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**RENT REFORM INITIATIVES IN PUBLIC HOUSING
AND SECTION 8 VOUCHER PROGRAMS**

By

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September 2007

These papers are preliminary in nature: their purpose is to stimulate discussion and comment. Therefore, they are not to be cited or quoted in any publication without the express permission of the authors.

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Summary

Rent-setting has long been a complicated and sensitive aspect of housing-assistance policy. Observers of existing systems have criticized their complexity, lack of transparency, delayed assessment of local market conditions, inaccurate rent adjustments, and insufficient subsidy in high-cost regions, among other issues. Advocates for increasing the financial self-sufficiency of assisted households believe rent reform is one area new housing legislation might usefully address.

Rent policies mediate relationships among key stakeholders. Federal spending must attract sufficient numbers of landlords and units to participate. Higher tenant rents, while burdensome in the short run, increase the expectation that recipients will eventually achieve financial self-sufficiency. Local housing agencies and HUD must collaborate on ways to ensure that stable housing assistance for the lowest-income households, particularly those with the highest rent burdens, remains available.

This paper analyzes the rent-policy aspects of recent housing reform proposals. Against the baseline of current law, the paper focuses largely on the pending Section 8 Voucher Reform Act of 2007 (SEVRA07) and its predecessor from the prior Congress. The discussion contrasts these bills with the State and Local Housing Flexibility Act of 2005 (SLHFA), an administration-backed proposal which did not emerge from committee.

The paper finds there is growing consensus regarding the challenges confronting rent-setting policies in the housing assistance system. However, there is little agreement on how best to reform the system or how to address the ancillary effects of any chosen strategy. After reviewing various reform proposals, the paper makes a number of recommendations, including:

- Burdens placed upon HUD and its local agency partners should be flexible and realistic. Too often reform proposals fail to match new legal and administrative responsibilities with the necessary time and resources to make them feasible.
- The most promising options under consideration include a) implementing uniform income measurement and verification systems; b) recertifying tenant incomes less frequently, where possible; and c) identifying and sustaining rent-policy innovations introduced under the Moving to Work demonstration.
- To achieve greater geographic precision in rent-setting, policymakers should expand either local agency discretion over payment standards or HUD's obligations in determining fair market rents (FMRs), not both.
- Tenants' income gains in high-cost regions may represent important advances in self-sufficiency and should be rewarded in the rent calculation accordingly.

1 Background

In policy debates for many years, everyone from public housing authority (PHA) administrators and staff, assisted residents, participating landlords, tenant advocates, and policy leaders in Congress and at HUD have at some point taken issue with the method by which rents are set in the Public Housing and Section 8 voucher programs. Among the observed weaknesses in the prevailing system are the following:

- Lack of transparency
- Complexity and inaccuracy in calculation of income-based exclusions and deductions
- Delays in rent adjustment to match changing housing market conditions
- Incentives for residents to conceal income gains
- Reduction in marginal value of new employment for assisted residents
- Staffing demands for annual (or more frequent) income reviews
- Excessive duration of stays on assistance
- Sustained financial dependency on housing assistance
- Insufficiency of rents to cover programs' real operating expenses
- Unrealistically low program rents in highest-cost housing markets
- Intrusiveness of income-certification system
- Encouragement of landlords to increase rents toward permitted ceilings unnecessarily
- Weakness of incentives for residents to locate least expensive rentals
- Tolerance of excessive rent burdens upon lowest-income participants

This paper briefly describes various features of the current system¹ and analyzes proposals for rent reform in public housing and Section 8 voucher programs. The following discussion analyzes the motivation behind recent housing reform proposals and explains how they pursue important policy objectives. The paper will conclude with a set of recommendations bolstering the case for the most compelling forms of policy change recently under consideration.

In essence, there is indeed a growing consensus regarding the nature of the functional challenges confronting rent-setting policies in the housing assistance system. Further, there seems to be a collective appreciation among stakeholders concerning promising avenues for policy reform when it comes to tenant rents. However, agreement on how best to reform the system, and then to address ancillary administrative impacts of any chosen strategy, remains fleeting. Until the 2006 congressional elections, the prevailing tension was between drastic reforms sponsored by the administration and defense of the status quo by housing advocates and participants in assisted-housing programs. In the wake of those elections, the balance of power has shifted, but the factions' positions on the substantive questions seem to have barely

¹ Current law comes from the U.S. Housing Act of 1937 (USHA) as amended and Title 24 of the Code of Federal Regulations (CFR).

budgeted. Given the absence of a core consensus and signals of a possible veto from the White House, enactment of the new majority's pending reform package is by no means assured.

2 Scope

At the time of this writing, the US House of Representatives of the 110th Congress has now passed H.R.1851, the "Section 8 Voucher Reform Act of 2007" (SEVRA07), and sent it to the US Senate. SEVRA07 is a successor bill to the prior year's H.R. 5443 (109th Congress), known as the "Section 8 Reform Act of 2006" (SEVRA06), and retains a number of its provisions. The discussion of rent reform proposals in this paper will focus mostly upon those contained in the pending SEVRA legislation. Of particular interest are the modifications SEVRA would make in current federal law, HUD regulations, and local agency practice.

In addition, an important comparison is the 2005 "State and Local Housing Flexibility Act" (SLHFA), an administration-sponsored package of reforms which failed to emerge from committee.²

3 Pertinent Tradeoffs in Housing Assistance Policy

A number of structural tradeoffs exist in the design of housing assistance programs, whether they are based on a public-housing model or housing-choice vouchers:

- **Depth of Subsidy vs. Scope of Coverage:** For a given budget, the policymaker can choose to concentrate higher payments among the neediest households or spread smaller payments more widely to a larger population of recipients. When the more broadly disseminated subsidy is chosen, program realities often mean that lowest-income families will not be able to afford available units, even with vouchers to assist them. Unless arrangements are made to maintain sufficient payments to these poorest families, shallower subsidies often end up benefiting a larger number of slightly better-off households.³ Housing policy promoting self-sufficiency may achieve greater success among more moderate-income recipients having relative economic advantages. At the same time, insufficient subsidies to the least well-off recipients fail to relieve high rent burdens, i.e., higher payments of rent as a proportion of household income.
- **Federal Control vs. Local Autonomy:** SLHFA's pursuit of "flexibility" in local choice has many potential benefits. Compared to traditional top-down federal approaches – valued for their uniformity and how they facilitate control of budgets and expenditures – local autonomy has a number of established advantages. PHAs are better able to adapt to the local political climate.

² SLHFA was actually one in a series of regular reform proposals submitted by the administration, starting in 2003. For a review and comparison, see McCarty, Maggie, "The Section 8 Housing Voucher Program: Reform Proposals," Washington, DC: Congressional Research Service, RL33270, February 13, 2006; downloaded July 1, 2007 via http://www.opencrs.com/rpts/RL33270_20060213.pdf.

³ Edgar Olsen reviews a number of studies analyzing subsidy benefits as a function of income levels. He finds the relationship is consistently found to be inverse, meaning that higher-income households receive lower amounts of housing assistance in dollar terms. This tradeoff relating to rent burdens is implicit in any income-based rent system. See Olsen, Edgar O., "Housing Programs for Low-Income Households," Cambridge, MA: National Bureau of Economic Research, Working Paper No. 8208, April 2001, p. 33 (table 18). Elsewhere Olsen and colleagues have argued that existing rent rules serve too many families above the poverty line and too few below it. They further point out that existing rent levels in the program are unnecessarily high and that the voucher program's goals and efficiency will be boosted by across-the-board proportional reductions in the subsidy provided to eligible households. Crews, Cutts, Amy and Edgar O. Olsen. 2002. "Are Section 8 Housing Subsidies Too High?" *Journal of Housing Economics*, 11(3):214-243 (September).

Being closer to actual housing transactions, they are better able to measure local conditions, liaison with elected officials and other social service agencies, and allocate their budgets most wisely among various cost categories. Moreover, centralized control by the federal government imposes high costs throughout the system. Resources which could be directed toward housing benefits instead get spent on monitoring and reporting by the local agencies and information processing in Washington. However, greater local flexibility would make centralized oversight of more than three thousand PHAs considerably more costly, unless increased local autonomy is matched by a narrowing of the Federal role.

- **Slow Improvements in Uniform Treatment vs. Rapid, Localized Innovation:** Flexibility also promises greater responsiveness, but at the cost of diverging standards across agencies. As has been demonstrated in the Moving to Work program, local creativity deserves a chance to evolve.⁴ If new policies prove misguided, better that they should fail in confined areas. If experiments bear fruit, they may be easily adapted into national models. By contrast, centralized systems are slower to reform, if only because aggregated stakes pose higher risks when policy improvements fail to materialize.
- **Entitlements vs. Self-Sufficiency Promotion:** Federal housing assistance can be temporary or permanent. Those with long-term inability to fully afford housing require deeper, longer-lasting support payments. Those facing shorter-term difficulties may be able to utilize the assistance to help re-establish financial self-sufficiency. Proposed reforms shortening the duration of assistance build in incentives for recipients to attain self-sufficiency. Exceptions for permanent forms of disability and other hardship carry with them more substantial commitments of assistance. Over time, these payments can ripen into a form of *de facto* entitlement. The evidence concerning housing assistance's effect on employment is mixed. Despite the confusing state of the literature, however, there is a continuing concern that the income-based rent structure (a) taxes increased earnings, (b) provides an income supplement rather than an earmarked shelter payment, and (c) provides little incentive for recipients to seek employment gains.⁵
- **Economizing vs. Deconcentrating:** A longstanding critique of public housing concerns its tendency to concentrate negative neighborhood externalities and exacerbate segregation of poor households within dense urban sectors. Whether the housing unit itself is in public or private (or even nonprofit) hands, there are management economies of scale in the proximate location of units within the PHA's portfolio. Housing advocates may prefer retreating from the deconcentration goals embedded in scattered-site approaches, in favor of project-based vouchers used in bulk to help underwrite construction of new income-restricted units via the Low-Income Housing Tax Credit and associated sources of capital.⁶

⁴ For an evaluation of the MTW program, see generally Abravanel, Martin D., Robin E. Smith, Margery Austin Turner, Elizabeth Cove, Laura Harris and Carlos A. Manjarrez, "Testing Public Housing Deregulation: A Summary Assessment Of HUD's 'Moving To Work' Demonstration," Washington, DC: Urban Institute, 2004.

⁵ See Shroder, Mark, "Does Housing Assistance Perversely Affect Self-Sufficiency? A Review Essay," *Journal of Housing Economics* 11(4):381-417 (2002), and Grigsby, William G. and Steven C. Bourassa, "Trying to Understand Low-income Housing Subsidies: Lessons from the United States," *Urban Studies* 40(5-6):973-992 (May 2003).

⁶ The Moving to Opportunity (MTO) experiment allowed researchers to test numerous hypothesized effects of locating housing-assisted families in neighborhoods with lower-poverty rates. While residence in better neighborhoods appears to provide superior shelter and other place-based benefits, relocated families under MTO realized little, sustained improvement in educational outcomes, partly because so many of them eventually returned to live in areas of greater poverty. See Sanbonmatsu, Lisa,

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- **Subsidizing Units vs. Subsidizing Tenants.** The benefits of the demand-side approach were long established in economic theory before being thoroughly tested by HUD in the 1970s. The demand side of the field test (the "Experimental Housing Allowance Program" [EHAP]) took place in the Phoenix and Pittsburgh metropolitan areas. These experiments demonstrated that aggregate use of vouchers sends accurate, real-time signals to owners and developers regarding the quality and quantity of housing needed to serve lower-income households adequately. These signals allow housing markets to operate efficiently despite the influx of subsidies. Many commentators thus prefer vouchers to supply-side expenditures, particularly where program rules most closely reproduce free-market choices of tenants and owners.⁷ While the current debate over rent reform may not change the balance of federal investment along these lines, it makes sense to evaluate proposed changes to the voucher program in terms of how they may advance or inhibit the known advantages of demand-side policies.
 - **FMRs as caps vs. FMRs as guidelines.** Since the advent of demand-side approaches in housing assistance, there has been a debate over whether fair market rents (FMRs) should operate as firm caps. The current cap-based system arguably protects recipients from landlords who are inclined to charge higher rents; there is a related issue concerning the potentially troubling appearance of assisted households being permitted to occupy higher-than-minimal quality units in a given region's housing stock. Yet critics of the cap suggest that FMR-caps effectively establish a target rent for all landlords, even those who would otherwise be willing to receive lower payments for their units, thus increasing program cost overall. Moreover, FMR-caps may overly restrict the number of units available for the program, thereby reducing choice among neighborhoods and perhaps decreasing overall voucher-usage rates. Data from the EHAP experiments tends to indicate that liberalizing FMRs to allow unit rents to fluctuate more freely, according to tenant choice and market conditions, does not produce the unwanted outcomes cap-proponents fear.⁸ This means that some moderate liberalization of FMR caps may be worthwhile, if only on a trial basis.

These stylized tradeoffs provide useful lenses through which proposed rent reforms can be observed and better understood.

4 Administrative Efficiency and the Lure of Local Prerogative

With the 2006 congressional elections, much of the momentum for real devolution of housing-policy choice to the PHAs has waned. Nevertheless, conditions motivating the SLHFA proposals remain pertinent. A number of these issues should be kept in mind should HUD now be called upon to chart the course for federal housing policy in a post-SEVRA world.

Jeffrey R. Kling, Greg J. Duncan, and Jeanne Brooks-Gunn, "Neighborhoods and Academic Achievement: Results from the Moving to Opportunity Experiment," *Journal of Human Resources* 41(4):649-691 (2006).

⁷ See Mayo, Stephen K., Shirley Mansfield, W. David Warner, and Richard Zwetchkenbaum, "Housing Allowances and Other Rental Assistance Programs: A Comparison Based on the Housing Allowances Demand Experiment" (Cambridge, MA: Abt Associates, 1980).

⁸ Khadduri, Jill and Raymond J. Struyk, "Improving Section 8 Rental Assistance: Translating Evaluation Into Policy," *Evaluation Review* 5(2):189-206 (April 1981); see also Barnett, C. Lance, "Expected and Actual Effects of Housing Allowances on Housing Prices," *AREUEA Journal* 7(3):277-297 (Fall 1979).

For example, income verification and rent calculation are complex tasks in need of streamlining.⁹ Toward that end, the House-approved version of SEVRA07 (incorporating numerous bipartisan amendments to Rep. Maxine Waters's original bill) would permit PHAs to utilize the income levels verified by agencies administering other federal aid programs such as Temporary Assistance to Needy Families (TANF), Medicaid, and food stamps. If coordinated appropriately, this option may consolidate local effort substantially.

In his testimony to a House committee weighing SLHFA in the spring of 2005, HUD Secretary Alphonso Jackson emphasized the need to secure voucher-program savings after a period of steep increases in per-voucher costs nationally. Secretary Jackson indicated that from 1998 to 2005, Section 8 spending had grown from 36% to 57% of HUD's budget. The average payment standard among PHAs had risen from \$648 (95% of FMR) in 2000 to \$889 (104% of FMR) in 2004. His prescription, endorsing the SLHFA package, emphasized simplifying rental calculation to reduce PHA staff hours at intake and recertification and utilizing the sixty percent of area median income (AMI) basis featured in the Low Income Housing Tax Credit and the HOME Investment Partnerships. Other cost savings were promised via liberalized federal requirements concerning annual unit inspections, voucher portability determinations, and eligibility standards.¹⁰ As Secretary Jackson emphasized in his remarks, PHAs might be in a better position to match policy design to local market conditions in a way which is responsive, well calibrated, and dedicated to spurring the self-sufficiency and social progress of housing-assisted families.

The Bush Administration continues to prize prospects for increased PHA autonomy, even as it opposes adoption of SEVRA07 in its current form. In its "Statement of Administration Policy" on the bill, the White House describes its opposition to the rent provisions this way:

The Administration favors simplification of tenant rents to ensure fairness and transparency.... [T]he bill fails to address the fundamental problem with the current system, which is that a one-size-fits-all approach cannot be responsive to all the different individual concerns, priorities, and market conditions of local communities. True reform of the rent determination system is necessary to: reduce PHAs' administrative burden; provide PHAs with the necessary flexibility to control tenant rents to properly address the needs and priorities of their communities; ... and help eliminate improper payments that occur due to difficulties in determining the proper rent.

5 Voucher Set-Asides for Lowest-Income Recipients

Among the rent reforms contemplated in recent years, nowhere does the deep versus shallow subsidy tradeoff appear more starkly than in the treatment of voucher set-asides for extremely low-income families. Rather than permitting PHAs to allocate vouchers among various income segments as they see fit, current law mandates that seventy-five percent of each year's new recipients have incomes at or below 30 percent of AMI. The remaining 25 percent of new voucher recipients may have incomes up to 80 percent of AMI. [US Housing Act of 1937 (USHA), §§ 8(o)(4) and 16(b).] Reallocation of vouchers toward relatively higher-

⁹ Estimating that PHA staff spend four to five hours per household for intake, income verification, and rent calculation, a 2004 HUD white paper opined: "It is far more time-consuming to determine the right rent contribution for a low-income household than to calculate the Federal income tax for that household." (US HUD, "The Flexible Voucher Program: Why A New Approach to Housing Subsidy is Needed," May 18, 2004, p. 4, downloaded July 9, 2007 via <http://www.hud.gov/offices/pih/programs/hcv/fvp/wponfvp.pdf>.)

¹⁰ US HUD, "Written Statement of Secretary Alphonso Jackson, US Department of Housing and Urban Development, Before the United States House Committee on Financial Services," May 11, 2005. Downloaded July 2, 2007 via <http://www.hud.gov/utilities/intercept.cfm?offices/pih/programs/hcv/fvp/jacksonstestimony.pdf>.

income recipients would of course have implications regarding rent burdens shouldered by the neediest households.

Despite this preference in the law, in 2005 nearly 4.5 million extremely low-income (ELI) households (i.e., having incomes at thirty percent of the area median or below) and an additional 1.8 million very-low-income VLI households (with incomes between 30 and 50 percent of area median levels) suffered “worst-case” housing needs, according to HUD’s tabulations of American Housing Survey (AHS) data. Worst-case need is defined as payment of more than fifty percent of income on housing, or residence in severely substandard conditions, or both, while receiving no federal housing assistance. By contrast, about 1.4 million ELI households and 3.6 million VLI households experienced neither cost burdens nor severely inadequate housing conditions in 2005.

The AHS data does not distinguish between forms of federal and state housing assistance. However, nearly one-third of all ELI households (3.3 million out of 9.7 million) and nearly one-fifth of VLI households (1.3 million out of 6.3 million) reportedly receive housing assistance in some form. It is certain that many of the poorest households reporting no excessive rent burden or substandard conditions are receiving some form of assistance.¹¹ Net loss of assistance for the neediest families would likely shift many of them into worst-case-need conditions.

SLHFA would have substantially weakened the rule allocating 75 percent of vouchers to those households below 30 percent of AMI. Instead, PHAs would only be required to ensure that ninety percent of new vouchers go to families at sixty percent of AMI or less. In effect, this would have liberalized the restriction and allowed greater discretion for PHAs to allocate their voucher resources as they see fit. SEVRA07 would modify the current set-aside only slightly, dedicating the same level of 75 percent of vouchers to families at or below either 30 percent of AMI or the federal poverty level (adjusted by family size), whichever is greater.

According to the Congressional Budget Office (CBO),¹² 76 percent of the tenant-based assisted population has incomes below 30 percent of AMI. The proposed change would increase this share to 81 percent. Further, 84,000 tenants with incomes over the new limit would replace those with incomes below the limit as voucher turnover progresses, and each new family would receive an annual benefit of about \$3,000 less than what the replaced families had received. The legislative change arguably would provide greater flexibility to rural PHAs, particularly those where 30 percent of AMI is actually below the federal poverty level (FPL) for larger families.¹³ Reforms in targeting would, according to CBO estimates, save the federal government \$54 million in 2008 and more than \$1 billion over the following four years.

¹¹ See US HUD, “Affordable Housing Needs: Report to Congress,” Washington, DC: HUD Office of Policy Development and Research, 2007.

¹² CBO Cost Estimate, H.R. 1851, June 22, 2007.

¹³ Center on Budget and Policy Priorities, “Appendix: Comparison of Policies Under Current Law, Administration’s Proposed State and Local Housing Flexibility Act, and Bipartisan House Section 8 Voucher Reform Act,” August 16, 2006, p. 2; downloaded July 6, 2007 via <http://www.cbpp.org/5-30-06hous-app.pdf>. This paper’s description of current law and proposed legislation owes much to this summary appendix as well as an updated revision from the same authors: “Comparison of Policies Under Current Law and Bipartisan House Section 8 Voucher Reform Act,” June 26, 2007; downloaded July 6, 2007 via <http://www.cbpp.org/5-4-07hous-app.pdf>.

Supporters of SLHFA's reform on voucher-targeting pointed out that PHAs could retain the 30 percent threshold if they wished.¹⁴ However, the greater the set-aside for extremely low-income families at or below that threshold, the fewer slightly better-off households in poverty might be served, particularly if they make the necessary effort to attain income gains. For example, the 2007 HUD AMI for Brownsville-Harlingen, TX metropolitan area is \$30,000. Since under the current system 75 percent of vouchers in that region will be reserved for families earning \$9,000 or less, those applicants having the wherewithal to attain incomes of \$12,000, or even \$15,000, face a great likelihood they will be disqualified from the voucher program due to the extremely-low-income set-aside rule. Year to year, the federal government could in theory address such allocation issues by supplementing the number of vouchers allotted each authority. Targeted voucher growth (or reduction), which is carefully attuned to the circumstances of individual authorities, would make federal expenditures more flexible and adaptive.

However, federal adjustments to the number of households served in various regions are severely inhibited by the recently implemented "budget-based" approach to funding the Housing Choice Voucher (HCV) program. The budget-based approach generally limits HUD's payments to PHAs under governing annual contribution contracts (ACCs) to an authority's actual HCV spending during the prior year. Given this connection, reform of the rent system would necessarily involve some careful reconsideration of recent budget-based changes to the HCV program's funding rules. It must also be pointed out that voucher targeting, implemented based on numbers of vouchers placed, begs the question of how rents are set and whether voucher-based assistance is sufficient to fulfill program goals and improve the housing and household-budget conditions of the neediest Americans.

Under SEVRA07, at least, the local PHA could increase the threshold to the FPL. Under the January 2007 HHS guidelines,¹⁵ for example, the FPL cutoff would range from \$10,210 for individuals to \$20,650 for a family of four. In this way, SEVRA07 represents a numerical compromise between those favoring the status quo under current law and those seeking more fundamental reform as exemplified in SLHFA. However, regardless of where the threshold is set, households with incomes "on the bubble" – i.e., in close proximity to the cutoff, on either side – will be affected more drastically than others. This is simply a fact of life in the business of income-based social assistance.

6 SEVRA and the Retreat from Drastic Rent Reform

The current federal policy on rent calculation for assisted households is driven almost entirely by an effort to ensure housing affordability in proportional, household-budget terms. Up to the late 1960s, PHAs were free to set rents for their properties, and did so based largely upon apartment size and recovery of costs.

In 1969, Senator Edward Brooke sponsored an amendment to USHA which limited rents to 25 percent of adjusted family income; in 1981 this level was increased to 30 percent, where it stands today.¹⁶ PHAs can set minimum rents of up to \$50 and can apply a number of hardship and other situational exceptions as part of the rent calculation and its adjustments to gross income (resulting in the AGI amount). So long as

¹⁴ US HUD, "State and Local Housing Flexibility Act of 2005" [slide presentation], downloaded July 3, 2007 via <http://www.hud.gov/utilities/intercept.cfm?/offices/pih/programs/hcv/fvp/legislativeproposlides.pdf>.

¹⁵ US HHS, "Computations for 2007 Annual Update of the HHS Poverty Guidelines for the 48 Contiguous States and the District of Columbia," downloaded July 10, 2007 via <http://aspe.hhs.gov/poverty/07computations.shtml>.

¹⁶ Solomon, Rod, "Public Housing Reform And Voucher Success: Progress And Challenges." Washington, DC: Brookings Institution [Discussion Paper Series], January 2005, downloaded July 17, 2007 via http://www3.brookings.edu/metro/pubs/20050124_solomon.pdf.

income-based eligibility is viewed in static terms, the status quo rent structure in the HCV and public housing programs effectively caps the proportion of incomes that are required as the residents' contribution. This advantage is coupled with another in the voucher program, namely, the power of tenants to pay more than 30 percent (up to a maximum of 40 percent) if they wish to consume a greater share of housing relative to other goods. The Brooke-rent system makes control of proportional rent burdens the system's primary concern. It recognizes that excessive rent burdens in the unassisted population are what most justifies making them eligible for federal assistance.

Recent analysis of data from HUD's Multifamily Tenant Characteristics System (MTCS) indicates that the 40-percent ceiling on rent burdens in the HCV program is far from binding. Numerous participants' rent burdens far exceed the 40-percent limit, which is already supposed to constitute a relatively rare exception to the general 30-percent rule. Those with statistically low incomes suffer the greatest burdens; in practice, those households are in the most dire circumstances and should retain their voucher benefits even if a strict, numerical application of program rules would render them ineligible. Elsewhere in the program, exceeding the 40-percent rent-burden threshold may be a temporary condition. Particularly among lower-income households, monthly income can fluctuate greatly. When variable incomes are at their lower ebb, a given monthly rent payment may greatly exceed forty percent of that month's income. Finally, rent rules already provide a relative disincentive to households described in the MTCS to honestly and immediately report income increases. A high rent burden may actually represent failures in income measurement, since artificially low income measures can make rent burdens appear higher than reality.

In any event MTCS-based research in 2002 showed that 16.6% of HCV households had rents at levels higher than forty percent of income, and slightly less than seven percent of households paid rents higher than sixty percent of income. More than half (63.6%) of HCV households with incomes less than ten percent of AMI had rent burdens over the forty-percent program limit. In the HCV program about twenty percent of: families with children; female-headed single-parent households; African American (non-Hispanic) households; and larger households (three persons or more) had rent burdens over forty percent of income. These households share of various cohorts within the HCV population are descriptive and do not necessarily reflect statistically significant differences by race, family status and size, and the like. More than eighty thousand households in the 2002 MTCS sample had severe rent burdens (greater than sixty percent of income). Their mean monthly rent was \$734 and their average annual income was \$3,352.¹⁷ Assuming the data is accurate, the presence of these families in the HCV program militates in favor of reforms concerning payment standards, FMRs, and perhaps targeting and funding levels as well. At the same time, the presence of this cohort in the HCV population demonstrates how difficult it likely is, in practice, to eradicate all rent burdens above some theoretically intolerable numerical threshold. Another confounding factor involves self-sufficiency. If housing is a normal good – i.e., higher-income households demand more of it – increasing rent burdens may actually indicate gains in self-sufficiency terms, particularly where incomes are growing.

If income-denominators in rent-burden analyses are subject to inaccurate measurement, they are not alone. The regulated numerator of the rent-burden ratio is also problematic. Due to the extensive and arcane paperwork used in the rent-adjustment formula, the process of calculating rents is itself arduous and systematically prone to error. According to a 2005 Government Accountability Office (GAO) report, HUD paid approximately \$1.4 billion in improper subsidies in 2003 (\$896 million in overpayments and the rest in

¹⁷ Analysis of the 2000-2002 MTCS data is reported in McClure, Kirk, "Rent Burden in the Housing Choice Voucher Program," *Cityscape* 8(2):5-20 (2005).

underpayments). The overpayment could have subsidized an additional 56,000 households. The GAO identified three key sources for the errors: incorrect subsidy determination by administrators, unreported tenant income, and incorrect billing.¹⁸

Addressing complexity and lack of transparency in the rent-setting system implemented by HUD for use among PHAs, among other issues, SLHFA would have instituted rather drastic changes. Most importantly, the federally required income-basis for calculating rents would have been written out of the law. Instead, PHAs would have been authorized to establish their own minimum rents or flat-rent schedules however they saw fit. Similarly, PHAs would have enjoyed full discretion over exceptions in the rent calculation when tenants lose employment and suffer other forms of hardship. Income from food stamps, the earned income tax credit and the like – now excluded from income – could be counted as income at the PHA's option. In practice, SLHFA would likely have made rent-burden analysis somewhat irrelevant, while at the same time hewing somewhat closer to the EHAP-based case for making federally determined FMRs guidelines rather than outright caps.

SEVRA07 in its pending form attempts to pursue middle ground concerning such drastic reforms, but essentially steers clear of them. SLHFA's critics questioned the proposed elimination of the Brooke-rent approach to controlling rent burdens, arguing that the nation's neediest families would inevitably see their rent burdens increase. The scenarios painted by SLHFA's opponents relied heavily on the proposed block-granting of federal funds; budgetary pressures would arguably require local authorities to shift costs to tenants in the form of higher rents.¹⁹ Keeping rents as low as possible to benefit the most economically disadvantaged strata of recipients is one well-founded option available to policymakers. Even in promoting the SLHFA package of reforms – with its possible reallocation of shallower benefits to a cohort of slightly better-off families – Secretary Jackson remarked, "I cannot overstate the importance of Section 8 to improving the lives of many of this nation's neediest families. As a compassionate nation, we have an obligation to provide assistance for those citizens who truly need our help."²⁰

While SEVRA07 would make incremental changes in areas such as gross-income deductions, rent verification and recertification, and exceptions for the elderly and disabled, it would keep the existing rent system and its problematic administrative realities largely intact. The bill implicitly acknowledges the continuing concern over cost recovery in public housing. It directs HUD to report to Congress in 2008 and 2009 on the new law's impacts on the revenues and operational burdens in public housing and to make accommodation for particular PHAs facing ongoing shortfalls. The House specifically rejected amendments which would have imposed a seven-year time limit on voucher-program participation or a 20-hour weekly employment requirement after the seventh consecutive year of occupancy.²¹

¹⁸ US GAO, "HUD Rental Assistance: Progress and Challenges in Measuring and Reducing Improper Rent Subsidies," Washington, DC: US GAO, No. GAO-05-1027T, September 27, 2005, downloaded July 15, 2007 via <http://www.gao.gov/new.items/d051027t.pdf>.

¹⁹ See, e.g., Will Fischer and Barbara Sard, "Administration Housing Proposal Lays Groundwork for Planned Funding Reductions," Washington, DC: Center on Budget and Policy Priorities, May 9, 2005, downloaded July 2, 2007 via <http://www.cbpp.org/5-9-05hous.pdf>.

²⁰ "Written Statement of Secretary Alphonso Jackson," May 11, 2005, *op.cit.*, p. 2.

²¹ H.Amdt. 495 to HR1851 (Miller [seven-year limit]), failed by a 267-151 vote on July 12th, 2007 (roll no. 625). H.Amdt. 498 (Hensarling [20-hour work obligation after seventh consecutive voucher year]), was rejected by a 222-197 vote the same day (roll no. 627).

In late floor amendments, the House did add to SEVRA07 specific language inviting flexibility in local rent policies. But given the overarching reaffirmation of the Brooke-rent system, the amendments may be symbolic at best. On their surface, the changes to Section 3 of the bill permit PHAs to establish “a tenant rent structure” featuring ceiling rents for public housing units, dollar limits on tenant contributions, and periodic inflation and locally assessed FMR adjustments. The version of the bill sent on to the US Senate also permits “income-tiered” and “percentage-of-family-income” calculations. However, and most importantly, the bill’s “limitations” on this supposedly new, flexible rent-reform authority unambiguously reaffirm the thirty-percent income-based Brooke limit:

Notwithstanding the authority provided under [the bill’s Rent Flexibility language], the amount paid for rent (including the amount allowed for tenant-paid utilities) by any family for a dwelling unit in public housing or for rental of a dwelling unit for which tenant-based voucher assistance ... is provided may not exceed the [existing thirty percent limit]. The Secretary shall issue regulations and establish procedures to ensure compliance with this subparagraph.

Given that reform initiatives often seek ways to increase proportional rent obligations above Brooke limits so as to incentivize greater rates of employment and earnings growth, it begs the questions as to whether or not it is feasible both to institute rent flexibility and reaffirm the Brooke structure at the same time.

In fact, SEVRA07 risks rolling back rent-focused innovation in the Moving to Work program (MTW).²² Current program rules allow MTW-participating authorities to adopt rent policy reforms so long as they are “reasonable” and encourage employment and movement towards financial self-sufficiency. According to HUD data provided to CBO, approximately one-half of MTW-participating agencies have undertaken substantial rent reforms. A number of jurisdictions have contemplated or adopted step-rent schemes, time-based limits, and other techniques for reducing program benefit and increasing recipient financial responsibility over the duration of assistance. The goals of these efforts include increasing rents as an incentive to encourage employment and earnings, and controlling PHA operating costs.

A number of rent reforms have been implemented under MTW as well as the Jobs-Plus Community Revitalization Initiative for Public Housing Families (Jobs-Plus) demonstrations.²³ For example, the Jobs-Plus demonstration in Chattanooga, Tennessee enticed participation in the experiment with initial rent reductions to levels below Brooke levels. From an administrative standpoint, Brooke rents require careful and time-consuming calculation of income adjustments; such effort can be obviated through the setting of flat rents pegged to published FMRs for various unit sizes. This approach has been utilized in the MTW program implemented in the Tulare County, California PHA, in tandem with planned “graduation” from housing assistance after five years or earlier if residents’ household incomes reach 120 percent of AMI.

²² In its rent policy and other dimensions, the MTW demonstration is authorized and governed by Title V of the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (P.L. 104-134), § 204. MTW would be renamed under SEVRA07, becoming the “Housing Innovation Program” (HIP) under the bill [§ 16(a)]. HIP would be extended for ten additional years, and the maximum number of participating agencies would be increased from thirty to sixty, with another twenty being welcomed to join a development-focused HIP initiative.

²³ Examples are drawn from Gardenhire-Crooks, Alissa, Susan Blank, and James A. Riccio, “Implementing Financial Work Incentives in Public Housing: Lessons from the Jobs-Plus Demonstration,” (New York: Manpower Development Research Corporation, 2004, and Angres, Leigh, “Stepping Up: A New Rent System for Oakland’s Public Housing Program,” Berkeley, CA: Goldman School of Public Policy, unpublished Masters project, May 2007. Angres points out that flat and stepped rent schemes may be most naturally suited for places like Keene, New Hampshire and Tulare County, California, where rents are relatively low and homogeneous.

Sustained use of flat rents lacks the harsher incentives of rents which are stepped up over time. Significantly though, they also decouple the rent calculation from income and therefore avoid the “HUD tax” some believe discounts the benefit of increased wages to HCV and public housing residents. In the case of stepped rent schedules teamed with overall time limits for participation, the Dayton and Los Angeles Jobs Plus programs set ceiling rents as the end point of stepped increases. The ceilings were set at levels still below market rates but high enough to allow these PHAs to cover operating costs for a greater proportion of their rental portfolios. The Jobs Plus programs in Seattle and St. Paul set their ceiling levels all the way up to market rents.

In principle, steps can be set at lesser increments of FMR, and this would seem particularly appropriate in highest cost regions. The Keene, New Hampshire MTW program utilizes steps at Brooke-level, then 45 percent and 65 percent of FMR. In most of these locations, stepped-rent schedules impose increases on an annual basis. Keene and Seattle utilize two-year step increments. It should be emphasized that, where reform programs and experiments have instituted time limits, they have often been accompanied by hardship exemptions for the elderly and disabled, as well as job training and referral, financial literacy classes, and other services intended to spur self-sufficiency impulses.

Keene and Tulare both operate specialized committees hearing requests by individual households for relief from the time-based cutoffs of assistance, with remedial arrangements including possibilities of rent relief, income-targeted extensions, and even employment with the PHA itself. In the case of Jobs Plus and MTW, as well as similar efforts in the Family Self-Sufficiency program and elsewhere, evaluations have revealed a number of positive effects on wage and employment, though these impacts have had varying durations and have not always been sustainable in the long run.²⁴ In general, lawmakers have reason for guarded optimism concerning the responsiveness of housing-assistance recipients to rent-based and other incentives.

While funding and expanding MTW considerably, SEVRA07 would clamp down upon PHA-driven rent-policy changes in the program. It would make such changes subject to HUD review. Among other aspects, this review would seek to ensure that rent reforms adequately provide for hardship cases and transitions out of housing assistance. Further, SEVRA07 would require the sponsoring PHA to conduct an economic impact analysis identifying effects on current recipients and waitlist occupants. That analysis would have to be provided to the public with notice in advance of a public hearing and would have to take public comment into account before the policy could be adopted with finality. The economic impact analysis would have to be repeated every two years, substantially increasing PHAs’ administrative costs.

Needless to say, if SEVRA07 holds sway, the fundamental Brooke-based rent policy underlying federal housing assistance would remain essentially intact. Efforts to streamline and improve the accuracy of rent calculation at the local level would be curtailed, as would a number of MTW-agency reforms which could not receive approval from HUD or survive the local political environment. SEVRA07 features a number of innovative and consensus-building initiatives, in such areas as payment standards, medical and child-care expenses, and expansion of the project-based voucher program. On the structural realities of basic rent policy, however – and the costly, error-prone administrative system surrounding it – SEVRA07’s sponsors are rather rigid traditionalists in their approach. Should the bill become law, those most concerned about its

²⁴ See Bloom, Howard S., James A. Riccio, and Nandita Verma, “Promoting Work in Public Housing: The Effectiveness of Job-Plus, Final Report,” New York: Manpower Development Research Corporation, 2005; Gardenhire-Crooks, Alissa et al., *op.cit.*, and Abravanel, Smith et al., *op.cit.*

long-range effects on rent burdens will likely attend to the continuing challenge of making the 30-percent rule, and its 40-percent absolute ceiling, more effectively enforced.

7 Fair Market Rents, Payment Standards and Rent Reasonableness

Establishing accurate and credible FMRs for use in the housing-assistance system is one of the most daunting challenges HUD regularly faces. For most of its history, available data on rents, unit quality, and other key features is notably scarce for a great number of metropolitan and other regions across the nation. Supplementing its traditional sources, HUD will likely make more and more use of the samples of the American Community Survey (ACS) conducted between decennial census years, as the ACS continues to develop and blossom.

A March 2005 GAO evaluation concluded that HUD's FMR methodology had improved gradually over time but still showed considerable room for improvement, in terms of accuracy and transparency. With some reluctance to treat the ACS as panacea, GAO recommended maximizing use of recent ACS data, wherever possible and useful, as quickly as it evolves. A continuing problem even with the ACS long-form data will be the problem of missing information in a number of market areas and the related fallibility of imputation techniques. GAO suggested fully documenting the calculation in detail, so it can be independently replicated for each FMR area. The development of regular accuracy testing by HUD would introduce an added measure of reliability in the system.²⁵

The flexible voucher approach in the SLHFA bill basically would have abandoned the system of national rent determination. PHAs would be free to devise "reasonable and appropriate" maximum-subsidy schemes essentially owing no fidelity to Federal standards or effective rent burdens [§ 109(f)]. The FMR regime at HUD would be dismantled (if not immediately, then eventually) and the Brooke Amendment would stand repealed. Critics decried the proposal and its nullification of the uniform rent-burden standards designed to ensure vouchers establish baseline affordability for lowest-income tenants. Not only would elimination of national FMR standards lead toward shallower subsidies, they argued, but tenant choice among neighborhoods across market areas would no doubt suffer.²⁶ In response, proponents of "flexible vouchers" had contended that the FMR-payment standard mechanism tied the hands of innovative policymakers at the local level and frustrated attempts to steer housing assistance in the general direction of incentives, conditions, and time limits charted the decade before by welfare reform.²⁷ The earliest conceptions of demand-side approaches to housing assistance, in the EHAP era and before, focused upon making the subsidy program track market mechanisms as closely as possible. Flexible vouchers may well have helped the HCV program better attain this ideal in certain PHAs.

In the wake of SLHFA and related initiatives' failure to garner sufficient support, SEVRA takes a "mend it, don't end it" approach toward the known failings of the FMR system. One SEVRA initiative addresses geography head-on. There is a general consensus that FMR market areas at the level of the metropolitan area and the rural county are too large. In addition, the process by which HUD calculates FMRs is too

²⁵ US GAO, "Rental Housing: HUD Can Improve Its Process for Estimating Fair Market Rents," Washington, DC: US GAO, GAO-05-342, March 2005; downloaded July 11, 2007 via <http://www.gao.gov/new.items/d05342.pdf>.

²⁶ See Cunningham, Mary, Susan Popkin, and Margery Turner, "Preserving 'Choice' in the Housing Choice Voucher Program," Washington, DC: Urban Institute, May 2005, downloaded July 12, 2007 via http://www.urban.org/UploadedPDF/900804_Preserving_Choice.pdf.

²⁷ US HUD, "The Flexible Voucher Program: Why A New Approach to Housing Subsidy Is Needed," Washington, DC: US HUD, White Paper, May 18, 2004, downloaded July 14, 2007 via <http://www.hud.gov/offices/pih/programs/hcv/fvp/wponfvp.pdf>.

unwieldy and imprecise. By the time calculations are announced, published in the Federal Register, commented upon by the public and then revised and finalized, the market-conditions supposedly measured have already changed, and sometimes quite markedly.

SEVRA07 (§ 13) would be called upon to set separate FMRs for each city exceeding 40,000 rental units and for each urban county as defined in the Community Development Block Grant program (typically, having populations greater than 200,000). HUD's methodology would retain a measure of discretion, but the law would mandate that national rent standards be adequate to permit rentals in as many communities as possible, including areas with relatively low-poverty rates. As if this new mission were not daunting enough for HUD, SEVRA07 would permit PHAs to request the setting of FMRs at an even greater level of precision, down to the level of only 20,000 rental units.

SEVRA07 [§§ 12(a), 12(b), 12(c)] matches this finer-geography approach to FMRs with a new measure of PHA autonomy concerning payment standards.²⁸ Under the bill, HUD would have to report annually to Congress on the percentage of voucher-families in each PHA's market area paying more than 30 percent of income, and more than 40 percent, for rent. HUD would also have to present detailed findings concerning the relationship between geographic concentrations of vouchers and applicable PHA payment standards. All PHAs with rent burdens in the 30 percent and 40 percent categories above the national average would be required to adjust their payment standards to remedy the situation. Importantly, HUD could not deny these PHAs' requests to utilize a payment standard of up to 120 percent, nor similar requests by PHAs seeking to deconcentrate vouchers out of lowest rent, highest poverty sectors. In addition, PHAs would not even require HUD's authorization if they wish to apply a 120 percent standard in favor of disabled voucher-holders.

CBO estimates that about half of all HCV families pay more than 30 percent of their incomes on rent, with one in five exceeding the 40 percent level. Sixty percent of PHAs (representing that same share of vouchers) already have some rent-burdens averaging above the national mean and would need to either set their payment standards at 120 percent or explain their choice not to do so. Yet only 17 percent of all vouchers at above-average-rent-burden PHAs are subject to payment standards set at the current maximum of 110 percent of FMR. CBO's cost estimate for SEVRA's payment-standard provision is \$12 million in 2009 and \$153 million over the succeeding three years. However, CBO assumed that relatively few PHAs will exercise their power to extend rent-relief via the liberalized payment-standard rule, such that the proportion of families paying more than 30 percent of income on rent would remain relatively unchanged.²⁹

SEVRA07 would thus expand local autonomy in the payment-standard scheme considerably. A 120 percent standard would regularly come into play within PHAs' discretionary options, in a number of policy contexts (assisting the disabled, easing excessive rent burdens, deconcentrating vouchers spatially). Even with only a 90 to 110 percent spread under existing law, PHAs enjoy the opportunity to arrange for maximum subsidies up to 22 percent above the lowest ceiling they can set. Adding the option of increasing the maximum subsidy to 120 percent of FMRs increases this lowest-to-highest factor to a full 33 percent.

Even under existing law, PHAs enjoy considerable discretion over effective rent levels, payments to landlords, and corresponding rent burdens. But SEVRA07 would not stop there. If enacted, the bill would

²⁸ The payment standard set by the PHA [USHA §§ 3(a)1, 3(a)3, 8(o)1, 8(o)3] is a multiplier between ninety and 110 percent. When applied to the published FMR, the payment standard sets maximum levels payable to landlords in the HCV program.

²⁹ CBO Cost Estimate, H.R. 1851, June 22, 2007.

force HUD to identify ever finer gradations of rent variation in smaller and smaller geographic areas. When it comes to the need for geographic precision, SEVRA07's simultaneous expansion of both PHA discretion and HUD responsibility seems rather unnecessary and even redundant.

Here and elsewhere, SEVRA07's proponents misapprehend the institutional limitations HUD faces. When missing and outmoded data already exist within the FMR system at the metro- and rural-county levels, the notion that HUD has the internal capacity to generate FMRs at finer and finer levels of geographic precision is somewhat unrealistic. Were that not enough, SEVRA07 would also impose upon HUD the obligation to calculate and report to Congress annual PHA-level rent burdens at 30 percent and 40 percent of income, with accuracy and transparency. The bill invents a world where HUD is forced to perform administrative capability that it has not yet demonstrated. The simple reality is that, even setting these obstacles aside, the House bill would create an extremely costly and complicated set of tasks to be borne by the national government, without making a strong enough case that sponsors have arrived upon the most efficient and effective options for improving housing-assistance policy.

On "rent reasonableness," just as the tenant has a stake in making the lowest payment possible via the existing FMR and payment-standard calculations, the landlord has a corresponding interest in maximizing the sum of the HAP subsidy amount provided by the PHA plus the rental contribution paid directly by the voucher-holder. Once at initial occupancy and periodically on the owner's request thereafter, the PHA is responsible for conducting a rent-reasonableness assessment. This is largely undertaken in the way a real-estate professional would assess price levels, i.e., by ascertaining rents for units comparable along dimensions of size, quality, age, and location.

The justification for maintaining local responsibility for this function – given the necessity to identify comparables – could hardly be stronger. Notwithstanding this fact, the rent-reasonableness function has still been included as fodder in recent reform discussions. Consistent with its studied pursuit of cost savings, SLHFA proposed to allow the reasonableness standard to be based upon comparisons with "modest" units. Understandably, SEVRA07 remains essentially silent on the matter, preferring that current law continue to hold sway on the matter. PHA effectiveness in managing the rent-reasonableness process is a factor with HUD's Section 8 Management Assessment Program (SEMAP), but it remains somewhat unclear just how a PHA's performance along that dimension would best be measured. As if to balance that scale on behalf of tenants, SEVRA07 would add to the SEMAP system an indicator for "rent-burden reasonableness."

8 Earned Income Disregard and Imputed Return on Assets

Current law essentially "taxes" additional earnings of housing-assistance recipients, since income gains are added to the base for calculating the 30 percent Brooke rent. Current law provides exceptions for voucher recipients with disabilities and public housing residents on welfare and/or experiencing unemployment. In these cases, additional earnings are 100 percent deductible from gross income for the first year and 50 percent deductible in the second year. Costs of child care incurred in support of employment or education may also be deducted. [See USHA, §§ 3(d), 3(b)5(A).] Where SLHFA would have eliminated such a deduction in its entirety, SEVRA07 would replace the hardship approach with a flat deduction of 10 percent of earnings for all employed recipients of housing assistance. No additional deduction could be made for child care expenses [SEVRA, § 3(a)1(B)].

This kind of simplification no doubt reduces complexity and economizes staff time. While it does provide a new source of deduction to a number of employed recipients and their families, it also undoes deeper early-year disregards benefiting certain disadvantaged households. About 30 percent of tenants in HUD rental

assistance programs report earned income, but it is important to recognize that income dynamics factor more into some PHAs' administrative burden than others. As of 2000, Texas and Vermont PHAs counted zero income among 27.3 percent and 13.5 percent of their voucher recipients, respectively. Alaska, California, New Jersey and New York each had one percent or less of their voucher cases in the zero-income category.³⁰ Federal lawmakers are naturally attracted to streamlined, uniform rules. But they should bear in mind that the resulting policy impacts will not be equal across jurisdictions. Prior to the policy change, the starting points may differ dramatically. To strike the appropriate balance on income disregards, policymakers should make accommodation for higher-cost areas and ensure that the system does not punish increasing levels of self-sufficiency.

CBO's estimates based on HUD data suggest that only six percent of families receiving housing assistance have income from assets above the \$5,000 statutory threshold. Half of these recipients are affected by the current rule under which PHAs impute returns based on a HUD-determined interest rate and utilize the imputed amount in income certification when it exceeds the actual amount. SLHFA would have eliminated the federal requirement and left the treatment of asset-related income to local option. SEVRA07 would eliminate the imputation procedure entirely, leaving PHAs to count only actual returns on assets in the income calculation. The tension here relates to the fact that income-based systems cannot index benefits according to real financial capacity, i.e., disposable wealth. There is a concern that a number of recipients would receive reduced benefits or be disqualified for housing assistance altogether, were PHAs allowed to factor in their genuine economic positions in this manner.

USHA imposes no asset limits whatsoever (although asset-derived income is included in calculation of rent, as mentioned). SLHFA addressed only in general terms the issue of ineligibility due to ownership of "a significant interest in any real property" (SLHFA § 107) and would have directed HUD to promulgate a new rule on the matter. By contrast, SEVRA07 would address the matter specifically, but permissively. Applicants and recipients would be rendered ineligible for housing assistance if they owned more than \$100,000 in net assets (inflation-indexed) or have any ownership interest in a home in which they could legally reside. Exceptions are made for USHA-assisted homes or ones affected by domestic violence, inaccessible trust funds, IRAs, litigation awards or settlements regarding some ongoing disability of a family member, and tax-protected savings accounts for education expenses. PHAs could opt not to apply the asset limit in public housing income-recertifications and would have discretion on the timing of asset-related evictions [SEVRA07, § 4(a)].

Treatment of assets affects relatively few assisted households, but the adoption of SEVRA07 in its present form nevertheless would be a signal change in assisted-housing policy. It would introduce genuine means-testing into an area of federal aid presently immune to it. It would place the potential for more aggressive asset limits on the table in future years and would put housing on more of a conceptual par with traditionally means-tested benefits like cash welfare and food stamps.³¹

³⁰ Lubell, Jeffrey M., Mark Shroder, and Barry Steffen, "Work Participation and Length of Stay in HUD-Assisted Housing," *Cityscape* 6(2):207-223 (2003), p. 211.

³¹ McKernan, Signe-Mary and William Margrave, "How Have Asset Policies for Cash Welfare and Food Stamps Changed Since the 1990s?" Washington, DC: The Urban Institute ["Opportunities and Ownership Facts"], no. 4, July 2007. Downloaded July 16, 2007 via http://www.urban.org/UploadedPDF/311494_Asset_Policies.pdf.

9 Recertification of Income in Rent Calculation

Among the proponents of SEVRA, there is an evident recognition that some of the bolder SLHFA reforms were rightly directed at reducing excessive administrative burdens borne by PHAs. Where possible, SEVRA's sponsors appear committed to seeking compromise inclusive of some of the cost-reducing strategies favored by HUD and the administration during the 109th Congress and continuing to the present.

A good example is the treatment of income recertification. USHA as amended addresses the potential for assisted households to gain or lose income during a given year, and the consequent need to revise the Brooke-rent calculation accordingly. Additionally, given the understandable (albeit prohibited) inclination of recipients to conceal income from program administrators, it is sensible that the law provide for regular recertification of gross income and the adjustments applied under governing statutes and HUD regulations.

Under current law, that recertification process is to take place annually, with interim analyses for income declines available at the tenant's request and, for increases, at the PHA's election [USHA §§ 3(a)1, 8(c)3, and 8(o)5]. To relieve PHAs of this burden, SLHFA would have required recertification for the general housing-assistance population only every two years. PHAs could wait up to three years before revisiting the matter among fixed-income communities such as the elderly and the disabled [§107(f)]. By way of compromise with SLHFA proponents, the backers of SEVRA kept the three-year period for the fixed-income group (defined as receiving at least 90 percent of income from Social Security and/or like sources), but aim to keep the general recertification period at one year. Importantly, the elderly and the disabled together constitute a majority of housing-assisted households (Lubell, Shroder, and Steffen, 2000, *op.cit.* at 208), although not all members of that cohort are on fixed incomes. Nonetheless, the compromise on recertification time requirements in this respect does relieve the overall administrative burden PHAs shoulder, and this aspect of the SEVRA package [§3(a)1(B)] is likely to garner bipartisan support in the US Senate as a result.

SEVRA's treatment of midyear income adjustments favors lower-income tenants more pronouncedly. The benchmark of \$1,500 in income change would be established for triggering interim recertifications, and PHAs would be free to establish a lower threshold. The system for initiating and reviewing interim income evaluations would remain essentially intact, but a new provision would preclude rent increases except during years where participants have already received one or more rent reductions. While this measure seems intended to protect tenants against rent increases, it also could lead PHAs to monitor income more aggressively when tenants obtain rent accommodations for a loss in earnings. Such prescriptions seem destined to create, or exacerbate, adversarial tensions between assisted families and PHAs in the rent-setting tug-of-war.

10 Expansion of Project-Based Vouchers Program

A major shift in policy signaled by SEVRA07 as adopted by the House is permitting a full 25 percent of PHA spending authority to be dedicated toward project-based Section 8 vouchers (PBVs). PBVs involve the local authority attaching a voucher to a specific housing unit if its owner promises either to rehabilitate or construct the units or set aside a portion of the units in an existing development. The substantial increase from the current 20 percent threshold (which SLHFA would have kept in place) can even grow to 30 percent of PHA authority, in the event the additional five percent is dedicated to housing individuals and

families under the pertinent McKinney Act definition (SEVRA07, § 11). Other measures expanding the potential use of PBVs by PHAs are the increase in the initial contract from 10 to 15 years, and raising the anticipated renewal from five to 15 years.

SEVRA07's expansion of the PBV program also raises issues regarding the national policy goal of deconcentrating poverty and housing assistance in spatial terms. Under current law, project-basing of vouchers is simply prohibited in areas consistent with increasing housing opportunity and deconcentrating poverty. Also, no more than 25 percent of units in a given building can be set aside by the owner in such long-term PBV arrangements. SEVRA07 would allow the greater of 25 units and 25 percent of units in a single project (not building) to be made PBV-units. Exceptions allowing the spatial threshold to be exceeded for the elderly, persons with disabilities and persons receiving supportive services would be retained from current law (SEVRA07, § 11). Further under the pending legislation, rents for PBVs could be set at up to 110 percent of FMR in units already governed by Low-Income Housing Tax Credit (LIHTC) program regulations, even if such rent would exceed the maximum allowed under those latter rules.

Advocates for the recently added PBV amendments to SEVRA07 explain that greater rents and program flexibility in fact allow developers and affordable-housing finance consultants to leverage increased levels of capital and get more lower-income units built. Lack of coordination between housing choice vouchers and the LIHTC program has long been on the reform agenda among housing-development professionals. If PHAs and their unit-owner contract partners can commit in advance to a longer base-period of 15 years, and also pre-commit to an expected renewal term of identical length, the stability of revenue flows reduces overall risk. Private loan funds available for rehabilitation and new construction projects thereby increase markedly.³³ SLHFA would not only have kept the base-term for PBV agreements at 10 years and omitted the rent allowance, but it would also have eliminated altogether the option to agree to extend that term in advance. This is a point on which reform visions clearly divide.

A clearly delineated expansion of the PBV program may require a reexamination of the desegregation emphasis in existing housing assistance policy. Increasing the per-project ceiling on units committed to the voucher program, even if undertaken in areas representing reasonable economic opportunity and low existing concentrations of poverty, would place subsidies on a footing of greater tolerance toward spatial concentration. While this may have definite advantages in many instances – such as in the economies of providing support services to numerous residents having special needs – it is important to tread carefully when it comes to even the perceived risk of exacerbating social segregation.³⁴

11 Budgetary Impacts of SEVRA07 and the Influence of Rent Reform

The five-year fiscal impact of SEVRA07 has been estimated by CBO at \$2.4 billion. The primary cost drivers are an addition of 20,000 vouchers per year through 2012,³⁵ reductions in amounts of income counted in determining eligibility for housing assistance, and increasing standard deductions from gross income such as for dependents and for the elderly and disabled. Reducing counted income and raising the level of gross-income deductions constitute rent reform, inasmuch as they alter the underlying formula by

³³ See Federal Policy Project (California), "Model Letter to The Honorable Maxine Waters," May 11, 2007, downloaded July 16, 2007 via http://www.chpc.net/pdf/preservation/SEVRA_Sign-On_Letter.pdf.

³⁴ Interestingly, SEVRA07 (§ 10) has a compensating feature intended to raise the profile of poverty deconcentration in the SEMAP system from just a bonus factor for measuring PHA performance to a full assessment requirement.

³⁵ The substantial and steady increase in numbers of authorized vouchers over time signals that the new leadership in Congress intends to expand the scope and coverage of housing assistance generally.

which each tenant's rental obligation is set in place. Offsets against these costs are found in savings from elimination of child care allowances, reduction in medical expense allowances, and modifications in targeting of housing benefits. The fiscal effects of SEVRA07's rent-reform provisions are substantial.

An illustrative policy-development scenario is playing out relative to deductions for elderly and disabled households. Current rules provide for a standard per household deduction of \$400, with special adjustments available for un-reimbursed medical expenses, costs of attendant care, auxiliary aids and support facilitating employment for the disabled, and the like, to the extent such expenses exceed three percent of gross income each year [USHA § 3(b)5(A)]. Delaying the implementation of its reform until 2009, the 2005 SLHFA package would have simply eliminated the federally required standard deduction, replacing it with a system of PHA prerogatives to adopt policy ensuring that the special needs of elderly and disabled participants will be met as the PHA sees fit (§ 105). SEVRA07 would swing the pendulum back in the direction of current policy and increase the standard deduction to \$750, indexed for inflation, with adjustments for medical and related support expenses allowable up to 10 percent of income.

The CBO's summary of spending changes is set forth in the following table.

SEVRA07: Estimated Change in Outlays by Legislative Change, FY 08 – FY 12
(\$Millions)

<i>SEVRA07 Provision</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
Earned Income Disregard	197	330	333	335	337
Eliminate Imputed Return on Assets	9	15	16	16	16
Eliminate Child-Care Allowance	(117)	(197)	(202)	(207)	(212)
Increase Dependent Allowance ³⁶	14	24	24	42	54
Decrease Medical Expense Allowance	(115)	(198)	(209)	(220)	(231)
Increase Elderly and Disabled Allowance	134	223	234	241	251
Income Eligibility	5	14	18	18	19
Asset Eligibility	1	3	4	4	5
Targeting	(54)	(148)	(248)	(294)	(303)
Tenant Protection Vouchers	5	9	10	10	10
Program Evaluations	2	10	1	1	1
Rent Burdens	0	12	42	47	51
Resident Technical Assistance	2	10	10	10	10
Incremental Vouchers	122	267	420	580	749
Interactions Among Provisions	(2)	(4)	(4)	(4)	(4)
<i>Totals</i>	<i>204</i>	<i>371</i>	<i>448</i>	<i>579</i>	<i>752</i>

Source: CBO Cost Estimate, H.R. 1851. June 22, 2007.

³⁶ SEVRA07 [§ 3(b)5(A)] increases the deduction per dependent only marginally, from \$480 to \$500, but it adds cost in later years by indexing the deduction for inflation. By contrast, SLHFA would have permitted a PHA to simply zero out the deduction in its entirety. In this and numerous other ways, that 2005 package of reforms would have facilitated and welcomed a process by which PHAs would sort themselves into policy cohorts, by differential political bent, philosophy and vision, and budgetary capacity, if not largesse. We cannot anticipate that PHAs with long histories administering housing assistance for their region's least well-off citizens would have rushed to eliminate the standard deduction for dependents. Most observers expect that the average PHA would strive to maintain such a logical and natural program element within the existing assistance regime, and would only take such draconian steps when forced to do so by business realities, or shrunken federal grants.

12 Conclusion

The rent-setting aspects of federal housing assistance – in Public Housing and the Housing Choice Voucher program – are critical in mediating relationships among the various stakeholders. Rents and subsidies in combination must attract sufficient numbers of landlords and units to participate. The higher the rents expected from tenants, the greater demands they face to achieve financial self-sufficiency and free themselves from the need for support payments in their housing budgets.

At the same time, those tenants destined for longer spells in or near poverty may well lose their opportunity for stable shelter if their rent-burdens are too high relative to expenses they and their families must absorb. The divergence of views regarding federal strategy in the next generation of housing-assistance programs – particularly between shallower, broadly disseminated subsidies and deeper, more concentrated ones – yields a narrowly divided set of political constituencies. The recent parade of reform proposals provides only scant optimism that real consensus will be attained any time soon.

The observations offered in the foregoing discussion may be distilled into a few tangible recommendations, among other conclusions the reader would care to draw:

- All stakeholders and constituencies should take very seriously the demonstrated institutional constraints HUD confronts in reforming housing policy. Without necessary time, and human and financial resources being dedicated to the effort, requiring HUD to shoulder costly new administrative functions is not likely to succeed.
- The institutional capacity of PHAs to enact housing reforms is also an area of concern. PHAs vary substantially, in their ability to shoulder new administrative challenges, to exercise their discretion wisely in the public interest, and to implement federal, state, and local housing policy effectively and efficiently. These realities make it difficult to believe that an aggressive form of devolution can work, absent the necessary investment of time and resources in those agencies.
- Additionally, we should not take for granted that more autonomous PHAs will always pursue the public interest as vigorously as we would like. These local agencies are themselves bureaucracies and may be quite resistant to change. Reform should always contemplate an active, interventionist role retained by HUD and exercised where greater centralized control proves necessary. In turn, the specter of federal oversight can provide local officials cover when they wish to take constructive risks but are wary of local political consequences.
- A number of streamlining and cost-saving improvements have been identified in recent policy debates, and it would be unfortunate if they fail to survive the legislative process. These reforms include a) creating one uniform income measurement and verification system, to be utilized by all agencies providing social assistance; b) making treatment of tenant incomes more stable and transparent, allowing them to be recertified less frequently; and c) carefully studying the impact of various rent reforms implemented under MTW to identify and foster best practices, not obstruct them by imposing onerous new regulatory hurdles.
- While greater geographic precision in rent-setting is sometimes necessary, expanding PHAs' discretion over payment standards *and* HUD's FMR obligations would be redundant. Policymakers should choose one strategy or the other.
- The treatment of tenants' income gains in high-cost regions should be gauged to ensure that advances in self-sufficiency are rewarded.