

**REPORT ON THE
REOMA PROPOSAL
FOR ADDITIONAL PAYMENTS
IN LIEU OF TAXES**

August 10, 2006

The REOMA organization has proposed that the Lincoln Housing Authority (LHA) make a commitment to compensate the City of Lincoln because of the LHA's governmental tax-exempt status. REOMA suggests that the LHA pay five percent (5%) of our gross operating revenues including the federal funds we receive to assist extremely low income tenants rent units from the private sector. The model for the 5% request is Lincoln Electric System's 5% contribution of its total revenues to the City of Lincoln for payment in lieu of taxes (PILOT). Based upon REOMA's estimate, using LHA's prior fiscal year financial data, the amount which would be paid by LHA is estimated to be \$942,733. With the recognition of current taxes and PILOT already being paid by LHA, the balance would require an additional payment of \$660,530 to the City of Lincoln. To fully understand how REOMA's request would affect the citizens of Lincoln, the Housing Authority believes it is important to review our purpose, our role, and our responsibilities to the Lincoln community.

LHA PURPOSE AND HOUSING NEEDS

The Lincoln Housing Authority is enjoying its 60th year of service to the Lincoln community and the low income citizens of Lincoln. The LHA was created by the City of Lincoln to be responsible for addressing the affordable housing needs of its citizens. Our purpose as a public agency has always been to assist lower income citizens to meet their basic shelter needs and to improve the quality of life in Lincoln, by offering decent, safe and sanitary housing. Without our service, the City of Lincoln would not have sufficient, low cost, good quality housing choices for Lincoln's lower-income citizens.

The need for safe, decent and affordable housing continues to be a concern for the City of Lincoln and, therefore, the need for the LHA's services continues to be high. The need for our services is clearly recognized in the current Lincoln City/Lancaster County Comprehensive Plan last updated in 2002. The City's desires for affordable housing are:

Affordable housing should be distributed throughout the region to be near job opportunities and to provide housing choices within every neighborhood. Preserve existing affordable housing and promote the creation of new affordable housing throughout the community.

One of Lincoln's most valuable community assets is the supply of good, safe, and decent single family homes that are available at very affordable costs when compared to many other communities across the country. Preservation of these homes for use by future generations will protect residential neighborhoods and allow for many households to attain the dream of home ownership.

A safe residential dwelling should be available for each citizen: the efficiency apartment and the country estate, the small single family "starter" home and the large downtown apartment suite, the most affordable and the most expensive dwelling unit, completely independent living and living within the care of others. Provision of the broadest range of housing options throughout the community improves the quality of life in the whole community. Yet this diversity of housing choices directly depends upon achieving affordable housing. Housing affordability is not merely important for the community, it is imperative. Lack of affordable housing directly impacts citizens' assets and opportunities, which in turn shape the community's assets and opportunities. Failure to achieve housing affordability reduces the quality of life for income groups disproportionately, creates widespread hardships and stress, and retards the City's collective abilities to address community problems and objectives.

The 2000 Housing Census data indicates that 6,578 rental households in Lincoln pay more than 50 percent of their income for rent. An additional 7,276 rental households pay between 30 percent and 49.9 percent of their incomes for rent. This means that 36.5 percent of all rental households are paying more than 30 percent of their income for rent. The U. S. Department of Housing and Urban Development (HUD) considers housing to be affordable if the cost of rent and utilities does not exceed 30 percent of a household's income. Approximately 94 percent of the renter households that pay in excess of 30 percent of their income for rent have incomes classified as low income (below 80 percent of the area's median income). The high cost of housing for these families negatively affects their ability to provide for the other necessities of life such as food, medical costs, and transportation costs for employment opportunities. The high cost of renting also

negatively impacts the community's economic development efforts by reducing the amount of disposable income and the City's ability to attract workers for newly-created job opportunities which pay below the City of Lincoln's "living wage" rates.

Within the city of Lincoln, there are estimated to be 42,258 rental units. The Lincoln Housing Authority owns and/or manages 1,391 units of affordable housing, which is a 3.3% share of the total city of Lincoln rental market.

TOOLS AVAILABLE TO LHA TO MEET THE HOUSING NEEDS OF LINCOLN'S LOWER INCOME RENTERS.

While the LHA is faced with many challenges in meeting the housing needs of Lincoln's lower income citizens, the "tools" available to the LHA are limited.

The LHA is one of a few governmental entities that does not have the power to tax citizens. Further, the LHA does not receive a direct allocation of tax dollars from the City of Lincoln, Lancaster County, or the State of Nebraska. To meet the city's housing needs, the LHA must rely on discretionary federal or state funding programs as well as our ability to issue tax-exempt bonds and the income from rents collected from our tenants. Federal funding makes up approximately 70 percent of the revenues for our operations. Rents received make up an additional 24 percent of our revenues. The primary federal programs used by LHA include: (1) the Section 8 Housing Choice Voucher program; (2) the HUD Section 8 New Construction Project-Based program; (3) the HUD Section 8 Moderate Rehabilitation Program; and (4) the HUD Low Rent Public Housing program.

The Section 8 Housing Choice Voucher program represents approximately 90 percent of the federal funds we receive. The LHA is responsible for bringing this large amount of federal funds into the Lincoln economy. The federal funds received by the LHA have been available to the Lincoln community solely because of the Housing Authority's efforts to secure these scarce discretionary federal funds. Federal funding is continually subject to adjustment based upon Congressional budget approval, program changes, and

continued high performance in administering our funds. For instance, the HUD Low Rent Public Housing program has, for the past eight years, been reduced. There has been a difference between the HUD determined funding needs to operate the program and Congressional funding approval. As a result, the LHA has received approximately 85.5% of the funding according to HUD's Public Housing formula.

The only local tool that we have to meet Lincoln's affordable housing needs is our statutory exemption from property and sales tax as a government entity.

Other tools that are available on a project-by-project basis include:

- (a) Our ability to issue tax exempt bonds with payment pledged by rents received and properties owned.
- (b) Our ability to apply for Community Development Block Grants or HOME funds, although approval for use of those funds is subject to city or state project approval and funding priorities and allocations.
- (c) Our ability to apply for State Housing Trust Funds to the extent our project fits within the annual state applied priorities.
- (d) Our ability to use IRS Section 42 Low Income Housing Tax Credit allocations administered by the Nebraska Investment Finance Authority and given only on competitive basis of each project submitted for tax credits.

THE LINCOLN ELECTRIC SYSTEM 5% PILOT

REOMA has asked the Lincoln Housing Authority to consider voluntarily increasing its payments in lieu of taxes (PILOT) to the level of 5% of its total operating revenues. Among other things, REOMA argues that the Lincoln Electric System (LES) is a "good model" for the LHA, since LES currently makes PILOT payments equal to 5% of its total gross revenue received from the sale of electricity, which are divided among the City, the County, and the other municipalities and school districts that LES serves. REOMA

suggests that LES has taken on this responsibility voluntarily because, in part, they want to be “good citizens”.

In reality, the requirement that LES must make PILOT payments was added to Lincoln’s City Charter in 1966, when LES was formed, and the process was initiated to separate LES from the City. The City thus imposed the PILOT requirement on LES as a condition for its leaving city government to become a non-profit entity under an autonomous board.

Background of City Charter: The City of Lincoln was established under the authority of the Constitution of the State of Nebraska, through the adoption of its City Charter. The current Lincoln Charter was enacted in 1917 and became effective in 1919.

Article VIII of the City Charter governs “Streets, Public Improvements, Public Utilities, Special Assessments”. As originally enacted, Section 12 of this Article provided that the City was entitled to receive the income from all public utilities, which included the municipal electric system. Section 12 further provided that such income was to be applied to the payment of the current expenses of the utilities and to interest on any bonds issued for purchase or construction, with the surplus, if any, to be used for extending or improving the system or retaining it as a sinking fund for the payment of bonds.

Creation of LES: On February 1, 1966, LES was formed as a non-profit entity to provide electric energy to and around Lincoln. As a part of this separation and formation process, the City Council proposed an amendment to Article VIII, Section 12, of the Charter, which was approved by the voters on May 10, 1966, establishing the requirement of PILOT payments. This amendment added the following proviso to Article VIII, Section 12:

Provided, however, that five percent of the total gross revenue received from the sale of electricity within the corporate limits of the City of Lincoln and any incorporated city or village within which it sells electricity at retail, less an amount equivalent to the payments in lieu of taxes required to be made by the City directly or indirectly with respect to property within or operations

conducted by the City shall be paid annually in lieu of taxes, and divided among the state of Nebraska, county of Lancaster, municipality and school district within which the tax is collected, in the proportion that their respective property tax mill levies in each such year bear to the total of such mill levies.

In November 1996, Article VIII, Section 12, was further amended to identify the priority of payments in the event of a revenue shortfall and to provide that PILOT payments are to be subordinate to the operation and maintenance expenses and the payment of debt served on the outstanding obligations of the Lincoln Electric System.

As this history makes clear, the City required enactment of the PILOT payment provision as a condition for LES to become an independent, autonomous entity. LES did not voluntarily agree to make such payments, and there is no indication that the amount of the PILOT payment was negotiated by LES with the City. Instead, the PILOT requirement was part of the political decision which was made by the City to allow LES to become independent of city government. Further, by requiring the PILOT payments, the City has been able to collect a hidden property tax on ratepayers equal to 5% of their utility bills.

In contrast with LES, LHA receives the vast majority of its income from federal funds, most of which goes to private landlords. The second largest source of income for LHA is rent collected from lower income citizens. Approximately 443 LHA units have rents solely based upon 30 percent of the monthly income of the renter household. If the household has \$100 per month income, the rent collected is \$30.00.

USING FEDERAL FUNDS AS PART OF THE 5% PAYMENT IN LIEU OF TAXES CALCULATION.

The REOMA proposed PILOT to be paid by the LHA is calculated using the federal funds the LHA receives as if it is income to LHA. As stated earlier, federal funds make up 70 percent of the Housing Authority's budget with the vast majority of the federal funds coming from the Section 8 Housing Choice Voucher program. The Section 8 program

uses federal funds primarily to pay private landlords the difference between what a very low income LHA client can pay for rent (usually 30 percent of adjusted gross monthly income) and the actual contract rent of the unit set by the landlord and consistent with the local market rates. The LHA administers 2,800 Section 8 vouchers.

The federal voucher program has limits on how the funds can be expended. The payment in lieu of taxes using Section 8 Housing Choice Voucher funds is not a permitted use of these federal funds. As mentioned by David Anderson in his presentation to the LHA board on June 8, 2006, private landlords use the payment of these housing assistance funds to cover a part of their operating costs including the payment of property taxes. Because HUD Section 8 funds cannot be diverted by the LHA to make a payment in lieu of taxes as required by REOMA, the payment of the \$660,530 would result in substantial and unaffordable rent increases solely on our properties that do not have HUD or IRS-controlled rents. This large rent increase would cause an undue hardship on our very low income tenants and would result in the creation of homeless families who could not afford the rent increases needed to pay the PILOT or the rents currently charged in the non-assisted private housing rental market.

THE ARNOLD HEIGHTS STORY

The LHA has a long history of involvement with the Arnold Heights neighborhood and surrounding areas. In 1950, the LHA was responsible for the “Huskerville” housing (converted World War II barracks) that was rented to lower income citizens in need of inexpensive housing. In 1966, with the deactivation of the Lincoln Air Force Base, the Housing Authority entered into an agreement to temporarily care for, protect and operate the Air Force housing built for Air Force personnel after World War II. The LHA closed Huskerville and encouraged the Huskerville tenants to move into the newer Air Force units.

The federal government initially wanted to dispose of all of the “on base” housing through a bid process. In 1967, City of Lincoln elected officials and department heads met

with the board of the LHA to explore the issues of possible uses for the “on base” housing units. The elected officials were concerned that converting other deactivated military bases to market housing had resulted in the development of instant slums. The City of Lincoln encouraged the LHA to pursue the purchase and control of the Air Base housing to prevent development of a slum area.

Because the LHA did not have the funds needed to close a deal with the federal government at the time, the Housing Authority pursued federal funding to develop low-rent public housing units using the Air Base housing. The receipt of the federal funds was conditioned upon the City of Lincoln adopting a “Minimum Housing Standards” ordinance. However, the passage of the ordinance was rejected by the Lincoln citizens in 1967. The LHA and the City of Lincoln then turned their attention to having the Housing Authority borrow private funds using LHA’s ability to issue bonds. However, to pay off the bonds, the LHA would need rents that would be sufficient to retire the debt and the incomes needed by the tenants to pay those rents would have put the units out of reach for lower income individuals.

State law at the time required that housing developed by local housing authorities serve low income households. With the City’s support, the Unicameral approved a change in state law to accommodate the Lincoln Housing Authority’s purchase of Arnold Heights using bond funds. The state statute 71-1536(3) reads:

(3) Nothing contained in the Nebraska Housing Authority Law shall be construed as limiting the power of an authority of a city of the primary class to rent real property acquired from the federal government which is not, in the determination of such authority, by reason of its cost or the nature of its construction, suitable for low-income housing, to such tenants for such rentals as the authority shall determine reasonable, based upon the cost and the nature of the construction of the property, until such time as the property is adapted to low-income housing or disposed of by such authority.

In February of 1969, the City Council passed a resolution supporting the Housing Authority's purchase of the Air Base housing units. The resolution, No. A-57217, indicates the City's concern about ownership of the Air Base housing.

"WHEREAS, the imminent and pending disposition of the housing area presents the City of Lincoln with serious problems unless such disposition and future operation is controlled to the end that such problems are considered;"...

In April 1969, just one month before the federal government was to put Air Base housing up to public bid, the Lincoln Housing Authority's offer of \$5.5 million for the purchase of the 1,000 housing units was accepted by the federal government. During 1970, several agreements and City resolutions were passed affecting the Arnold Heights infrastructure and the approved Community Unit Plan with annexation into the City of Lincoln.

In one of those agreements, the City of Lincoln agreed that the open spaces and public streets and improvements would be dedicated to the City of Lincoln. The LHA would maintain the open spaces and remove snow until 75% of the total housing units were sold into private ownership. At this time, the maintenance performed by the LHA would become the responsibility of the City or a homeowners association. The Housing Authority closed on the initial purchase of the 1,000 Arnold Heights housing units on July 30, 1970.

In 1971, the City of Lincoln approved the Arnold Heights Replat to reflect lot lines and easements. The original intent of the LHA with the City's approval, was to retain 600 of the 1,000 units and sell the remaining 400 units on a "graduated basis" to assure that the real estate market was not flooded with 400 units at one time. The LHA, without federal funding for the 600 units reserved for the HUD Low Rent Housing programs, sold over 500 of the units. The sale of the 500 units was sufficient to retire the bonds used to purchase the 1,000 housing units from the federal government.

The LHA has maintained the level of its ownership at about 500 units for the past 35 years. As a result, the neighborhood has remained a vibrant, safe and strong neighborhood for the families who live there. Currently, the U. S. Census indicates that 71 percent of all of the units in the Arnold Heights census tract are renter-occupied. The Census indicates that the median household income for all Arnold Heights residents is \$39,375, with owner occupant median household income at \$47,370 and renter median household income at \$37,000.

With its ownership of 500 units, the LHA has invested a substantial amount of funds in upgrading its housing units and providing needed services and programs to the area. Listed below are the annual projects, programs and maintenance provided by the LHA to the Arnold Heights area:

- Mowing, on a regular basis, 65 acres of open green space.
- Mowing, on a regular basis, 3.5 acres of road right-of-way along the west side of NW 48th Street.
- Mowing, on a regular basis, along ½ mile of a creek bed in the southern portion of the neighborhood.
- Removing snow from approximately 9.5 miles of streets in the neighborhood after each snow fall.
- Funding the development of the Arnold Heights Neighborhood Subarea Plan for attachment to Lincoln's Comprehensive Plan.
- Providing rent-free, a two-unit duplex to serve as the Arnold Heights public library operated by the City of Lincoln.
- Providing a financial contribution for the purchase of playground equipment for Arnold Public School.
- Providing a contribution of land and cash for the creation of Eagles View Park and Playground.

- Providing rent-free space for the Arnold Heights police substation.
- Developing the Arnold Heights Carol M. Yoakum Family Resource Center in 1994. The Family Resource Center offers the following programs:
 - Accredited day care operated by Cedars Youth Services
 - Food distribution program
 - Summer youth programs
 - Low income bus passes
 - WIC program space
 - Clothing exchange program
 - Family fun night and family respite programs
 - GED classes
- Providing staff as Lead agency to the Arnold School Community Learning Center program in conjunction with the Lincoln Public Schools.
- Providing financial support for the Arnold Heights Neighborhood Association.
- Providing support for the Arnold Heights Annual Neighborhood clean-up program.
- Providing space and water for the Arnold Heights community garden plot.
- Providing, as indicated in the LHA Arnold Heights Property Needs Assessment, LHA reinvestment funds in the LHA-owned Arnold Heights rental units of \$14.8 million over a 20-year plan period.

LHA “PROFIT” AND “CHARITABLE CONTRIBUTIONS”

While the LHA operates in a very business-like manner with goals and objectives to be met, it does not generate a “profit” for distribution or tax assessment purposes. All monies earned in excess of our expenses are retained for project reserves. In those years where our expenses exceed our income, such as years where major capital improvement expenditures are needed or made, we rely on our reserves to carry us through the budget year. The Housing Authority has a 20-year capital improvement plan for all projects owned or managed by the LHA. The various written capital improvements plans allow LHA to plan for the replacement of major building systems, components, and updating of kitchens and

bathrooms. Each capital improvement plan has a funding target to ensure sufficient funds will exist to cover the cost of improvements over the 20-year period of the plan. The LHA's Investment Committee and Board regularly review the reserve funding targets on a quarterly basis. The Housing Authority has, to this point, successfully balanced the provision of units with affordable rents for lower income citizens with the need to provide quality, well-maintained units to sustain their long term use and viability as affordable housing units.

While REOMA may seek to characterize the housing-related programs and financial support for various housing-related agencies as "charitable gifts", the Lincoln Housing Authority views Friendship Home, Fresh Start, Lincoln Medical Education Partnership New Heights/Pathways project, County Extension Service Nutrition Education Program, and the City of Lincoln Office on Aging Congregate Housing Services Program as our partners in meeting Lincoln's need for low income housing.

CONGREGATE HOUSING SERVICES PROGRAM.

One program in particular saves Nebraska taxpayers substantial outlays. The Congregate Housing Services Program, started in 1994, provides supportive services to allow frail elderly residents located at Mahoney Manor, Burke Plaza and Crossroads House to remain there. "The goal of services is to help eligible individuals maintain their independence, improve quality of life and avoid institutionalization through coordinated supportive services. The program prevents premature or unnecessary institutionalization and allows residents of these buildings to age in place," (Lincoln Area Agency on Aging Resident Services Programs Program Report, December 2005). Without this program, LHA's frail elderly would be forced to move to nursing home care at a monthly Medicaid cost of over \$3,500 per month, per client according to the Lincoln Area Agency on Aging.

If the LHA were to terminate this program in August 2006, 18 LHA tenants would have to be placed in a nursing home facility. Because they are low income, they would be Medicaid eligible. One year of living in a nursing facility for these 18 tenants would cost

Nebraska taxpayers \$725,328 annually. Services provided to the frail elderly under the Congregate Housing Services Program include taxi coupons, personal care and housekeeping assistance. Additionally, the program provides eligible tenants with noon meals Monday through Saturday.

FRIENDSHIP HOME

Friendship Home has partnered with the LHA since 1991 to provide transitional housing for victims of domestic violence. The program uses six units owned by LHA to transition victims and their families from the Friendship Home shelter to LHA units. The Housing Authority provides additional financial support to Friendship Home to operate the transitions program.

FRESH START

Since 1992, the LHA has provided a payment for each client housed to allow Fresh Start to assist single homeless women unaccompanied by children to become stabilized and prepare the women to live independently.

NUTRITION EDUCATION PROGRAM

Since 1992, the LHA has partnered with the Lancaster County Extension office to provide partial funding for the Nutrition Education Program. The primary purpose of the program is to provide nutrition and food resource education to households receiving LHA housing assistance. The program shows the participant households how to achieve proper nutrition within a very limited household budget.

NEW HEIGHTS/PATHWAYS TO SELF SUFFICIENCY

Since 1996, the LHA has partnered with the Lincoln Medical Education Partnership to assist 28 households living on the LMEP campus to become self-sufficient. This program ties health care provided by LMEP education programs with low income housing tenants. The LHA funds provide staff for LMEP to provide self-sufficiency case management services to the families.

OTHER IMPORTANT HOUSING RELATED PROGRAMS SUPPORTED BY LHA

- Joint Venture Lincoln Public Schools/LHA–Northeast High School Program.
The LHA teams up with the Lincoln Northeast High School construction class to build a new single-family home every year. LHA has been operating this program since 1994. The homes are sold to clients in our public housing and Section 8 programs.
- Northwood Early Head Start Program. In 1999, the LHA converted office space and one apartment into the Northwood Early Head Start Center. The center, operated by Cedars Youth Services, provides infant and toddler day care for up to 24 children under the age of three (3). The space and outside play area is provided to Cedars without cost.
- LHA Downpayment Assistance Homeownership Program. The LHA has been providing lower income rental clients with down payment assistance of up to \$3,750 per household. The funds are to assist tenants to become homeowners. Since 1991, the LHA has provided over \$1.4 million to assist 404 LHA tenants to become homeowners.
- LHA Self-Sufficiency Program. The LHA provides case management and financial assistance to 100 current participants in the LHA Self-Sufficiency Program. LHA uses funds to assist very low income tenants to become self-sufficient from welfare assistance. The funds provide tuition and book assistance for GED and college classes as well as assistance for day care and transportation. Personal goals are assigned to each participant. LHA has graduated 177 individuals since the inception of the Self-Sufficiency program. Eighty-one (81) of the graduates have purchased their own home.

LINCOLN'S AFFORDABLE HOUSING MARKET HAS UNDERGONE CHANGES

The provision of affordable housing for Lincoln's lower-income residents is a very distinct housing market. Over the past 15 years, the choices for improved quality and

locations available to lower income residents have significantly increased. Most of the changes have been spurred by the development of new or rehabbed units under the federal Low Income Housing Tax Credit program (LIHTC). Within Lincoln, it is estimated that 1,253 units specifically set aside for households at or below 50 to 60 percent of the area's median income have been constructed or rehabbed. Rents under the Low Income Housing Tax Credit program are restricted through the program's rules and regulations and an executed land use restrictions agreement is used for the participating properties. The LIHTC units, whether new or rehabbed, offer units with many amenities not previously available to lower income tenants. With the use of the Section 8 Voucher program, tenants can rent the new LIHTC units with the various amenities at the same cost to the tenants as they would pay for older, "tired" units without many of the desired amenities. Additionally, the tax credit units have improved the level of customer service over that previously provided to lower income families. Because the units are frequently inspected by the LHA, the Nebraska Investment Finance Authority, and the asset managers hired by the limited partners whose equity could be jeopardized by poor management, the units are well cared for and customer service is the rule. The LIHTC program has shown that lower income clients are no different in their needs, wants and desires than higher income renters. The need for security, the expectation of a well-built and maintained unit, the provision of top notch management of the units, and the desire for an improved quality of life is common among all tenants. Sadly, many landlords have not recognized this change in the affordable housing market and have been slow to improve their housing units and/or slow to provide improved customer service. As a result, many of these landlords are uncompetitive in the current Lincoln affordable housing market.

The LHA believes it is meeting the demands of the affordable housing market in several ways. We provide HUD-assisted units for the extremely low income citizens within Lincoln as well as low cost, non-assisted and tax credit units for Lincoln's working poor households. We have reinvested heavily in our properties and have provided needed

services to improve our tenants' quality of life. We strive to offer the best customer service possible, even though federal funding cuts have caused a reduction in the number of our employees.

There is still a significant need for rental property owners in the affordable housing market. The LHA cannot be expected to meet all of the City's affordable housing needs. The Housing Authority currently owns and/or manages 1,391 units within the city of Lincoln. The estimated total number of rental units in Lincoln exceeds 42,000 units. The LHA has slightly over three percent (3%) of the total rental units in Lincoln. According to the REOMA website, REOMA members account for 7,000 units or over 16.6% of Lincoln's rental units.

CONCLUSION

After thorough review of REOMA's proposal that the LHA pay 5% of its total income as a payment in lieu of taxes to Lancaster County and the City of Lincoln, the Housing Authority respectfully declines to comply with this request.

Our reasons for rejecting this proposal include:

1. There are significant housing needs that remain within the city of Lincoln. To meet those needs, LHA, as the City's provider of assisted and affordable housing, must have adequate financial resources. Exemption from real estate taxes is the only financial support we have been given by the state, city, and county to meet the housing needs of Lincoln's lower-income citizens.
2. Imposing a 5% levy against the Section 8 Housing Choice Voucher program funding would not be an allowable expense under the HUD Section 8 rules and regulations. Private landlords are already using portions of these funds to meet the expense of property taxes levied against their rental properties assisted with Section 8 funding.

3. An increase in the PILOT above what the LHA is currently paying would seriously impair our ability to properly maintain and operate our current low-income housing stock, resulting in poor housing and neighborhood conditions for Lincoln's lower income citizens and the neighborhoods in which our tenants reside, and cause others to have a negative opinion about LHA and the people we serve.
4. An increase in the PILOT above what we currently pay would jeopardize our ability to continue funding for important community housing programs such as Friendship Home, Fresh Start, and the Lincoln Medical Education Partnership New Heights/Pathways programs. Housing and client support programs, such as the Congregate Housing Services Program, would also have to be eliminated and would have a particularly negative impact on the elderly and disabled households assisted by the LHA.
5. The LHA receives 70 percent of its affordable housing budget from federal funds. Over the last 12 years, these funds have been reduced or under-adjusted for inflation and/or threatened with elimination. In some cases, to ensure landlords received their payments on time, the LHA has been required to use its own funds until HUD's budget was approved or HUD corrected a funding error. The ability to accumulate reserve funds or the ability to substitute LHA funds for cuts in federal funds is needed to ensure the continued and dependable operation of the federally-funded programs as required within HUD's rules and regulations.

The Lincoln Housing Authority has considered the implementation of income limits on 140 unrestricted units. Northwood Terrace, Heritage Square and Lynn Creek were all acquired by the Lincoln Housing Authority. Each property has an interesting history behind its acquisition. Our review of these properties found that almost all are occupied by low-income households. Since the 140 units only make up .3 percent of Lincoln's rental market

and their locations are within lower income neighborhoods, LHA will not impose income limits at this time. LHA will continue to study this issue further and monitor income trends when new tenants are placed in these units.

The implementation of income limits will not be imposed on the non-assisted units located in Arnold Heights. The LHA believes a mix of incomes in the Arnold Heights neighborhood is crucial to the City's desire to create a good place to live and raise a family. The Arnold Heights neighborhood is currently a safe and vibrant neighborhood. The investment by the LHA in the neighborhood and the way LHA has managed its properties has directly affected the success enjoyed by the Arnold Heights neighborhood.

The Lincoln Housing Authority believes it is accomplishing the desired goal of the City of Lincoln, when the Housing Authority was first requested by the City of Lincoln to purchase the Arnold Heights units. Our list of accomplishments and contributions to the Arnold Heights area is extensive. As long as we maintain our level of units in Arnold Heights, we will continue our commitment to keep Arnold Heights an excellent place to live.