housing Authority (HHA) is exclusively responsible for the first of these programs, but is also involved in the administration of the others.

The Rent Supplement Program

The Rent Supplement Program was inaugurated as part of the Omnibus Housing Act of 1967 (Act 278). It was patterned after the federal rent supplement program for low income families, which was initiated by the federal government in 1965 but is now being phased out.

At the time of its passage, the program focused on tenants of public housing projects who had to vacate their units because their incomes exceeded the maximum allowed for continued occupancy. The program set the maximum payment at \$50 per month per recipient.

During the intervening years, only three types of changes have been made to the law: (1) those increasing the maximum limit on monthly rent supplement payments, (2) those setting narrower limits on persons who can qualify for support under the program, and (3) one change removing a residence requirement on housing owners who may participate in the program. Increases in the maximum limit on rent supplement payments occurred in 1969 (Act 202), 1976 (Act 211), and 1988 (Act 217).

The maximum limit is now \$160 per month. In 1971, single individuals were excluded from the term "qualified tenant," except those who are 62 years of age and older or who are physically or mentally impaired (Act 135). In 1975, the term "qualified tenant" was further amended to exclude persons who are eligible for support under the Federal Supplemental Security Income Program or who are receiving money payments for public assistance from the Department of Human Services (Act 145). The residence requirement for housing owners was removed in 1988 (Act 217).

Although the basic law underlying the Rent Supplement Program has not changed significantly since 1967, the focus of the program has shifted. The original intent of the Omnibus Housing Act in 1967 was to increase the supply of housing by providing incentives to developers to build additional housing. Provisions allowed the HHA to enter into long-term contracts (up to 40 years) with housing owners and to pay them rent supplements on behalf of qualified tenants. As the program has evolved, however, it became tenant-oriented. Tenants now make their own arrangements for housing and then apply to the HHA for support. The HHA then enters into contracts with the affected housing owners and the tenants.

Most of the requirements governing the Rent Supplement Program are set forth in the rules and regulations adopted by the HHA. Some of the more significant requirements are set forth below.

Eligibility. To qualify for rent supplement support, applicants or tenants must: (1) qualify as families, (2) meet applicable income limits, (3) meet applicable asset limits, (4) provide

reasonable assurance that they can pay in a timely manner the portions of the rent for which they are responsible, (5) not own any other housing units on the same island where they are seeking rent supplement support, (6) not have any outstanding debts due to the HHA, (7) qualify for rent supplements in the amount of \$5 or more per month, and (8) meet all statutory requirements set forth in the law governing the Rent Supplement Program.

Placement and priorities. Subject to the priorities established for the program, applicants are placed in the program according to the dates of their applications. The priorities set for the program are (1) those who have recently vacated or are vacating public housing projects because their incomes exceed the maximum limits for continued occupancy and who demonstrate an urgent housing need, (2) those who are displaced by governmental actions, and (3) those who have the most urgent housing needs as determined by the HHA.

Income limits. To be eligible for rent supplement support, applicants and tenants must have incomes that do not exceed the limits set for those who qualify to live in federally supported public housing under Section 221(d)(3) of the National Housing Act. The federal limits are

adjustable. The most recent limits derived for the Rent Supplement Program are summarized in Table 2.1. Under the program's rules, family income means "all income from any source before deductions or exemptions, anticipated to be received during the twelve month period following admission or redetermination of family income, as the case may be, by all persons occupying, or who are to occupy the dwelling, and by a family head temporarily separated from the family."¹

Asset limitations. Along with the income limitations on the Rent Supplement Program, there are limitations on the amounts of personal assets. For the elderly, the total asset limits are twice the applicable annual income limits. For the nonelderly, the asset limits are one-and-one-half times the applicable annual income limits.

Determination of rent supplement amounts. Under the Rent Supplement Program, it is assumed that participants can afford to pay 20 percent of their incomes toward rent (with some slight adjustment of incomes for families with dependent minor children). Thus a rent supplement payment can be applied only against the difference between what the recipient can afford and the actual rent charged for the affected

**Table 2.1. Rent Supplement Program Annual Income Limits
(Effective February 6, 1989)**

| Number in Family | Oahu | Hawaii | Kauai | Maui |
|------------------|----------|----------|----------|----------|
| 1 | \$26,000 | \$22,300 | \$22,550 | \$24,350 |
| 2 | 29,700 | 25,500 | 25,750 | 27,800 |
| 3 | 33,450 | 28,650 | 29,000 | 31,250 |
| 4 | 37,150 | 31,850 | 32,200 | 34,750 |
| 5 | 39,450 | 33,850 | 34,200 | 36,900 |
| 6 | 41,800 | 35,850 | 36,250 | 39,100 |
| 7 | 44,150 | 37,850 | 38,250 | 41,300 |
| 8 | 46,450 | 39,800 | 40,250 | 43,450 |

housing unit. If the difference is less than the maximum payment of \$160 per month, then the supplement is reduced accordingly. If a difference is greater than \$160 per month, then the maximum amount is paid and the additional difference has to be made up by the tenant.

To illustrate: if a family has an income of \$18,000 per year, then the family's affordable (or "allocable") rent is \$3,600 per year (20 percent of \$18,000), or \$300 per month (\$3,600 divided by 12). If the actual rent is \$450 per month, then the family can receive a rent supplement of \$150 per month (\$450 minus \$300). If the actual rent is \$550 per month, then the family can receive a rent supplement of \$160 (the maximum allowed) but will have to pay rent on its own in the amount of \$390 per month (\$300 plus the \$90 not covered by the rent supplement). If this family happens to have two minor dependent children, then its annual income can be adjusted downward in the amount of \$100 per child to \$17,800 per year (\$18,000 less \$200). The same formula is then applied to determine the amount of the supplement.

Recertification. The Rent Supplement Program has a recertification procedure under which the HHA periodically reviews the qualifications of participants (such as income, family composition, and rents being charged) and makes adjustments as appropriate. For elderly families, these reviews and recertifications must occur at least once every 24 months. For the others, the minimum frequency is once every 12 months.

Rent supplement agreements. For each grant of a rent supplement, there are two agreements: one between the HHA and the housing owner and another between the HHA and the affected tenant family. The separate documents acknowledge the agreement between parties, establish the amount of the total rent

and the amount of the rent supplement, and set forth other conditions. Tenants and owners are required to give the HHA written notice at least 30 days prior to the date when they plan to terminate the rent supplement agreement.

Program participation. As of June 30, 1989, there were 1,336 participants in the Rent Supplement Program: 1,108 on Oahu, 169 on Hawaii, 37 on Maui, and 22 on Kauai. The total has been as high as 1,495, but the program was downsized to stay within the funding limits for fiscal year 1989-90. During fiscal year 1988-89, the statewide average number of applicants on the program's waiting list was 570. There were applicants on the waiting list in all four of the counties. With a cutback in the program for fiscal year 1989-90, the waiting list average is expected to increase.

Some participant demographics. To obtain a sense of those participating in the Rent Supplement Program, we examined data on a sample of 100 program participants (based on heads of household) distributed throughout the four counties. There were 28 elderly families (those with heads of household who were 62 years of age or older) and 72 other families. Fifty-six participants were between the ages of 22 and 41, 16 between the ages of 42 and 61, 24 between the ages of 62 and 81, and 4 participants who were 82 or more years old.

Among the 100 families, more than 75 percent had annual incomes of less than \$20,000. Table 2.2 provides a more detailed breakdown of annual incomes. These families also have quite limited assets: 58 had less than \$1,000 in assets, another 16 had less than \$2,000. Only 16 families had assets exceeding \$5,000. Of the 100 families, 60 were receiving rent supplements at the maximum amount of \$160 per month. The remaining 40 were receiving amounts ranging from \$19 to \$158 per month.

Table 2.2. Distribution of Annual Incomes Among A Sample of Rent Supplement Program Participants

| Annual Income | Nonelderly Families | Elderly Families | Total Families |
|---------------------|---------------------|------------------|----------------|
| Under \$5,000 | 2 | 2 | 4 |
| \$ 5,000 - \$ 9,999 | 7 | 15 | 22 |
| 10,000 - 14,999 | 22 | 6 | 28 |
| 15,000 - 19,999 | 18 | 4 | 22 |
| 20,000 - 24,999 | 11 | 0 | 11 |
| 25,000 - 29,999 | 10 | 1 | 11 |
| Over \$30,000 | <u>2</u> | <u>0</u> | <u>2</u> |
| Total | 72 | 28 | 100 |

The Rental Assistance Program

The Rental Assistance Program was enacted into law in 1981 (Act 111) and was originally assigned to the HHA for implementation. The purpose of this program is to help housing owners maintain rentals at rates affordable to families with low and moderate incomes. The program provides owners with rental assistance payments that supplement the rent paid directly by the affected low and moderate income families. The payments enable the owners to earn acceptable rates of return on their investments in the rental units covered by the program. In 1987 under Act 337, the program was transferred to the newly created Housing Finance and Development Corporation (HFDC).

The Rental Assistance Program, therefore, differs in purpose and focus from the Rent Supplement Program. It is a project-oriented program aimed at encouraging the private sector to develop rental housing projects where rates can be kept appropriately low. The program is tenant-oriented to the extent that only qualified families can live in units set aside for the program.

Project requirements. The statutes and the rules of the HFDC set forth the requirements

projects must meet in order to be included under the Rental Assistance Program. For example, there must be a rental assistance contract between the owner of the project and the HFDC which sets the time period and establishes a maximum annual rental assistance payment. The project must also be financed through a loan approved by the HFDC and be subject to a regulatory agreement with the HFDC covering such matters as rents, charges, and profits. The project must maintain at least 20 percent of the units under the Rental Assistance Program.²

Tenant requirements. An "eligible tenant" qualified to participate in the Rental Assistance Program is defined by law as a family or individual whose income does not exceed 80 percent of the median income in the affected area as determined by the U.S. Department of Housing and Urban Development. This means that the limits are adjustable and may vary among different areas within the state. In practice, limits are set on a project by project basis.

At the time of our review, there were two projects developed under this program: the Manana Gardens Project on Oahu and the Lailani Project on Hawaii. For each, a permanent

income limit has been set governing eligibility to enter the projects under the Rental Assistance Program.

To minimize the need to displace families as their incomes rise, income limits have also been set governing eligibility to remain in the projects. For both projects, the upper limit is the market rate income limit that has been set by the HFDC for its housing loan and mortgage program. This upper limit ranges from \$36,154 per year for a family of 1 to \$43,654 per year for a family of 5. For larger families, the limit goes even higher.

Determination of rental assistance payments. Unlike the situation under the Rent Supplement Program where numerous landlords individually determine the rental rates that they will charge, the HFDC sets the rents that can be charged for units under the Rental Assistance Program. These market level rents are established by contract and cannot be changed except with the approval of the HFDC. In the Manana Gardens Project, where all 70 two-bedroom apartments are under the Rental Assistance Program, the market level rent is \$695 per month. The Lailani Project has 200 one-, two-, and three-bedroom apartments of which 120 have been set aside for the Rental Assistance Program. The market level rents for these apartments are \$460, \$660, and \$785 per month.

Although different factors are used, the procedure for determining support payment amounts under the Rental Assistance Program is similar to that for the Rent Supplement Program. The allocated portion of the rent assumed to be affordable is set at 30 percent of the participant's income or at the market-level rent of the affected rental unit, whichever is less. Rental assistance payments then become applicable to the difference between these affordable payment amounts and the established market level rents.

As under the Rent Supplement Program, there are maximum limits set on rental assistance payments. However, these maximum limits vary by project.

Federal "Section 8" Programs

Under Section 8 of the United States Housing Act of 1937, as amended, the federal government has initiated programs aimed at bringing existing rental housing within the means of low income families. The first such program is referred to as the Existing Housing Certificate Program. In 1984, an alternative program was started on a demonstration basis. In 1987, this demonstration program was given permanent status and is referred to as the Existing Housing Voucher Program. Each of these programs is described more fully below. However, inasmuch as both programs have the same income eligibility limitations, these are described first.

Income eligibility limitations. The federal Section 8 existing housing programs are restricted to very low income families who are certified eligible by the state and local public housing agencies (PHAs) that administer the programs. In Hawaii, the HHA and the four county housing agencies all serve as PHAs. Such certification applies only to those who fall within the low income limits determined annually by the U.S. Department of Housing and Urban Development (HUD). Table 2.3 sets forth the limits for Hawaii that became effective February 6, 1989.

Certificate program. Under the Section 8 certificate program, participants are encouraged to negotiate directly with landlords for rental housing that will meet their needs. Such housing must meet HUD standards for safety and sanitation, and the rents charged cannot exceed the maximum rents (referred to as "fair market rents") for the affected areas as determined annually by HUD. Table 2.4 shows the fair market rent limitations for Hawaii as of September 28, 1989.

Table 2.3. Very Low Income Limits for Participation In Section 8 Certificate and Voucher Programs (Annual Income, Effective February 6, 1989)

| Number in Family | Oahu | Hawaii | Kauai | Maui |
|------------------|----------|----------|----------|----------|
| 1 | \$13,700 | \$12,250 | \$15,350 | \$12,800 |
| 2 | 15,650 | 14,000 | 17,500 | 14,650 |
| 3 | 17,600 | 15,750 | 19,700 | 16,450 |
| 4 | 19,550 | 17,500 | 21,900 | 18,300 |
| 5 | 21,100 | 18,900 | 23,650 | 19,750 |
| 6 | 22,700 | 20,300 | 25,400 | 21,250 |
| 7 | 24,250 | 21,700 | 27,150 | 22,700 |
| 8 | 25,800 | 23,100 | 28,900 | 24,150 |

Table 2.4. Fair Market Rent Limits for the Section 8 Certificate Program As of September 28, 1989 (Monthly Rents Including Utilities)

| Type of Rental Unit | Oahu | Hawaii | Kauai | Maui |
|---------------------|-------|--------|-------|-------|
| Efficiency | \$454 | \$435 | \$542 | \$513 |
| 1-bedroom | 552 | 527 | 659 | 623 |
| 2-bedroom | 649 | 619 | 775 | 773 |
| 3-bedroom | 817 | 776 | 969 | 916 |
| 4-bedroom | 915 | 869 | 1,085 | 1,026 |

Families are selected for the certificate program on a preference basis. The preferences include those who are occupying substandard housing, those who are involuntarily displaced, and those who are paying more than half of their incomes for rent. As under the state rental support programs, participants are expected to pay a portion of the total rent. Eligible tenants pay whichever is the highest among three measures: 30 percent of the participant's adjusted income (\$400 can be deducted from the annual total income for each dependent), 10 percent of the participant's gross income, or the portion of welfare assistance which is designated for housing. The certificate program then covers the difference between the tenant's portion of the rent and the fair market rent of the affected rental housing unit.

Participants can remain in this program even if they move from one rental unit to another so long as they remain on the same island. If they move to another island, their participation terminates and they must reapply for admission in their new place of residence.

Voucher program. The Section 8 voucher program is similar to the Section 8 certificate program, with some significant differences. The voucher program is not restricted to units where the maximum rents are set by HUD. Participants

in the voucher program have a wider selection of housing from which to choose in that they can rent units where the total rents charged exceed HUD's fair-market rents. Monthly support payments under the voucher program are based on the difference between the rent payment standard for an area (not the actual total rents charged) and the affordable (allocable) rent amounts that participants are expected to pay.

Jurisdictions administering the Section 8 voucher program have some discretion with regard to establishing the rent payment standard for their areas. It can be HUD's fair market rental for the area, or a lower amount. By setting a lower amount, a jurisdiction will provide less support to individual participants but can distribute more vouchers using the same resources. Such an option must be included in the plan and budget that the jurisdiction submits to HUD for approval.

On Oahu, both the HHA and the Department of Housing and Community Development (DHCD) of the City and County of Honolulu have chosen to use rent payment standards that are less than HUD's fair market rentals for this island. These variations are illustrated in Table 2.5.

Table 2.5. Comparison of Rent Payment Standards on Oahu for the Section 8 Voucher Program (Monthly Amounts Including Utilities)

| Type of Rental Unit | Hawaii Housing Authority | Honolulu Dept. of Housing and Community Dev. | HUD's Fair Market Rent |
|---------------------|--------------------------|--|------------------------|
| Efficiency | \$404 | \$416 | \$454 |
| 1-bedroom | 491 | 506 | 552 |
| 2-bedroom | 578 | 595 | 649 |
| 3-bedroom | 726 | 748 | 817 |
| 4-bedroom | 813 | 838 | 915 |

In Hawaii, the affordable amount is calculated at 30 percent of a participant's adjusted monthly income or at least 10 percent of the participant's gross monthly income.

Another important difference between the certificate and voucher programs is that holders of vouchers can move to any other jurisdiction participating in the program (both within and outside of Hawaii) and take their vouchers with them. So long as they meet the requirements of the jurisdiction to which they move, they can continue to receive support under this program.

Chapter 3

AN ASSESSMENT OF THE RENT SUPPLEMENT PROGRAM

In this chapter we review the operations of the Rent Supplement Program from a general policy and program perspective. In the next chapter, we look at the financial management of the program.

the Rent Supplement Program which are obsolete, inadequate, inappropriate, or unnecessary.

Summary of Findings

- 1. The Rent Supplement Program has not kept pace with changes in housing needs and now needs a more clear policy focus. How the program assesses need and determines eligibility and where it concentrates its efforts are all areas that need evaluation.*
- 2. The Rent Supplement Program is providing support to several questionable categories of recipients, including (a) nonimmigrant student aliens who are temporarily residing in the United States while attending college here, and (b) persons who are also receiving other types of housing subsidization.*
- 3. Shared housing, which was begun on a demonstration basis in December 1988, is still in the formative stage where it needs further study and planning before any decisions are made to continue, modify, or discontinue use of this concept.*
- 4. There are some other features, provisions, and requirements of*

Need for a Clear Policy Focus

The Legislature established the Rent Supplement Program under the Omnibus Housing Act of 1967 (Act 278). As one part of a broader effort aimed at encouraging the development of housing units for low and moderate income families in Hawaii. The program was geared to meet the needs of a particular group of people forced to vacate public housing units because their incomes had increased to the point where they exceeded the maximum allowable for continued occupancy.

The program was oriented toward the landlord or developer. It provided for contracts between the Hawaii Housing Authority (HHA) and landlords on behalf of qualified tenants and allowed such contracts to extend up to a limit of 40 years. It also set maximum income limits on renters who would be able to participate in the program. The program was further designated for those who had "an urgent housing need." First priority was given to those having to vacate public housing units because their incomes exceeded the maximum allowable limits. Legislative concern for the latter group caused the initial appropriation for the program to be increased from \$20,000 to \$50,000.

Since its origin, the program has become oriented toward recipients rather than projects. All actions taken are initiated by renters seeking assistance. They locate the housing, make the preliminary arrangements with the landlords,

and only then can they seek rent supplements. After renters qualify for the program, they and the landlords enter into formal contracts with the HHA.

The program is rarely used as originally conceived, that is, to give interim rental assistance to persons forced by rising incomes to leave other subsidized public housing facilities. With income limits now being adjusted to reflect inflationary trends, relatively few persons are forced to move out of public housing units because their incomes exceed the maximum allowable limits.

The Rent Supplement Program does not now have a clear, statutorily based policy focus. The program is said to provide expedient assistance to renters who are waiting to qualify for help under some other public housing assistance program. Administrators indicate that one important advantage of the program is that they can make decisions more rapidly than in other programs enabling them to provide fairly quick assistance.

Without an adequate policy framework, however, it is difficult to know where the program should concentrate its efforts, how it should assess its needs and judge the quality and appropriateness of its results, or whether it can determine an applicant's eligibility fairly and equitably. The consequences of such a situation are reflected in the questions raised and the problems discussed in subsequent sections of this chapter.

Granting of Support to Questionable Categories of Recipients

In examining a sample of current program recipients, we found that the program is supporting some questionable categories of recipients. One group consists of nonimmigrant student aliens attending institutions of higher

education in Hawaii. Another group includes people receiving publicly financed housing assistance in addition to the support they obtain through rent supplements. A number of recipients fall into both categories.

Including nonimmigrant student aliens. We found that almost a hundred rent supplement recipients, or about 9 percent of all the recipients on Oahu, were foreign students (mostly nonimmigrant student aliens) attending institutions of higher education in Hawaii, including the University of Hawaii and the East-West Center. They have been receiving support at a time when the program does not have sufficient resources to accommodate all applicants and must maintain a waiting list.

Congress has enacted legislation, Section 214 of the Housing and Community Development Act of 1980, prohibiting support of nonimmigrant student aliens insofar as federal public housing programs are concerned. This remains the federal law on the matter even though it is not being currently enforced. Following congressional enactment of immigration reform legislation in 1986, the U.S. Department of Housing and Urban Development on November 21, 1986, issued a notice indefinitely deferring the effective date of its rule to implement Section 214, which had previously been published on April 1, 1986. In this notice, the department stated its position that the legislation was not self-implementing and that enforcement could not begin before the effective date of its regulation implementing the statute. It is not known when this regulation will be issued.

An administrative consideration regarding nonimmigrant student aliens is the difficulty of verifying financial status through such usual avenues as employers and financial institutions. There is normally little or no direct access to relevant sources of information in their home countries. The agency must rely on affidavits that the students submit which cannot be independently verified.

The basis for including nonimmigrant student aliens in the Rent Supplement Program needs to be scrutinized (1) to determine whether or to what extent these or other students should receive rent supplements, and (2) to devise suitable controls if such is deemed appropriate.

Combining housing assistance benefits. As indicated in Chapter 2, there are a number of federal, state, and local programs aimed at meeting the housing needs of those with limited economic resources. In addition to the specific housing related programs, there are general welfare programs that attempt to meet a range of basic needs, including food and clothing as well as shelter. Restrictions are often imposed to limit the ability of recipients to draw benefits from more than one program at any one time. For example, participants in federal housing programs are precluded from receiving housing subsidies from more than one source.

In the case of Hawaii's Rent Supplement Program, the authorizing statute specifically excludes from participation persons determined to be eligible for aid under the Federal Supplemental Security Income Program and persons receiving money payments for public assistance from the Department of Human Services (Section 359-123, HRS). But the statute also provides under Section 359-126, HRS, that "nothing in this part or any other part of the law shall preclude payments made under this part from supplementing any rental supplements made pursuant to Public Law 89-117 [the federal rent supplement law] where the need for such additional state supplement is urgent."

This latter provision has no practical effect, because (1) the federal rent subsidy program set up under Public Law 89-117 has now been suspended and is being phased out, and (2) there is the federal restriction against federal housing program beneficiaries receiving housing subsidies from other sources.

When we conducted our review of program recipients, we found a number who were also

receiving other types of housing subsidies. One group consisted of 19 families in two housing projects under the State's Housing Finance and Development Corporation who were receiving both rental assistance and rent supplement subsidies. Then there was a group of 36 East-West Center grantees who were receiving both housing allowances from the East-West Center and rent supplement subsidies.

Combination of rent supplements and rental assistance. Although the Rental Assistance Program is administered through the HHA, it is under the policy control and direction of the Housing Finance and Development Corporation (HFDC). At the time of our review, HFDC had two housing projects where there were families receiving both rental assistance support and rent supplements. As of August 1989, these included 11 families at the Lailani Project in Kona, Hawaii, and 8 families in the Manana Gardens Project on Oahu.

The Lailani Project consists of 200 one-, two-, and three-bedroom apartments where 120 of the units, or 60 percent, are set aside for families with low to moderate incomes. The respective market-level rents for these units are set at \$460, \$660, and \$785 per month. In the Manana Gardens Project, all 70 two-bedroom apartments are designated for families with low to moderate incomes, and the monthly market rent is set at \$695.

To help meet these market rents, families may receive support under the Rental Assistance Program. The maximum levels of support are \$175 per month at the Lailani Project and \$215 per month at the Manana Gardens Project. Nineteen families at the two projects are also receiving rent supplements up to a maximum of \$160 per month. This means the affected families can receive subsidies up to a total of \$335 per month at the Lailani Project and \$375 per month at the Manana Gardens Project.

At present, the combination of subsidies is not illegal. The law and rules governing the

Rent Supplement Program do not prohibit the practice. As for the Rental Assistance Program, Section 201E-135, HRS, specifically provides that use of the program in conjunction with other state and federal programs, including the Rent Supplement Program, is not prohibited.

However, while the legality of combining subsidies may not be at issue, there are still programmatic and equity reasons for questioning the way subsidies at these two projects are being handled. As mentioned previously, the granting of rent supplements depends entirely upon the initiative of individual renters. The two affected agencies need to review applications in a more comprehensive and integrated way by weighing the needs of families already receiving some support against the needs of families not receiving any other support. This would help ensure more effective and equitable packaging of assistance.

Special situation regarding East-West Center grantees. Of the almost 100 foreign student recipients of rent supplements, 36 are East-West Center grantees. As grantees, they (and their families) receive housing allowances from the East-West Center. These grantees are therefore receiving housing support from two sources. In a situation where public need exceeds available resources, this practice raises questions of fairness and equity.

The East-West Center is a public, nonprofit educational institution which operates primarily on federal funds. Students in the program come both from the United States and from foreign countries and are awarded grants to pursue advanced degrees at the University of Hawaii. In addition to tuition, the grants provide housing allowance, health insurance coverage, and funds for food and books.

At the time of our review, there were between 275 and 290 grantees in the program. According to the East-West Center, approximately half of these graduate level students were accompanied to Hawaii by spouses and children. Families

with children have to find housing accommodations within the community. Because the East-West Center has facilities only for single students and married couples with no children, the housing allowance is provided for this purpose. For grantees with a spouse and up to one child, the allowance is \$443 per month. For those with a spouse and two or more children, the allowance is \$527 per month. In many instances, these amounts are fairly close to the actual rents the grantees are paying for their accommodations.

The Rent Supplement Program currently treats the housing allowance provided by the East-West Center as *regular income* and not a housing subsidy. In determining eligibility, the Rent Supplement Program combines the housing allowance and then calculates the grantees' monthly incomes. With the grantees reporting little or no other income, many of them end up being eligible for rent supplements. For example, for a family with two or more children, the \$527 per month housing allowance is added to the \$420 per month for food and incidentals to calculate an annual income of \$11,364. With little or no other income, such a family would be eligible for rent supplements at the maximum amount of \$160 per month.

As of August 1, 1989, the program was providing rent supplements to 36 grantee families, or approximately 25 percent of all East-West Center grantees with families in Hawaii. Thirty-three of these families were receiving rent supplements at the maximum amount of \$160. In 17 cases, the housing allowance provided by the East-West Center was sufficient to cover all or most of the rent, yet 15 of these grantees were receiving the maximum supplement of \$160. In the remaining 19 cases, the housing allowance alone was not sufficient to cover the rent, but in 18 cases the rent was still less than the combined total of housing allowance and rent supplement.

In short, the housing allowances provided by the East-West Center appear sufficient to

cover most, if not all, of the housing costs being incurred by grantee families. When rent supplements at or near the maximum amounts are also given to these grantee families, the effect is to subsidize expenses for other than housing. To the extent this is happening, the practice does not appear to agree with the intent of a program whose purpose is to provide housing assistance. It may well be that the stipends provided by the East-West Center are not sufficient to cover other expenses. However, this is a problem more appropriately addressed through the East-West Center and not through the Rent Supplement Program.

The HHA should carefully reassess the participation of East-West Center grantees in the Rent Supplement Program not only in terms of their status as nonimmigrant student aliens but also in terms of the housing allowances they are already receiving from the East-West Center.

Problem of Assessing Shared Housing Pilot Program

Following discussions with the Affordable Housing Alliance, a non-profit housing advocacy group, the HHA in March 1988 approved a one-year demonstration house-sharing program. Under this program, qualified applicants for rent supplements (either families or individuals) are allowed under certain conditions to share the same housing units with other families or individuals (who may or may not be rent supplement recipients) and to have their rent supplement payments applied toward the rents on the shared units. One of the conditions prohibits the separate families or individuals sharing the unit to be related to each other and requires that there be a separate private space for each family (with at least one bedroom for every two persons in each family). In other words, all affected units must have two or more bedrooms. The main justification for the pilot program was that the maximum monthly rent-supplement payments existing at the time (\$70 for non-elderly families and \$90 for elderly

families) provided little help to the elderly on fixed incomes and to families with very low incomes when average rents in Hawaii were so high.

The program was initiated in December 1988 and is scheduled to terminate at the end of November 1989. It was limited to no more than 50 participating families or individuals on Oahu. In August 1989, there were 10 families or individuals in the shared housing program, including 7 elderly participants. They were receiving rent supplements ranging from \$101.50 to \$160 per month, with half of them at the maximum level (which was raised to \$160 per month at the 1989 legislative session).

It is apparent that the pilot program presents problems regarding fairness and equity. For example, if two elderly widows both qualify for rent supplements, they can share an apartment and pool their rent supplements if they are friends or acquaintances but not if they are sisters. In like manner, an elderly single person can rent a room in someone else's house and receive a rent supplement if not related to the homeowner, but is not eligible if he or she is related to the homeowner.

It is recognized, of course, that devising any sort of housing policy can be quite difficult because questions of individual independence and family responsibilities inevitably become involved. Nevertheless, efforts should be directed toward identifying problems, setting appropriate objectives, weighing the merits of alternative ways of reaching those objectives, and then formulating a program with established standards and criteria for actually attaining the selected objectives.

Other Shortcomings of the Rent Supplement Program

As we reviewed the Rent Supplement Program, we found a number of specific features, provisions, and requirements of the program

which are obsolete, inadequate, inappropriate, or unnecessary. These are discussed separately below.

No definition of "urgent housing need." By law, determination of priority to receive rent supplements is supposed to be based upon the "urgent housing need" of applicants. However, nowhere in the law or in the rules governing this program is there any definition of this term or any guidelines by which the urgency of need can be assessed. As previously discussed, displacement from subsidized housing facilities due to incomes exceeding allowable limits is no longer a significant factor insofar as the Rent Supplement Program is concerned. Lacking a definition and guidelines, program administrators have little basis upon which to set priorities for granting rent supplements other than the order in which applications are received.

Regardless of what other action may be taken to clarify or reshape the Rent Supplement Program, the term "urgent housing need" should be defined or provided with guidelines for implementation so long as it remains in the law as a basis for setting priorities.

Obsolete and unnecessary provision relating to "additional supplements." Section 359-126, HRS, provides that nothing in the rent supplement law shall prevent state rent supplement payments from being used to supplement federal rent supplement payments under Public Law 89-117 where the need for the additional state supplement is urgent. This provision is obsolete and unnecessary because: (1) the federal rent supplement program has been suspended and is in the process of being phased out, and (2) there is a general federal prohibition against recipients of federal housing assistance receiving housing assistance from any other source.

In view of it now being obsolete and unnecessary, Section 359-126 should be repealed.

Inapplicable termination provision. The rules for the Rent Supplement Program provide that the rent supplement agreement for a participating tenant shall be terminated if the tenant refuses "to accept placement in a public housing project, where a dwelling unit is available and when the sole source of the tenant's income is derived from public welfare payments or supplementary security income." However, Section 359-123, HRS, which defines who is qualified to be a tenant under the program, specifically stipulates that the term "qualified tenant" does not include persons determined to be eligible for aid through the Federal Supplemental Security Income Program or its successor agency or persons receiving money for public assistance from the Department of Human Services. In view of this statutory prohibition, the termination provision in the rules has no applicability and should be repealed.

Questionable program limits. There are several aspects of the Rent Supplement Program where fixed limits appear to be questionable on the basis of reasonableness or current applicability.

One such limit is the \$5 minimum established for rent supplement payments. This minimum may have been appropriate at the time when the maximum was \$50 per month and rents in Hawaii were much lower. However, with the maximum now raised to \$160 per month and rents being much higher, it seems reasonable to expect this minimum also to be raised. The need for assistance cannot be very great at the low level of \$5 per month, and the cost of administering support payments for this small amount is way out of proportion to the benefit achieved.

At the opposite extreme is the maximum limits set on assets that participants can possess and still qualify for support appear to be unreasonably high. At present, the asset limitations are (1) one and one-half times the

eligibility income limit for families, and (2) two times the eligibility income limits for elderly, disabled, and handicapped persons. This means that based on current income limits, the asset limit for a family of four translates to \$55,725 (1.5 times the annual maximum of \$37,150). For the elderly, the usual limits are \$52,000 for an individual and \$58,000 for a couple.

Such limits are extremely generous for a program aimed at providing assistance to low and moderate income renters who have an urgent housing need. In the sample of program participants which we reviewed, we found no elderly tenants with reported assets that came even close to the indicated limits. Indeed, most of them had reported assets of less than \$1,000. A reassessment of these limits appears to be in order, particularly because they will continue to rise as eligible incomes increase.

Another extreme limit is the 40-year maximum that is set on rent supplement agreements between the HHA and the owners of affected housing. For a program oriented to developers or landlords, such a limit may be appropriate. For a program oriented to tenants, however, the long time limit does not make much sense. Thus, if the program is going to be maintained in its present form, then consideration should be given to reducing or eliminating this time limit on agreements with housing owners.

Inadequate verification and investigation. Our review of the Rent Supplement Program revealed that little effort or resources are devoted to verifying and investigating of information submitted by program applicants in support of their eligibility. In many instances, statements are accepted at face value and no supporting documentation is required (such as verified bank statements or birth certificates in addition to social security numbers for claimed dependents). While every piece of information submitted by

every applicant need not be subjected to detailed verification, there should be at least some minimum level of surveillance.

To illustrate the kinds of questions and problems that can arise in this area, in the sample of program participants that we reviewed, we came across the case of a foreign student with a family of four who has been in the Rent Supplement Program for eight years. This student is currently receiving \$156 a month in rent supplements and reports assets at the maximum level of \$55,725. The participant also has another bank account in his name, but which he alleges has been taken over by his mother. The file on this case contains no indication that the matter has been examined or that the participant truly falls within the assets limits of the program.

It may be that the agency at present does not have sufficient resources to carry out an ongoing program of verification and investigation in addition to its existing duties. If this is the case, then it should seek additional resources. To maintain the integrity of the program, there should be an acceptable level of verification and investigation.

Limited program publicity and outreach. The fairness and effectiveness of many public assistance programs depend upon their being known about by their target populations. For this reason, many programs have publicity and outreach components designed to explain the programs to those potentially eligible to participate. In the case of the Rent Supplement Program, the HHA has mounted some limited publicity when additional funds became available to the program and when the maximum allowable limits were raised. The agency, however, has no ongoing program for disseminating information about rent supplements. For the most part, it relies upon information to be spread by word of mouth.

Recommendations

- 1. The Hawaii Housing Authority should conduct a comprehensive review of the Rent Supplement Program to clarify its policy focus and to assess how it should fit within the total context of governmental efforts aimed at meeting Hawaii's housing needs. Resultant findings, conclusions, and recommendations regarding the program should be submitted to the Legislature for its consideration.*
- 2. In its review of the Rent Supplement Program, the Hawaii Housing Authority should give special attention to the policy and administrative issues relating to: (a) inclusion of nonimmigrant student aliens in the program, and (b) allowing various housing subsidies to be combined for the benefit of particular families or individuals.*
- 3. In its review of the Rent Supplement Program, the Hawaii Housing Authority should assess its approach to shared housing and determine whether a fair, consistent, and meaningful policy can be devised in this area.*
- 4. The Hawaii Housing Authority's review of the Rent Supplement Program should also focus upon specifically noted issues, such as: (a) defining "urgent housing need," (b) eliminating obsolete and unnecessary provisions in the program's law and rules, (c) setting program limits that are reasonable in light of current conditions, (d) assuring adequate verification and investigation of eligibility information, and (e) providing adequate information on the program to affected parties.*

Chapter 4

AN ASSESSMENT OF THE FINANCIAL MANAGEMENT OF THE RENT SUPPLEMENT PROGRAM

This chapter presents the results of our review of the financial management of the Rent Supplement Program. It contains our findings and recommendations on relevant financial practices and procedures of the Hawaii Housing Authority.

Summary of Findings

- 1. The Hawaii Housing Authority has proper accounting controls over the funds in the Rent Supplement Program and its disbursements under the program are in compliance with applicable laws, rules, and regulations.*
- 2. Out of the appropriation for the Rent Supplement Program for fiscal year 1989-90, \$1 million is being set aside for other uses while at the same time cutbacks are being made in rent supplement payments.*
- 3. For proper accountability, fiscal year 1989-90 funds appropriated to the Rent Supplement Program but designated for other purposes should be deposited into and accounted for through the Housing Revolving Fund.*

Proper Accounting Controls

As part of our examination of the Rent Supplement Program, we reviewed the affected financial accounting and internal control

practices of the Hawaii Housing Authority (HHA). On the basis of this review, we found that the HHA is following proper accounting procedures for the program and that disbursements made to date under the program are in accordance with applicable laws, rules, and regulations.

However, there are two matters relating to the appropriation for the program for fiscal year 1989-90 which deserve consideration. These are discussed below.

Setting Funds Aside for Other Purposes

Under the General Appropriations Act of 1989 (Act 316), \$3,954,914 was appropriated to the Rent Supplement Program for fiscal year 1989-90. Of this amount, \$399,000 was specifically appropriated for housing projects outside of the Rent Supplement Program. In addition to the \$399,000 designated for other projects, the HHA has set aside \$1 million from the appropriation to be used to improve, repair, maintain, and beautify various HHA housing projects throughout the state.

At the same time that the HHA is setting aside this \$1 million, it is also cutting back on the amounts of rent supplement payments being made under the program. After deducting from the annual appropriation the \$399,000 for specific projects, the administrative costs of administering the Rent Supplement Program, and the \$1 million being withheld for other purposes, the HHA has calculated that it has only \$2,349,000 available for direct rent supplements for the year, or slightly less than \$200,000 per month. Accordingly, the staff has been reducing rent supplement payments (by not accepting new

applicants in some areas) in an effort to stay within the funds available.

As a result of these actions, rent supplement payments dropped from \$211,000 in July to \$194,000 in November. Payments for these five months altogether totaled \$1,003,000. This leaves \$1,346,000 to be spread over the remaining seven months. To remain within the calculated funds available for rent supplement payments, monthly payments for the remaining seven months will have to be reduced to an average of \$192,000, which is less than the expenditures for this purpose for any month since November 1988.

When considering this setting aside of funds, it is appropriate to look at the intended uses of the funds with regard to their relation to the Rent Supplement Program and to any other relevant statutory provisions. It is clear that the intended expenditures are not related in any way to the Rent Supplement Program. Separate laws cover the state housing projects where the various improvements are planned to be made.

Legal authority for the administration of state housing projects lies in Chapters 356 and 359 of the *Hawaii Revised Statutes*. Within these chapters, Section 356-34 stipulates that the HHA shall manage and operate its housing projects in an efficient manner so as to enable it to fix rentals at the lowest possible rates consistent with providing decent, safe, and sanitary dwelling accommodations. This section further provides, however, that the HHA shall not operate its housing projects at a profit or as a source of revenue for the State. The section then goes on to stipulate that the HHA shall fix the rentals for dwellings in its projects at no higher rates than it shall find necessary to produce revenues which (together with all other available resources) will be sufficient to meet the cost of and to provide for maintaining and operating the projects, including the administrative expenses of the HHA.

Sections 359-11(a) and 359-38(a), relating respectively to the State Housing Acts of 1947 and 1949, both provide that, notwithstanding any provision of law to the contrary, the HHA shall fix rentals in its affected projects at rates which will be sufficient to pay all expenses of management, operation, and maintenance of the projects "to the end that the housing projects shall be and always remain self-supporting."

Legislative intent as expressed in these provisions is that the housing projects are to be self-supporting. Thus, unless the Legislature itself specifically appropriates funds for repairs and improvements for the projects, the costs of any repairs and improvements must be covered out of the rents received. This means that even if the HHA wants to set aside \$1 million of Rent Supplement Program funds to beautify and repair rental projects administered by it, current laws prohibit such expenditures unless specifically authorized by the Legislature.

In the present situation, the Legislature has earmarked under the appropriation for the Rent Supplement Program \$399,000 for specific projects at HHA's housing facilities under Sections 106 and 107 of the General Appropriations Act of 1989 (Act 316). However, it has not so earmarked the additional \$1 million which the HHA is holding aside for the beautification and repair of various housing projects. The net result is that program needs are going unmet while funds are being withheld for unauthorized purposes.

Proper Accounting for Appropriations

As indicated above, \$399,000 was appropriated under the operating budget for the Rent Supplement Program for fiscal year 1989-90 for uses which are not directly part of the Rent Supplement Program. Specifically, Section 106 of Act 316 earmarked \$4,000 for construction of a fence at an elderly housing project and \$75,000 for a study on Hawaii's

homeless population to help HHA in determining its budgetary needs. Further, Section 107 of the same act provided \$320,000 for demonstration traffic control and security projects at two of HHA's housing projects.

So long as expenditures for these specific projects are paid for directly out of the appropriation for the Rent Supplement Program, proper accounting for such expenditures becomes misleading. Costs of the Rent Supplement Program are made to appear greater than they actually are when the uses of the funds become submerged in the Rent Supplement Program instead of being identified where actually employed.

Section 359-13 of the Hawaii Revised Statutes has established the "Housing Revolving Fund" to account for all funds received and expended for the housing projects administered by the HHA. Therefore, to assure more adequate accounting for the \$399,000 earmarked under Sections 106 and 107 of Act 316, these funds should be transferred out of the Rent Supplement

Program account and should be deposited into the Housing Revolving Fund and accounted for there.

Recommendations

- 1. The Hawaii Housing Authority should reconsider its position with regard to setting aside \$1 million from the current appropriation for the Rent Supplement Program and using it for purposes not related to the program and not authorized by legislative appropriation.*
- 2. The Hawaii Housing Authority should transfer the \$399,000 earmarked for other uses from the Rent Supplement Program account to the Housing Revolving Fund so as to provide for better accounting of these funds.*



NOTES

Chapter 2

1. Section 17-510-2, *Hawaii Administrative Rules*.
2. Hawaii Housing Authority, *Rental Assistance Program Procedural Handbook*, Honolulu, June 20, 1986, p. 13.

RESPONSES OF THE AFFECTED AGENCIES

COMMENTS ON AGENCY RESPONSES

We transmitted a preliminary draft of this report to the Department of Human Services, the Hawaii Housing Authority, the chairman and members of the Hawaii Housing Authority, and the Dean of Students at the East-West Center on January 3, 1990. A copy of the transmittal letter to the department is included as Attachment 1; the responses of the department, the authority, and the East-West Center are included as Attachments 2, 3, and 4, respectively.

The Department of Human Services concurs with the comments submitted by the Hawaii Housing Authority.

The Hawaii Housing Authority agrees with the management findings and recommendations, and it will be conducting a comprehensive review of the Rent Supplement Program. In addition, it will seek statutory changes to restrict the Rent Supplement Program to Hawaii residents or those who intend to become residents.

The Hawaii Housing Authority does not concur with the financial management recommendations.

We still stand by our first recommendation, which states that the Hawaii Housing Authority should reconsider its position of setting aside \$1 million for the Rent Supplement Program and using it for purposes not related to the program and not authorized by legislative appropriation.

In lieu of transferring \$399,000 to the Housing Revolving Fund as indicated in the second recommendation, the Hawaii Housing Authority should, in its internal accounting records, segregate these funds since the Department of Accounting and General Services cannot transfer the funds without a specific statutory provision. Further, the Hawaii Housing Authority should follow up with the Department of Accounting and General Services to set up a separate account code for the differing uses of general fund monies appropriated under the Rent Supplement Program.

The East-West Center is willing to cooperate with any future reviews that the Hawaii Housing Authority may conduct of the Rent Supplement Program specifically dealing with East-West Center families.

ATTACHMENT 1

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813



(808) 548-2450
FAX: (808) 548-2693

January 3, 1990

C O P Y

Mrs. Winona Rubin, Director
Department of Human Services
Queen Liliuokalani Building
1390 Miller Street
Honolulu, Hawaii 96813

Dear Mrs. Rubin:

Enclosed are three copies, numbers 9 to 11 of our draft report, *Audit of the Rent Supplement Program of the Hawaii Housing Authority*. We ask that you telephone us by January 5, 1990, on whether you intend to comment on our recommendations. Should you decide to respond, please transmit the written comments to us by January 17, 1990. We will append your response to the report submitted to the Legislature.

The Executive Director and Chairman of the Hawaii Housing Authority, the Dean of Student Affairs and Open Grants of the East-West Center, the Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since the report is not in final form and changes may be made, access to this report should be restricted to those whom you might wish to assist you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

We appreciate the assistance and cooperation extended to us during the course of this study.

Sincerely,

Newton Sue
Acting Legislative Auditor

Enclosures

JOHN WAIHEE
GOVERNOR

ATTACHMENT 2



STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES

WINONA E. RUBIN
DIRECTOR

ALFRED K. SUGA
DEPUTY DIRECTOR

MERWYN S. JONES
DEPUTY DIRECTOR

January 17, 1990

Mr. Newton Sue
Acting Legislative Auditor
Office of the Auditor
465 S. King Street, Room 500
Honolulu, Hawaii 96813

RECEIVED
JAN 17 4 31 PM '90
OFFICE OF THE AUDITOR
STATE OF HAWAII

Dear Mr. Sue:

Thank you for the opportunity to comment on your report,
Audit of the Rent Supplement Program of the Hawaii Housing
Authority.

We concur with the comments submitted to you by the Hawaii
Housing Authority.

Thank you again for the opportunity to comment on your
report. Please feel free to contact me should you need further
assistance.

Sincerely,

WINONA E. RUBIN
Director

ATTACHMENT 3



JOHN WAIHEE
GOVERNOR

MITSUO SHITO
EXECUTIVE DIRECTOR

FAX NO. (808) 848-3313

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
HAWAII HOUSING AUTHORITY
P. O. BOX 17907
HONOLULU, HAWAII 96817

IN REPLY REFER
TO:

90ASO/48

January 17, 1990

Mr. Newton Sue
Acting Legislative Auditor
Office of the Auditor
465 S. King Street, Room 500
Honolulu, Hawaii 96813

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OFF. OF THE AUDITOR
STATE OF HAWAII

Dear Mr. Sue:

Thank you for the opportunity to comment on your report, Audit of the Rent Supplement Program of the Hawaii Housing Authority.

We concur with your first four recommendations found on page 20 of your report, that the Hawaii Housing Authority conduct a comprehensive review of the Rent Supplement Program giving in this review attention to various issues and policies noted in detail on page 20. With respect to one particular issue raised on pages 16-17 regarding East-West Center grantees, HHA will be proposing statutory changes during the 1990 legislative session to restrict the Rent Supplement Program to residents or those who intend to become residents of Hawaii.

With respect to the last two recommendations made on page 23 of your report, both dealing with appropriations made to HMS 220 other than for the Rent Supplement Program, we respectfully respond as follows:

Chapter 4, Recommendation 1, Page 23

HHA disagrees with the recommendation of the Auditor. Although no specific proviso is listed in the budget act for the \$1 million, it is clearly legislative intent for it to be used for project improvement, repair, maintenance, and beautification. Budget worksheets and details make such an intent clear. A copy of these worksheets and details is attached. Hawaii Supreme Court cases have made clear that legislative intent may be garnered from these documents. The Court moreover has made clear that administrative interpretation of statutes and legislation by administering agencies is to be accepted absent good reason otherwise, which in this case is unavailable. If legislative intent was to increase the amounts available for rent supplement payments, then the specific budget line item would have been increased on the budget worksheet and details.

Mr. Newton Sue
January 17, 1990
Page Two

Chapter 4, Recommendation 2, Page 23

This recommendation is impracticable at this time. The Department of Accounting and General Services has indicated that they would prohibit a transfer of general funds to special funds without a specific proviso in the budget act. They have also indicated that a request by HHA to establish a separate account with a separate general fund appropriation symbol for the \$399,000 in order to address the Auditor's concerns would be refused.

Finally, other comments are as follows:

1. Page 3: A clarification on what is meant by "administered by HHA" is needed to explain that HHA's role is solely in the area of processing the rental assistant payments required.
2. Page 8: An explanation that HHA, in 1981, included all of the functions now administered by HFDC.
3. Various typographic errors as follows: a) p.3, "Corporataion" to "Corporation"; and b) p. 22, "an" to "and";

Thank you again for the opportunity to comment on your report. Please contact me should you have any questions or need more assistance.

Sincerely,



MITSUO SHITO
Executive Director

Attachment

**EXECUTIVE
OPERATING BUDGET
WORKSHEETS**

**H.B. No. 205, H.D. 1, S.D. 1, C.D. 2
Fiscal Years 1989-1991**

**Senate Committee on Ways and Means
House Committee On Finance**

Program ID: HMS220 00 RENTAL HOUSING AUGMENTATION AND ASSISTANCE
 Structure #: 060202010000
 Subject Committee: HO Housing

| SEQ # | EXPLANATION | FIRST FY | SECOND FY | WORK AREA |
|-------|---|--------------|--------------|-----------|
| | | 9.00 * | 9.00 * | |
| | | 3,143,187 A | 3,295,621 A | |
| | | 26.50 * | 26.50 * | |
| | | 1,505,377 B | 1,553,777 B | |
| | | 222.00 * | 222.00 * | |
| | | 20,416,687 N | 21,627,113 N | |
| | | 257.50 * | 257.50 * | |
| | | 25,065,251 | 26,476,511 | |
| | TOTAL APPROPRIATIONS | | | |
| 1 | EXECUTIVE REQUEST: ADD POSITIONS AND FUNDS TO ENSURE THE AVAILABILITY OF ADEQUATE PUBLIC HOUSING AND FACILITATE THE USE OF PRIVATE RENTAL BY SUPPLEMENTING RENTAL PAYMENTS. (49.0/1,028,721N; 49.00/ 1,109,370N) | | | |
| 2 | EXECUTIVE REQUEST: TRANSFER POSITIONS AND FUNDS TO HFDC. (-2.0/-55,061N; -2.0/-59,378N) | | | |
| 3 | GOVERNOR'S MESSAGE (3): ADD FUNDS FOR CONSTRUCTION OF A FENCE AT THE KILAUEA ELDERLY HOUSING PROJECT. | 0.00 * | 0.00 * | A |
| | | 4,000 A | | |
| 4 | GOVERNOR'S MESSAGE (3): ADD FUNDS TO CONDUCT A STUDY ON THE HOMELESS POPULATION IN THE STATE. | 0.00 * | 0.00 * | A |
| | | 75,000 A | | |
| 5 | REDUCE FUNDS FOR RENT SUPPLEMENT PAYMENTS. | 0.00 * | 0.00 * | |
| | | 587,273-A | 617,795-A | |
| 6 | ADD FUNDS TO IMPROVE, REPAIR, MAINTAIN, AND BEAUTIFY HOUSING PROJECTS MANAGED OR ADMINISTERED BY THE HAWAII HOUSING AUTHORITY, STATEWIDE. | 0.00 * | 0.00 * | A |
| | | 1,000,000 A | 1,000,000 A | |
| 7 | ADD FUNDS TO IMPLEMENT A PUBLIC HOUSING SECURITY DEMONSTRATION PROJECT AT KALIHI VALLEY HOMES AND A TRAFFIC CONTROL DEMONSTRATION PROJECT AT MAYOR WRIGHT HOMES. | 0.00 * | 0.00 * | A |
| | | 320,000 A | 250,000 A | |

RUN WEDNESDAY 05/10/89 4:13 PM
 RPT WORKSHT
 SUPBUD FILENAME: CONF89

LEGISLATIVE BUDGET SYSTEM
 BUDGET WORKSHEET
 BY PROGRAM AREA

AS OF WEDNESDAY 05/10/89 PAGE 192

Program ID: HMS220 00 RENTAL HOUSING AUGMENTATION AND ASSISTANCE
 Structure #: 060202010000
 Subject Committee: HO Housing

| SEQ # | EXPLANATION | FIRST FY | SECOND FY | WORK AREA |
|-------|----------------------|--------------------------|--------------------------|-----------|
| | TOTAL BUDGET CHANGES | 0.00 * 811,727 A | 0.00 * 632,205 A | |
| | BUDGET TOTALS | 9.00 * 3,954,914 A | 9.00 * 3,927,826 A | |
| | | 26.50 * 1,505,377 B | 26.50 * 1,553,777 B | |
| | | 222.00 * 20,416,687 N | 222.00 * 21,627,113 N | |



East-West Center

Office of Student Affairs and Open Grants

1777 EAST-WEST ROAD HONOLULU, HAWAII 96848 CABLE: EASWESCEM TELEX: 989171 TELEPHONE: (808)944-7777

January 16, 1990

Mr. Newton Sue
Acting Legislative Auditor
Office of the Auditor
State of Hawaii
465 S. King Street, Room 500
Honolulu, HI 96813

RECEIVED

JAN 18 11 07 AM '90

OFFICE OF THE AUDITOR
STATE OF HAWAII

Dear Mr. Sue,

As we informed your office on Friday, January 5, 1990, The East-West Center is submitting a response to the draft report, "Audit of the Rent Supplement Program of the Hawaii Housing Authority."

The Center has no difficulty with the facts as presented by the report and will be happy to cooperate with any future reviews that the Hawaii Housing Authority may conduct of the Rent Supplement Program. However, we do take exception to the statement on page 17 that... "It may well be that the stipends provided by the East-West Center are not sufficient to cover other expenses." The statement does not seem relevant to the scope of the report nor is there any information presented that would justify its inclusion. The Center annually reviews the amount of its student scholarships to ensure that they are fair and reasonable.

It should be noted that the amounts of East-West Center support as cited in the report are time specific. It is possible that a single monthly stipend may be provided in the future rather than a separate housing subsidy. For the moment, however, we continue to provide a separate housing stipend for those of our students who reside off-campus. If additional documentation to this effect will help to clarify the eligibility of our students, we will be happy to provide the information.

Thank you for this opportunity to reply to the audit report.

Sincerely yours,

Sarah D. Miyahira, Ph.D.
Dean

cc: Victor Li
Kenji Sumida
June Hirano

