

Regulatory Reform Through a Local Flexibility Option (LFO)

What is a LFO?

A PLAN THAT PROVIDES public housing authorities (PHAs) the ability to opt in to a housing assistance model that provides flexibility in use of funds to better address local conditions.

Why is It Needed?

1. **Inadequate funding for the public housing and voucher programs**, as well as strict restrictions on allowable uses of funds, have resulted in deteriorating buildings and fewer households served.
2. **Law, regulation, and guidance are grounded in a 1990's compliance mindset**—but context and priorities have changed, and PHAs need the ability to be more agile and innovative in addressing local housing needs.
3. **Complex and detailed regulatory limitations and requirements**, combined with excessive and detailed compliance reporting, adds to the costs of operations and distracts agencies and staff from focusing on the agency mission.
4. **Local flexibility results in improved outcomes**, as demonstrated through the Moving To Work Demonstration (MTW), conversions of public housing to Section 8 through the Rental Assistance Demonstration (RAD), and implementation of CARES Act waivers.



The Future of Public and Assisted Housing

Historic trends and current budget challenges make the need for fiscal and regulatory relief for public housing authorities urgent. While the current housing market is drastically different than what existed prior to the COVID-19 pandemic, housing regulations are stuck in the 1990s. Reducing federal micro-management is the best way to ensure continued, effective operation of public housing and federal rental assistance.

Failure to provide this relief will accelerate the loss of existing affordable housing units and the continued decline and deterioration of the shrinking stock of publicly supported safe and decent housing.



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How Will a LFO Work?

PHADA recommends a reworking of rules and requirements for PHAs. The success of MTW agencies and the efficient use of CARES Act waiver flexibility demonstrate the improved effectiveness that PHAs can achieve through regulatory and fiscal flexibility. Highlights of this include, but are not limited to, the following:

1. Provide greater flexibility in the use of funds.

- a. **Public Housing:** With a growing capital backlog, years of underfunded operating fund grants, and overall cost inflation, proceeding under existing rules and regulations is a formula for continued deterioration of the crucial yet shrinking existing affordable housing stock. Providing local PHAs with greater flexibility to use their limited funds will result in improved housing conditions, greater financial stability, and more affordable units preserved.
- b. **Housing Choice Vouchers (Section 8):** Successes achieved by MTW PHAs and through the Emergency Housing Voucher Program shows how flexible use of tenant-based assistance funding supports more effective local programs. For example, many MTW agencies have used their flexibility to develop innovative partnerships with service providers, adjust payment standards to allow residents to access high-opportunity neighborhoods, and expand the number of low-income families they serve.
- c. **Cross-Program Fungibility:** Allowing PHAs to shift funding between programs has proven successful, most notably by MTW agencies. This fungibility permits local agencies to determine how best to allocate limited resources to address critical local housing needs. These needs may include preserving affordable housing,

expanding homeownership, collaborating to reduce homelessness, or addressing fair housing issues.

2. Eliminate rules that inhibit PHA innovation.

- a. Public housing laws, regulations, and guidance are overly prescriptive and force PHAs to devote an inordinate amount of time to administrative compliance and related reporting. This results in PHAs having less time and energy to devote to resident services and critical issues like addressing affordable housing needs.
- b. Repealing outdated and unneeded regulations would allow agencies to refocus from a reporting and compliance mindset to a problem-solving mindset. The experience of MTW agencies is instructive, as those PHAs have adopted dozens of innovative policies to reduce unnecessary and costly federal compliance monitoring mandates and more efficiently and effectively address local housing conditions.

3. Revise oversight, monitoring, and reporting systems.

- a. PHADA supports accountability measures, but PHAs should not be penalized based on results of existing assessment methodologies (PHAS and SEMAP), which incentivize agencies to focus on their score, not on the needs of households and local communities.
- b. Local agencies should be allowed to establish appropriate reserve levels based on their future projected need, including pension obligations, capital projects, and replacement reserves.
- c. Congress and HUD should streamline the process for alternative rent determination methods, voucher payment standards, inspection standards, and other operational and performance metrics, with a focus on outcomes and not procedures.

What Are Next Steps?

1. **Comprehensive review and repositioning of existing PHA laws from a reporting and compliance focus to an innovation focus.** The result of this review should be the repeal of outdated and unnecessary regulations. Additionally, Congress should explore enacting new laws that will encourage PHA innovation to address local affordable housing needs and to provide resident services more efficiently and flexibly.

2. **Establishment of an Opt-In Local Flexibility Option (LFO)** open to all public housing agencies, providing and supporting flexibility in uses and strategies informed by local conditions, resources, and experiences. The LFO would include relaxing of federal procedural requirements and the ability to redirect resources across rental assistance programs.