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BIPARTISAN LEGISLATION WOULD BUILD ON HOUSING VOUCHER PROGRAM'S SUCCESS

But Worthwhile Reform Bill Holds Risks From Expanded Deregulation Authority

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On May 24, 2007, the House Financial Services Committee approved H.R. 1851, the Section 8 Voucher Reform Act (SEVRA) by a bipartisan vote of 52-9. SEVRA would make significant changes to the housing voucher program and also institute related changes in laws governing other housing assistance programs. The full House could consider the bill as soon as July.

The Section 8 voucher program is the nation's largest low-income housing program. Vouchers are generally used to rent modest housing of a family's choice in the private market. Studies have shown that vouchers reduce homelessness, overcrowding, and frequent moves from apartment to apartment. Vouchers have also been found to help families move to lower-poverty neighborhoods with better schools and less exposure to crime. The Bush Administration noted in its fiscal year 2008 budget documents that "based on an assessment of the [voucher] program, this is one of the Department's and the Federal Government's most effective programs" and that the program "has been recognized as a cost-effective means for delivering decent, safe, and sanitary housing to low-income families."

Most of SEVRA's provisions would build on that record of success. As with any government program, the voucher program needs to evolve over time, as circumstances change and lessons are learned. Nine years have passed since enactment in 1998 of the Quality Housing and Work Responsibility Act (QHWRA), the last major authorizing legislation affecting the voucher program. Congressional action is needed to place the system used to fund vouchers, which has experienced substantial instability in recent years, on a firmer footing. In other areas, such as rules

KEY FINDINGS

- The bipartisan Section 8 Voucher Reform Act (SEVRA) would make important improvements to the housing voucher program, which the Administration characterizes as "one of ... the Federal Government's most effective programs."
- SEVRA would build on this success through reforms to rules governing voucher funding policy, tenant rent payments, and other aspects of the program that should make the program more efficient and effective.
- Unfortunately, SEVRA also contains an unnecessarily large expansion of a demonstration program under which state and local agencies can operate outside most program rules. If SEVRA is not modified to place more manageable limits on the size of the demonstration, oversight and evaluation of the demonstration are likely to be compromised. In addition, more than 800,000 low-income families could be exposed to rent increases or other untested policies that may have adverse effects.

governing tenant rent payments and housing quality inspections, modest streamlining would enable the program to function more efficiently and effectively. SEVRA represents a carefully-crafted effort to improve these aspects of the voucher program while retaining the core program characteristics that have proven effective.

Unfortunately, one provision of SEVRA threatens to undercut the careful improvements made in the remainder of the bill: a sharp expansion of the “Moving-to-Work” (MTW) demonstration. Under MTW, HUD can grant agencies waivers of voucher and public housing program rules to allow the agencies to experiment with different policies. Agencies can use those waivers, for example, to raise rents on tenants substantially or to place time limits on assistance, even for working families that cannot afford market-rate housing on their own. MTW also allows HUD to grant waivers that authorize agencies to dispense with most federal rules and tenant protections, with deregulation, rather than tenant self-sufficiency, as an end in itself.

MTW was intended to test innovations in housing policy. Because the demonstration programs have not been rigorously evaluated, however, little is known about how policies instituted under MTW have affected tenants. The demonstration consequently has generated few useful policy lessons. Some participating agencies have not even fully disclosed to the public how they have used their flexibility under the demonstration.

SEVRA would rename the demonstration the “Housing Innovation Program” (HIP), sharply increase the number of state and local agencies permitted to participate from 25 to 80, and add some new requirements regarding transparency, evaluation, and protections for tenants. The new requirements could enable the demonstration to provide meaningful findings about innovative policies while reducing the risks to tenants from such experimentation.

By more than tripling the number of agencies in MTW/HIP, however, the SEVRA HIP provision would allow as many as one-third of all vouchers and public housing units nationwide to be administered outside of most federal rules. This could expose as many as 800,000 families to rent increases or other untested policies with potentially adverse consequences, and make it virtually impossible for HUD to provide adequate oversight or ensure effective evaluation. If SEVRA as a whole is to have a positive impact on federal low-income housing policy, it will be critical that limits be placed on the sweeping scope of the bill’s HIP provision.

SEVRA Would Make Important Improvements to Voucher Program

As approved by the Financial Services Committee, SEVRA would make a series of improvements in the voucher program, including the following. (The appendix to this analysis provides a more detailed comparison between SEVRA’s provisions and current law.)

- **Establish a stable, efficient and equitable voucher funding policy.** SEVRA’s most important provisions would establish a comprehensive policy for distributing funds to the more than 2,400 state and local agencies that administer vouchers. From 2004 to 2006, voucher funds were allocated using a series of inefficient formulas that gave some agencies less funding than they needed to cover the costs of their vouchers — forcing them to cut back on assistance to needy families — while providing other agencies with more funds than they could use. This

SEVRA Funding Policy Includes Key Cost-Free Incentives to Serve Additional Families

Increasing voucher utilization rates can require housing agencies to invest time and resources. To encourage agencies to serve the maximum number of families consistent with their available funds (rather than to leave sizeable amounts of funding unspent), SEVRA creates a series of incentives, none of which raises federal costs:

- a clear policy of recapturing agencies' unused funds each year (beyond a modest reserve fund);
- a reward of additional funding — through the reallocation of recaptured funds — for agencies that achieve high utilization rates; and
- payment of more administrative fees to agencies that succeed in using more of their vouchers (a change that also has been proposed by the Administration in its fiscal year 2008 budget request and that should encourage agencies to keep per-voucher costs as low as possible).

SEVRA has another cost-free feature to encourage agencies to use all of their voucher funds. It would work like overdraft protection: an agency that has insufficient funds in the last quarter of the calendar year to make all of the rent payments that are due to owners could borrow a small portion of its next year's funding, which then would be subtracted from the funding allocated to the agency a few months later. Without this advance option, agencies will have no choice but to aim for substantially less than 100 percent voucher utilization, for fear that a sudden market change or other event beyond their control would cause a temporary uptick in their expenses and cause them to exceed their budgets. (Agencies could also use reserve funds to cover unexpected surges in rent or utility costs, but agencies that in previous years put their funds fully to use assisting needy families would not have accumulated reserves.) Agencies' expenses can unexpectedly grow when rents or utility costs in the local market rise more than had been expected or when tenants' incomes fall — or rise more slowly — than had been expected due to a weakening in the economy.

Finally, by establishing an ongoing policy that renewal funding each year will be based on the cost of vouchers used in the prior year, SEVRA will provide agencies with confidence that their funding needs will be met in future years. By contrast, the practice used in recent years of setting a new — and often very different — funding formula with each annual appropriations act has caused many agencies to leave vouchers unused rather than issuing them to needy families, out of concern that funding will not be available to cover the cost of the vouchers in the following year.

SEVRA would provide incentives to serve additional families *without weakening Congressional control over the cost of the program*. Congress will still retain the basic authority to determine the amount of program funding annually. If funds appropriated were insufficient to fully fund the renewal formula, HUD would reduce each agency's funding by the same percentage, so that funds would still be allocated in accordance with agencies' relative needs for funding to maintain the vouchers in use.

flawed system reduced the number of low-income families using vouchers by approximately 150,000.

In the fiscal year 2007 appropriations legislation,¹ Congress required HUD to match 2007 voucher funding more closely to each agency's actual needs, by basing funding on the actual cost of each agency's vouchers in 2006. This change likely will enable agencies to begin

¹ Public Law 110-5, signed into law February 15, 2007.

restoring the vouchers that were lost from 2004 to 2006. SEVRA would extend an approach similar to that adopted for 2007 into future years, allowing housing agencies, apartment owners, and families with vouchers to be confident that the program will be funded on a stable basis year after year. SEVRA would also establish several new incentives to encourage agencies to serve as many families each year as their funding permits, rather than accumulating large balances of unspent funds as many agencies have in the last few years.

Through the combination of these policy changes, SEVRA will, for any given level of funding, enable more families to receive the important benefits that vouchers have been shown to provide. (See the box on page 3 for more details on the SEVRA funding policy.)

- **Remove barriers to voucher “portability.”** Under current law, a family has the option to use a voucher to move from the jurisdiction of one housing agency to the jurisdiction of another. This “portability” option can enable a worker to move to be close to a job or job opportunities in another community, a domestic violence victim to flee an abuser, or an elderly person or person with a disability to move closer to family or a needed caregiver. In practice, however, many voucher holders who could benefit from the portability option do not, because current policies create disincentives for housing agencies to facilitate the movement of a family to another agency’s jurisdiction.

This is because the housing agency that first issues a voucher to a family must continue to cover the cost of the voucher after the family moves, unless the agency in the destination community voluntarily “absorbs” the voucher. This arrangement is administratively cumbersome and can carry added costs for the issuing agency if the community to which the family moves has higher rents than the community the family left. But destination agencies are often reluctant to absorb portability vouchers, because that would divert scarce resources away from families on the destination agency’s own voucher waiting list.

SEVRA would resolve this impasse by requiring destination agencies to absorb portability vouchers while allocating additional funding to those agencies (from funds left unused by other agencies) to cover the resulting costs. This solution treats both agencies equitably and ensures that the opportunities offered by a voucher are not limited by jurisdictional boundaries.

- **Streamline the rules for determining tenants’ rent payments.** Tenants in HUD’s rental assistance programs generally are required to pay 30 percent of their income for rent, after certain deductions are applied. SEVRA would streamline several aspects of the process for determining tenants’ incomes and deductions in order to reduce administrative burdens on housing agencies and private owners of subsidized housing.

For example, SEVRA would replace a complex set of provisions intended to encourage work among tenants with a simple provision, under which 10 percent of a household’s first \$10,000 in earnings would be deducted when determining the household’s income for purposes of calculating its rent. SEVRA also would allow housing agencies to review the incomes of tenants with fixed incomes (such as elderly individuals on SSI) every three years instead of every year and to assume that in the intervening two years, the tenant’s income rose at the rate of inflation. (This reflects the fact that SSI, Social Security, and certain other such benefits are adjusted annually for inflation.) In addition, SEVRA would require agencies to base the rents of working families on actual earnings in the previous year, rather than on anticipated earnings

in the coming year. This would minimize the need for subsequent mid-year adjustments in rents.

- **Modify housing inspection rules.** The voucher program requires housing agencies to inspect apartments where a voucher holder will live to certify they meet federal quality standards. SEVRA would give agencies the option of making modest changes in their inspection rules, such as conducting inspections every two years rather than annually, to ease burdens on agencies and encourage landlords to make apartments available to voucher holders.
- **Facilitate use of “project-based” vouchers.** The bill would make it easier for housing agencies to enter into agreements with owners for a share of the agency’s vouchers to be used at particular housing developments. Such “project-basing” can enable housing agencies to promote key housing policy goals; for example, by partnering with social service agencies to provide supportive housing to formerly homeless people with disabilities or by supporting development of mixed-income housing in low-poverty neighborhoods with strong educational or employment opportunities but tight rental markets.
- **Link caps on voucher payments more closely to local market conditions.** Housing agencies are required (with certain exceptions) to set the maximum amount of rent a voucher can cover (the “payment standard”) within 10 percent of the “Fair Market Rent” (FMR) that HUD has established for the local area. FMRs are intended to reflect the cost of renting modest housing in local market areas. However, HUD sets a single FMR for an entire metropolitan area — even for very large metro areas with millions of residents and major variations in rental costs across local housing submarkets. In many communities, FMRs and payment standards consequently are far above or below the cost of a typical modest rental unit.

When payment standards are too low, families often pay very high portions of their income for rent; when a voucher holder rents a unit with a rent above the payment standard, the family must pay the extra rent itself. Moreover, those families that succeed in using their vouchers in such circumstances *without* paying excessive amounts for rent often do so by renting units in areas with high poverty and crime and poor schools.

SEVRA requires HUD to set FMRs using smaller geographic areas with more uniform rental costs. This change — which will make use of newly available data from the Census Bureau’s American Community Survey that allows rent estimates for small areas to be updated more frequently — will result in voucher payments more closely calibrated to rental costs in local communities. The bill also includes other changes to encourage housing agencies to set payment standards at levels that balance the goals of containing per-voucher costs, ensuring affordable rent burdens, and providing voucher holders with access to a broad range of neighborhoods.²

- **Stabilize funding for the Family Self-Sufficiency program.** The Family Self-Sufficiency program (FSS) encourages work and savings among voucher holders and public housing

² In the voucher program, families pay any difference between the maximum voucher subsidy and actual rent and utility costs, in addition to the required contribution of 30 percent of income. Recent HUD data indicate that nationally nearly half of the families in the voucher program pay more than 30 percent of income for housing costs (the federal affordability standard), and about a fifth pay more than 40 percent of income.

residents through employment counseling and financial incentives. A key component of this program is funding for staff to counsel participants and to coordinate employment services for participants with social services agencies and other service providers. Unfortunately, however, HUD has changed the criteria for allocating this funding repeatedly in recent years, with the result that many agencies have experienced abrupt funding cut-offs, and enrollment in the program has declined.³ To reverse this decline and encourage housing agencies to provide FSS services to more families, the bill provides a stable, dedicated source of funding for FSS program staff.

Bill Improves “Moving-to-Work” Demonstration, but Sharp Expansion Poses Serious Risks

The Financial Services committee approved amendments to SEVRA sharply expanding the “Moving-to-Work” (MTW) demonstration. The amendments rename the demonstration the “Housing Innovation Program” (HIP), place a number of new requirements and limitations on participating housing agencies, and permit HUD to admit as many as 80 agencies to the demonstration. Currently, 25 agencies participate.

Established by legislation in 1996, MTW permits HUD to grant agencies broad waivers allowing them to experiment with a wide range of policies. Agencies can use these waivers, for example, to alter the rules governing tenant rent contributions or place time limits on housing assistance. MTW also allows HUD to grant waivers that let agencies dispense with most federal rules and tenant protections — with deregulation, rather than tenant self-sufficiency, as an end in itself.

MTW was intended to test innovations in housing policy, but its success in this regard has been limited. The demonstration’s design did not provide for careful evaluation of the policies with which agencies experimented. As a result, MTW has generated a wealth of anecdotal reports but few firm, objective findings. Targeted, rigorously-evaluated, housing policy demonstrations (such as Moving-to-Opportunity, Jobs Plus, and the Welfare-to-Work Voucher program) have generated a far greater quantity of useful findings than the MTW demonstration, with much less disruption to tenants.

In addition, the current MTW demonstration does little to guarantee that housing agencies will be held accountable for the policies they adopt or be required to fully disclose to the public how they have used their flexibility under the demonstration. HUD’s Office of the Inspector General has issued a series of sharply critical reports on MTW that have noted flaws such as ineffective oversight by HUD and poor use of funds by some local agencies.⁴

³ See American Association of Service Coordinators et al, *Recommendations for Strengthening HUD’s Family Self-Sufficiency Program*, April 26, 2006, available at <http://www.fsspartnerships.org/includes/Joint%20FSS%20Recommendations.pdf>. It is likely that changes in voucher renewal funding policy, which created a financial disincentive to enroll families in FSS, also contributed to the decline in FSS programs.

⁴ The Office of the Inspector General has conducted a general audit of MTW design and implementation, audits examining the Seattle and Pittsburgh MTW programs, an audit of HUD’s oversight of the Philadelphia MTW program, as well as an audit of HUD’s decision to admit the Housing Authority of Baltimore City to the MTW program. The reports are available at <http://www.hud.gov/offices/oig>.

To address these problems, the SEVRA HIP provisions would place a number of added requirements on participating agencies. Agencies would have to consult with residents and the public concerning HIP plans and to issue periodic, publicly available reports on the activities carried out under the demonstration and their impact on families. HIP would also be subject to somewhat stronger evaluation requirements than the current MTW demonstration.

In addition, key procedural protections for tenants, such as prohibitions against unjustified evictions and processes for filing grievances against housing agencies, that HUD was permitted to waive under MTW would be retained under HIP. Moreover, 20 of the 80 HIP agencies — referred to as “HIP-lite” agencies — would have flexibility to use funds in locally-designed strategies to preserve and increase the availability of affordable housing but would be required to replace any demolished public housing units and could not alter rent rules or impose time limits or new requirements related to employment. (All agencies already have the flexibility under existing HUD rules to provide a preference for working families seeking housing assistance, which effectively moves them to the top of the waiting list.) Importantly, all of the added requirements would apply not only to agencies newly admitted to HIP, but also to the 25 agencies current operating under MTW agreements, in some cases with virtually no oversight or accountability.

In short, the SEVRA HIP provision provides the framework for a demonstration that might generate meaningful, useful findings about the effects of various housing policy variations, while limiting the risk of unnecessary harm to tenants or misuse of public funds. Unfortunately, the sprawling size of the demonstration that SEVRA would permit threatens to undermine these improvements. The bill requires that HUD admit “both large and small” agencies to HIP. But this broad standard would allow HUD to favor the largest agencies for admission, as it has done under MTW. Fewer than one percent of the nation’s housing agencies currently participate in MTW, but these agencies administer more than 10 percent of all vouchers and public housing units. As a result, more than 1 million families — or about a third of all vouchers and public housing units — could be covered by SEVRA’s HIP provisions.⁵ This sweeping scope of the HIP provision poses several serious risks:

- **More low-income families than necessary could be exposed to untested, potentially harmful policies.** HUD would be required to keep most current procedural protections for tenants in place under HIP, but the 60 housing agencies in the main HIP component could nonetheless experiment with policies that hold serious implications for low-income families. For example, agencies could raise rents on tenants substantially or establish time limits on housing assistance, even for working families that cannot afford market-rate housing on their own.

Housing assistance in its current form has been found to reduce homelessness and severe housing instability, problems that have been linked to a variety of adverse effects on children’s health and development. Cutting off assistance or sharply raising rents would pose a significant risk of serious adverse effects on vulnerable families. Some limited experimentation with these policies may be justified in order to better understand their impact, but the scope of SEVRA

⁵ This estimate includes both the 60 agencies in the main component of HIP and the 20 HIP-lite agencies, and assumes HUD will admit a substantial number of small and medium-sized agencies to HIP. If HUD filled all of the new HIP slots with the largest remaining agencies (and if the 25 current MTW agencies opt to participate in HIP and qualify to do so), the demonstration would cover *41 percent* of vouchers and public housing units.

HIP demonstration — which could expose more than 800,000 families to rent increases and other potential harmful policies — is far greater than is needed. (The 800,000 families excludes those at the 20 HIP-lite agencies, which would not be permitted to alter rent rules or impose time limits.)

- **The demonstration could be too large for HUD to effectively monitor and evaluate.** It takes substantially more resources for HUD to provide oversight to agencies participating in a demonstration like MTW or HIP, because each agency undertakes different activities and is subject to different rules. The serious problems that HUD’s Office of the Inspector General identified with oversight of the current MTW demonstration stemmed partly from a lack of staff resources to undertake the burdensome task of monitoring MTW agencies. Even with the improved transparency and evaluation requirements that will apply to HIP, it is likely that HUD would struggle to provide effective oversight for a program more than three times the size of the current MTW demonstration. Having 60 agencies in the full HIP program also complicates the evaluation process, potentially compromising HIP’s central goal of producing findings to inform future housing policy.
- **HIP could fund a large share of vouchers through block grants rather than through the fair, efficient voucher funding policy SEVRA would establish.** As noted above, perhaps the most important improvement contained in SEVRA is the establishment of a stable, fair, and efficient voucher funding system that would match funding levels for local agencies to the number of vouchers each agency has in use and the actual cost of those vouchers. HIP, in contrast, would allow vouchers at participating agencies to be funded under special formulas established through special agreements between housing agencies and HUD. If these agreements follow the same pattern as most special funding agreements under the MTW demonstration, they will for the most part provide “block grants” to HIP agencies, with no link between voucher funding levels and actual funding needs. In some cases, HUD could pressure housing agencies to accept unfavorable voucher funding agreements in exchange for permission to shift funds from vouchers to public housing or to alter rules in other areas.

On a modest scale, formulas that eliminate the link between funding and actual costs may make sense for some HIP agencies, since they allow agencies to experiment with policies that affect voucher utilization and costs without risking a loss of funding. At the scale envisioned in the SEVRA HIP provision, however, more than one-third of voucher funds could potentially be allocated through inefficient block grants that provide some agencies with less funding than they need to continue to assist the same number of families and other agencies with more than they need.

- **Transferring funds between vouchers and public housing could reduce the total number of families assisted.** HIP would allow qualifying housing agencies to shift funds between the voucher program and public housing.⁶ Many housing agencies could feel pressure to transfer funds from the voucher program to public housing both because the public housing program has experienced more severe funding shortfalls in recent years and because a housing agency may be particularly reluctant to allow public housing developments to fall into disrepair. A

⁶ New HIP agencies would be permitted to blend voucher and public housing funds only after they have achieved utilization of 95 percent of their authorized vouchers (or of their available voucher renewal funding, if all vouchers are not funded). There is no similar requirement in the current MTW program.

housing agency may believe it will be more likely to be held accountable by the public for poor security or boarded-up units at projects it owns and manages than for the higher rent burdens and longer waiting lists that would result from voucher cuts.

If large amounts of voucher funds are shifted to use in maintaining or renovating existing public housing units (which could cost substantially more per-unit in the short run than a voucher subsidy) or used to cover housing agency administrative costs, the total number of low-income families assisted could decline significantly. The SEVRA HIP provision would require housing agencies to continue to serve “substantially the same” number of families, but HUD has interpreted a similar provision governing MTW as allowing agencies to cut the number of families assisted by up to 10 percent. Given the size of the demonstration SEVRA would permit, as many as 100,000 fewer low-income families could end up receiving assistance.

Moreover, allowing HUD to authorize agencies to shift large amounts of funds from vouchers to public housing would usurp the authority of Congressional appropriators to determine funding levels for the different housing programs.

If HIP is to live up to its purpose and potential as a testing ground for future housing policies, the program will need both to be subject to strong requirements regarding transparency, evaluation, and protections for tenants *and* to be carried out at a scale appropriate for a demonstration. The significant new requirements that the SEVRA HIP provision would place on participating agencies have the potential to strengthen the demonstration greatly. But it also is important that Congress take measures to limit HIP to a manageable scale. This could be done, for example, by adopting one or more of the following changes.

- **Lowering the maximum number of agencies** that HUD can admit to HIP to below 80. It is difficult to see the justification for establishing a demonstration more than three times the size of the current MTW demonstration. It likely that the need for policy experimentation could be met with approximately 40 HIP agencies. Even a reduction to 60 agencies would make HIP considerably more manageable and less risky, while still more than doubling the number of participating agencies.
- **Shifting some slots into the more limited “HIP-lite” component.** The HIP-lite and broader main component of HIP both pose serious risks, as they could both undercut SEVRA’s voucher funding improvements and reduce the number of families receiving housing assistance considerably. But because the changes permitted under HIP-lite would be much more limited, the risks for tenants and the burden of providing adequate monitoring and evaluation would be greatly reduced. Moreover, there is likely to be at least as much interest among state and local housing agencies in experimentation with the alternative financing structures that HIP-lite would permit as there would be for testing time limits or changes to rent rules, which would be allowed only under the full HIP component. Consequently, it would make sense to split the demonstration evenly between the full HIP and HIP-lite components, rather than providing three times as many HIP slots, as SEVRA would do.
- **Capping the number of public housing and voucher units at HIP agencies.** A cap on the total number of units that can be enrolled in the full HIP component nationally would limit the number of low-income families exposed to untested and potentially harmful policies and

also ensure that small- and medium-sized agencies — which have been underrepresented in MTW — would have the opportunity to participate.

Conclusion

Most of SEVRA's provisions, including those regarding the allocation of voucher renewal funding, rent determinations, subsidy levels, portability, and housing quality inspections, would make measured, targeted improvements to a program that has proven effective in providing housing assistance to needy families. Moreover, because the proposed changes in rent policy extend beyond the voucher program, the bill would improve the public housing and project-based Section 8 programs as well. Unfortunately, by more than tripling the number of agencies allowed to operate outside of most of the rules that apply to the voucher and public housing programs, as the bill's Housing Innovation Program would do, the legislation would compromise these improvements and pose risks for substantial numbers of low-income families.

The strong bipartisan support for SEVRA to date augurs well for its rapid approval by the full House and prompt consideration by the Senate. As the legislative process continues, it will be critical that the scale of the HIP program be reduced to a more manageable level. If this is done, and the balanced, carefully-crafted nature of the bill's other policy changes is maintained, SEVRA will significantly strengthen the nation's housing policies for low-income Americans.