



Abt Associates Inc.

Cambridge, MA
Lexington, MA
Hadley, MA
Bethesda, MD
Washington, DC
Chicago, IL
Cairo, Egypt
Johannesburg, South Africa

Abt Associates Inc.
Suite 600
4800 Montgomery Lane
Bethesda, MD 20814-5341

Issues and Options for HUD's Tenant- Based Assistance Program

*Prepared for the Millennial
Housing Commission's
Consumer Based Assistance
Task Force*

Contract # MHC-2001-20

September 18, 2001

Prepared for
Millennial Housing Commission
800 North Capitol Street, NW
Suite 680
Washington, DC 20002

Prepared by
Jennifer Turnham
Jill Khadduri

Contents

Introduction	1
Issues and Options.....	2
1. Should the Commission recommend the continuation of housing quality standards?.....	2
2. Should the Commission recommend that voucher transfer payments be made directly to voucher holders rather than to landlords?	5
3. Should the Commission recommend regional or state administration of vouchers?	7
4. Should the Commission recommend allocating some vouchers directly to agencies other than current PHAs in order to facilitate linkage of the program with non-housing programs assisting needy populations?	8
5. Should the Commission recommend as a goal increasing the ability of families with vouchers to rent housing in neighborhoods with access to jobs and good schools? Should this goal influence the allocation of resources?	10
6. Should the Commission recommend high utilization and success rates as key goals? Should this influence the allocation of resources?	13
7. Should the Commission recommend rewarding work, helping build assets, or imposing time limits on voucher holders as key goals? Should this influence the allocation of resources?.....	15
8. Should the Commission recommend the creation of greater rental housing choices for poor households, through production and project-basing? Should this goal influence the allocation of voucher resources? Of resources for a separate production program?.....	17
9. What recommendations should the Commission make for increasing local discretion to make program design decisions while retaining performance monitoring against federal goals?	20

Introduction

This paper was commissioned by the Millennial Housing Commission's Consumer Based Assistance Task Force to assist the Task Force in developing the Millennial Housing Commission's recommendations for the voucher program.¹ The authors of the paper believe that the Housing Choice Voucher Program is and should continue to be the centerpiece of national policy for addressing the housing needs of low income renters, particularly those renters with extremely low incomes who are most likely to have severe rents burdens or to live in housing of substandard physical quality. The program has done and is doing an excellent job of serving these critical needs.

The problem of housing affordability is so great and so closely related to poverty that we cannot expect it to be dealt with at scale through housing programs alone. Nonetheless, the voucher program has a critical role to play in providing extremely low income households with access to affordable units, particularly in locations where jobs are accessible. The program can also enable less deeply targeted production programs to serve extremely low income renters with a portion of their units, enabling the creation of mixed income communities. However, Congress should appropriate funds for substantial increments of housing vouchers that are not tied to the production of rental housing but can be used in rental housing of a family's choice throughout the community.

The following report discusses nine issues identified by members of the Millennial Housing Commission's Consumer Based Assistance Task Force as areas in which the Commission might want to make recommendations. We summarize background information, based on past and current research and other information on program experience; present several options for the Task Force's consideration; and suggest a recommended option based on our review of the background information.

The Task Force believes that the choice of options should be based on the following principles:

- Maintaining the choice-based nature of the program;
- Maintaining the program's cost effectiveness;
- Increasing the program's administrative efficiency;
- Providing assisted households with effective access to housing units in a broad range of neighborhoods;
- Making the program more attractive to owners of rental housing;
- Creating successful links to programs that serve special population groups; and
- Creating effective links to housing production programs.

¹ The views expressed in this paper are solely those of the authors and not those of the Consumer Based Assistance Task Force or the Millennial Housing Commission. The authors would like to thank Linda Pistilli, Barbara Sard, and Roy Ziegler for their comments on earlier drafts of this paper.

Issues and Options

1. Should the Commission recommend the continuation of housing quality standards?

HUD's current Housing Quality Standards (HQS) for tenant-based programs developed out of lessons learned from experiments conducted under the Experimental Housing Allowance Program (EHAP) of the 1970s. The Housing Allowance Demand Experiment examined how housing quality standards affect household participation in the program. The experiment concluded that more stringent standards lower household participation in the program by reducing the number of landlords willing to participate. The experiment also found, however, that many units did not meet the standards for health and safety developed by a national public health group. This is not surprising given the range of local and state housing and inspection codes that exist nationally and their uneven enforcement. The experiment also found that housing subsidies helped to preserve and upgrade the supply of existing housing by stimulating repairs and continuing maintenance of units that were minimally substandard (Struyk and Bendick 1981). More recently, researchers have found that the overall physical adequacy of units for households with voucher assistance is higher than for comparable unassisted households (Schnare and Newman 1993).

Since at least the early 1990s, affordability rather than housing quality has been recognized as the dominant housing need. HUD's 2000 Worst Case Housing Needs report found that severe rent burden was the only housing problem for over three quarters of very low income families with severe housing needs. As a result, attention has shifted from the role of HQS in improving housing quality to how to make housing more affordable and accessible to low income families. There is a perception that the quality standards and inspection process may act as a disincentive to landlord participation in the voucher program, particularly in low vacancy markets where voucher holders are in strong competition with unassisted renters for particular units. For example, the National Association of Realtors (NAR) has identified the length of time that it takes for public housing agencies (PHAs) to inspect a unit while the unit is vacant as a major disincentive to landlord participation in the program.²

The 1994 HUD-sponsored study of voucher success rates provides some evidence that landlord unwillingness to have an inspection may contribute to low per unit success rates among voucher holders looking for new units to lease (Kennedy and Finkel 1994).³ Landlords agreed to an inspection for 37 percent of the units that voucher holders said they wanted to rent. However, where inspections were completed, the voucher holder was successful in leasing the unit in 89 percent of the cases, even though 48 percent of the units required some repairs. This suggests that once a unit is inspected, it is likely that the lease will be approved, even though many units require repairs.

A new study of voucher success rates recently completed for HUD by Abt Associates (still in draft form) provides support for this finding. Among voucher holders who were successful in leasing units, 68 percent of the units passed the initial HQS inspection. However, 28 percent of the units

² Based on interactions with NAR members and a survey of 20 individuals who work in apartment leasing.

³ This analysis refers to households who tried to use a voucher to move to a new unit, not those who tried to lease in place.

required multiple inspections before the unit passed HQS. For successful voucher holders who leased their unit after one inspection, the initial inspections were completed within an average of two weeks, and only one week passed on average between the inspection and the effective date of the lease. These results suggest that among a significant portion of voucher holders, landlords have a strong enough incentive to participate in the program to make repairs to their units, if they agree to have an inspection. The 2001 study does not provide information on how many voucher holders were unsuccessful in leasing because the landlord did not agree to the initial inspection. In HUD's 1995 Property Owners and Managers Survey (POMS), owners who reported that they would not accept voucher program tenants most often cited three reasons: problems with tenants, too many regulations, and too much paperwork. However, further analysis of these data would be needed to identify which aspects of the paperwork and regulations were most problematic.

Thus, recent studies of voucher success rates do not offer overwhelming evidence that HQS discourage landlords from participating in the program over and above other factors such as negative attitudes toward voucher holders and program restrictions on rent levels. At a recent HUD training conference for voucher program administrators, however, it was apparent that many administrators believe that HUD's lead-based paint standards, included as part of HQS, will discourage landlords from participating in the program and/or provide them with an excuse not to serve voucher families.

In recent years, lead poisoning has emerged as the most common environmental disease among young children. It is estimated that over three-quarters of the housing units built before 1978 contain some lead-based paint. Higher childhood blood lead levels are associated with lower household income, residence in large urban areas and older homes, and non-Hispanic African-American residents. The effects of childhood lead poisoning are well documented and include reductions in IQ and attention span, reading and learning disabilities, hyperactivity, and behavioral problems.

State and local requirements for lead hazard reduction vary greatly across the country, as does the enforcement of these rules. HUD attempts to reduce lead hazards in the tenant-based program through the HQS process. For the last decade, the HQS have included the abatement of lead in any unit to be occupied by a child with an elevated blood lead level (when the PHA receives notification by the family or outside source of the child's condition) and stabilization of defective paint surfaces in any unit to be occupied by a child under the age of six.

In 1999, HUD modified its lead hazard control standards to require clearance examinations after the completion of stabilization activities. The clearance examinations include visual assessment, dust sampling, submission of samples for analysis for lead, interpretation of sampling results, and preparation of a clearance report. The clearance examinations must be conducted by certified risk assessors or lead-based paint inspectors and are beyond the scope of most PHAs. These standards are thought to be particularly burdensome in the tenant-based program, where high turnover (as families change units and leave the program) provides little incentive for owners to invest in lead paint stabilization or abatement. In addition, certified risk assessors or lead-based paint inspectors are scarce or non-existent in many parts of the country, although HUD has taken some steps (such as offering training) to address this gap.

Options:

- A. Continue to require all units in the voucher program to pass every element of the HQS before subsidy payments can begin. Use the current HQS, including the lead-based paint requirements set forth in HUD's Final Rule (24 CFR Part 35, et al., September 15, 1999).
- B. Maintain the current HQS, but modify the clearance requirement of the current lead-based paint legislation for the tenant-based program.
- C. Make the application of HQS more flexible in order to attract additional owners to the program, while continuing to apply the current lead-based paint standard for units occupied by families with children under six years of age. Options for greater local flexibility include:
 - Require tenants to inspect units for critical health and safety violations and to certify that the housing unit is free of such violations before Housing Assistance Payments (HAPs) begin. Inspect the units within the first month of occupancy to enforce HQS.
 - Qualify multifamily rental properties on the basis of inspection of a sample of units.
 - Allow PHAs to sign HAP contracts quickly as part of efforts to expand the range of owners and neighborhoods participating in the program, with inspections within the first month of occupancy to enforce HQS.
- D. Eliminate the HQS requirement.

Recommended Option: C

Early studies of the voucher program found enforcement of local housing codes to be uneven, other than for new construction and alterations or in response to community complaints. Moreover, housing codes, where they exist, do not always include lead standards, and these may be only sporadically enforced. The current HQS provide a national floor for the quality of housing acceptable for tenant-based housing subsidies. HUD allows PHAs to upgrade the HQS, but they may not approve housing that fails to meet the HQS minimum standards. The argument for maintaining HQS in the tenant-based program begins with the premise that housing quality is an important goal of the program, even if it compromises the goal of housing affordability. Further, the federal government has responsibility for ensuring that subsidized units minimize the health hazards to children from lead dust and lead-based paint in the home.⁴ Current research does not allow us to quantify fully the possible negative effect of HQS enforcement on owner participation in the program and success rates among voucher holders. We also do not know whether particular elements of the HQS discourage owner participation or whether the problem, where it exists, is the delay in beginning rental income associated with the timing of the inspection. Sufficient anecdotal evidence exists, however, to warrant experimenting with streamlining the HQS process and other ways to encourage landlord participation in tight housing markets.

⁴ In the future, other residential health hazards such as mold may be included in HQS as their causes and effects are fully documented.

2. Should the Commission recommend that voucher transfer payments be made directly to voucher holders rather than to landlords?

In the Experimental Housing Allowance Program (EHAP), payments were made directly to voucher holders and units had to have an HQS inspection. The idea behind EHAP, but not the voucher program as it has evolved, is that poor people can handle this kind of negotiation without a lot of hand holding. What we call “success rates” were not particularly high in housing allowance experiments, and households eligible and served did not have as high a percentage of “hard to serve” households (e.g., homeless persons, public housing relocatees, persons with disabilities, and those left behind by welfare reform).

In the current voucher program, possible rationales for making housing payments directly to voucher holders include: reducing the PHA’s involvement in the landlord-tenant relationship; increasing housing choice (if the 40 percent cap on the family’s rent contribution and the rent reasonableness requirement are also eliminated); and encouraging personal responsibility among assisted households.

Although it would more closely approximate the workings of the private rental market, it is not clear that ending direct payments from the PHA to the landlord would improve landlord participation in the program and housing choice for voucher holders. Since the beginning of the Section 8 program (as distinct from EHAP), landlords have cited getting a large portion of the rent guaranteed from the PHA as a motivation for participating, although this may be one of the things that has “tilted” the program to less desirable housing units and neighborhoods (Kennedy and Finkel 1992). According to NAR, many landlords complain about late payments from the PHA.⁵ However, we do not have sufficient data on landlord behavior to know whether landlords would feel more comfortable if voucher holders had full responsibility for making the rental payments. Landlord concern with tenant behavior reported in POMS and with the difficulty of evicting Section 8 tenants (cited in the NAR report) suggests that this may not be a selling point of the program. Furthermore, as long as the program continues to require rent reasonableness and HQS, it would be hard for landlords not to know that families were subsidized. Even with these changes, it may not be possible to conceal voucher recipient status because owners ask for proof of income or ability to pay the rent when renting to new households. Further research into the disincentives for landlord participation might help determine which of these means, if any, would significantly increase housing choice for voucher holders.

If the objective is to minimize the involvement of the PHA in the landlord-tenant relationship, housing assistance payments made directly to tenants may be combined with eliminating the 40 percent cap on the family’s rent contribution and PHA rent reasonableness tests. It might be difficult to enforce such program rules when the family has control over the amount of the total rent payment to the owner. Removing the 40 percent cap on the family’s rent contribution on newly executed voucher contracts would also expand the range of units and neighborhoods available to voucher holders. The 40 percent cap has been criticized by some for reducing housing choice, particularly for extremely low income families. Eliminating the 40 percent cap and rent reasonableness tests leaves it up to the family to determine what rent is reasonable for a given unit and what rent contribution the family can afford. The landlord may also play a role in evaluating the family’s ability to pay for a unit through his or her own income and credit verification processes. Making payments directly to

⁵ A new provision of the voucher program, implemented by HUD at 982.451 (b) (5), permits owners to charge late fees to PHAs that do not make timely HAP payments.

families would also in effect reinstate the “shopping incentive,” the former voucher program provision that permitted the family to keep the difference if the rent for the unit fell below the payment standard.

Another effect of making payments directly to families would be to eliminate the “tenancy addendum” to voucher leases. This addendum provides protections that may go beyond those in local landlord-tenant law—for example, stating that eviction during the term of the lease can only be for good cause. It is not known how much this addendum (or its predecessor, which was a lease prescribed by program rules) discourages owner participation.

Possible disadvantages of making payments directly to tenants might be increasing the political vulnerability of the program by making it appear to be an income support program rather than a housing program (even if HQS and subsidies based on local housing costs were maintained). Inevitably, some households would use the subsidy for other things and fail to pay the rent.

Under the MTW demonstration, the Keene Housing Authority (KHA) is currently experimenting with paying a fixed subsidy directly to voucher holders and eliminating rent reasonableness and the 40 percent cap in order to increase housing choice and foster greater tenant responsibility. Thus far, landlords have been willing to participate in the program; however, they requested that KHA establish a “landlord protection fund,” to guarantee the landlord one month’s rent if the tenant does not pay or leaves the unit unexpectedly, and designate a staff member to address problems that might arise. Furthermore, although KHA is not conducting formal rent reasonableness tests for every request for tenancy approval, voucher program and case management staff work individually with program participants to ensure that the units that they lease are affordable.

PHAs administering homeownership programs using vouchers are also experimenting with making housing assistance payments directly to program participants. In this case, however, both the PHA and the lending institution are typically highly involved in the family’s purchase decision and in determining what size mortgage the family can afford. Giving the subsidy directly to the family is done primarily for the lender’s convenience of receiving a single monthly payment.

Options:

- A. Continue the present system, in which payments are made to landlords (except, in some cases, for homeownership vouchers), but consider ways to motivate PHAs to make timely payments to landlords, for example by creating a SEMAP indicator.
- B. Make payments to households and give households the responsibility for determining if the rent they are paying to the owner is reasonable (both in comparison with market rents and as a percentage of the household’s income). The current prohibition on paying more than 40 percent of income would be eliminated and the “shopping incentive” would be reinstated. The “tenancy addendum” would no longer be required.
- C. Leave this feature of program design up to the PHA.
- D. Continue the present system, but demonstrate B and variants of B at a number of interested PHAs to evaluate the effect on landlord participation and program rent levels. The demonstrations might test various possible roles for the PHA in overseeing the

reasonableness of the rent, affordability for the tenants, and lease protections, including no role. (The demonstrations might also experiment with flat or stepped subsidies as alternatives to income-based subsidies. This is discussed further under Issue 7.)

Recommended option: D

Thus far, there has not been sufficient research into the effects of making payments directly to voucher families to know whether it would be feasible and cost effective on a national scale and how it might affect voucher holders' housing choices and long-term self-sufficiency. One issue that has already been raised in the Keene demonstration is that if the housing subsidy is made directly to the family, the TANF agency may be forced to treat it as income, affecting the family's eligibility for food stamps and other services. In addition to evaluating the effectiveness of making program changes, a demonstration would permit transfer of information on solutions to such implementation problems.

3. Should the Commission recommend regional or state administration of vouchers?

State or regional administration of the voucher program is the subject of considerable debate. The case that has been made in favor of administration by state or regional entities (as opposed to local PHAs) is that state or regional administration:

- 1) Makes it possible for populations with the most critical need for housing to be served whether or not there is a competent local program administrator in the jurisdiction where those families live or want to live;
- 2) Removes many of the barriers to inter-jurisdictional use of vouchers that may restrict mobility; and
- 3) Encourages coordination between housing assistance and state-administered welfare reform and economic opportunity programs (Turner and Katz 2000).

The arguments against state or regional administration of the program focus on the success of the current program in providing family housing choice and promoting deconcentration of poverty (Basgal 2001, forthcoming). Further, they suggest that the main factors that hinder families from moving to low poverty neighborhoods, such as the availability of affordable rental housing, the adequacy of HUD's Fair Market Rents (FMRs), and discriminatory rental practices, are largely beyond the control of the program administrator. Finally, they downplay the administrative hurdles that fragmented program administration presents for portability and suggest that local administration has advantages for landlord recruitment because many landlords in the program are small-scale owners and live near their units.

In the absence of SEMAP scores, we have little empirical data with which to evaluate the performance of local versus state or regional administration. Even if SEMAP scores were available, it might still be difficult to assess the merits of state versus local administration given the variety of models of state and regional administration currently in existence and the lack of research into what works where. HUD data show that on average, state agencies have a 10 percent higher utilization rate than non-state PHAs. State agencies have also had more success meeting their enrollment targets for

the Family Self Sufficiency (FSS) program than PHAs. As a group, state agencies have enrolled 37 percent of the households mandated in the program, while PHAs (excluding the state agencies) have enrolled an average of 23 percent (internal HUD analysis of 2001 FSS enrollment data). We do not yet have this kind of analysis for geographic dispersion and mobility of tenants to test the arguments put forth above. There is some evidence to suggest that regional or state administrators may face political difficulty in superseding the authority of local PHAs. Over time, several state agencies have given up some or all of their vouchers because they did not want to compete against local entities.

Options:

- A. Continue the current system, in which some portion of the program is administered by metro-wide organizations and state agencies, but with wide variation among states and MSAs. No systematic program rules or practice favoring broad administration. Households have a right to portability, that is, to cross jurisdictional lines with the subsidy.
- B. Move aggressively to consolidate the program into administrative entities with broader jurisdictions. Favor state or regional administration in new allocations of units and require periodic recompetition for administration of units currently under annual contributions contracts (ACC).
- C. Base decisions on alternative administration of current allocations of vouchers on program performance. Use administration by entities with broader jurisdiction as part of system for sanctioning poor performers. Provide some advantage to administrators with broad jurisdictions in competitions for new allocations of units.

Recommended option: C

To meet housing needs in a given area, HUD should allocate vouchers to alternative administrators on the basis of program performance, as evaluated by SEMAP (or another performance measurement system). The principle of favoring administrators with broad jurisdictions has been a part of HUD's tenant-based programs since the 1970s, but many competitions over the years have failed to include this as one of the competitive factors. Systematic research needs to be done on the performance of state and regional administrators versus PHAs in overall program administration, deconcentration and mobility efforts, and coordination with other agencies for self-sufficiency initiatives, as well as the costs involved in recompeting vouchers, before considering consolidating voucher administration on a national scale.

4. Should the Commission recommend allocating some vouchers directly to agencies other than current PHAs in order to facilitate linkage of the program with non-housing programs assisting needy populations?

With the advent of welfare reform and changes in public policy regarding the provision of housing and supportive services to special needs populations, there is a growing interest in using tenant-based assistance to support special objectives. Such objectives include the movement of families from welfare to work, spatial deconcentration of the poor, and deinstitutionalization of persons with disabilities. HUD has supported this trend by making special allocations of vouchers to serve

particular purposes and by encouraging coordination between PHAs and other agencies and nonprofit organizations for the provision of services. For example, the Welfare to Work Voucher program, a special allocation of vouchers in 1999, was intended to create partnerships between PHAs and TANF agencies (and state agencies administering Welfare to Work employment and training funds) and to provide housing assistance to those families for whom it would be the missing piece in enabling them to get and keep jobs. Most recently, HUD and the Department of Health and Human Services (HHS) announced the Access Housing Demonstration to facilitate the successful transition of non-elderly disabled persons from nursing homes to community living. In this pilot, HUD will provide voucher rental assistance and HHS will provide supportive services through Nursing Home Transition Grants and Medicaid waivers.

There is growing evidence that housing vouchers can be used successfully to support program objectives for a range of populations. Many of the special vouchers that have been allocated to PHAs for special purposes, however, have not been used effectively because linkages between PHAs and providers of supportive services have been difficult to establish. As a result, there is an interest in permitting some mainstream vouchers to be administered by state agencies and nonprofits rather than PHAs, in addition to encouraging stronger partnerships between PHAs and other organizations. As states evaluate whether current policies are in compliance with the 1999 Olmstead decision, in which the Supreme Court ruled that states could not legally require people with disabilities to remain institutionalized in order to receive health care services, it is likely that they will increasingly look to vouchers to provide permanent housing options for special needs populations. In most states, the lead agency for Olmstead planning is the Department of Health and Human Services or the State Medicaid Agency, suggesting that there may be increased demand from state agencies for special allocations to organizations (not necessarily PHAs) that can serve these populations.

Options:

- A. Continue the current system, which encourages (and sometimes mandates) partnerships between the PHA and social program administrators (e.g., welfare agencies, employment and training agencies, homeless providers).
- B. Encourage PHAs to partner with social program administrators for special allocations where the provision of supportive services is essential in order for the population served to benefit from the housing subsidy. HUD could encourage such partnerships by requiring the PHA receiving the allocation to develop an MOU with one or more service agencies. HUD could also require full joint administration by the PHA and the other agency, with the partner agency managing tenant selection and search assistance and the PHA performing all functions once the family identifies a unit and submits a Request for Tenancy Approval (RFTA). Alternatively, HUD could allow service agencies to compete with PHAs for special allocations of vouchers. In this case, the service agency could be awarded the voucher allocation directly, but would be required to contract with the PHA for certain basic functions such as eligibility determinations, HQS inspections, and making payments to landlords. HUD could also give the administering agency flexibility in negotiating fee arrangements with the PHA. HUD may also permit the administering agency to perform some of the tasks that would normally be done by the PHA after the RFTA, such as conducting rent reasonableness and HQS inspections. This may be desirable in cases where the administering agency is a state agency (such as a state Department of Health and Human Services) with a small allocation of vouchers to be used over a broad geographic area. In this case, the PHA

would focus on monitoring the administering agency's compliance with HUD regulations, perhaps conducting quality control HQS inspections and rent reasonableness checks on a sample of units. HUD would also monitor the PHA's performance of these functions as part of the PHA's overall voucher program.

- C. Allocate special purpose vouchers to other agencies, with no role for PHA.

Recommended option: B

The voucher program gives PHAs considerable flexibility to design programs to meet locally defined needs, and many PHAs have partnered successfully with providers of services for special population groups. For example, PHAs can arrange to provide a waiting list preference for a special population group, inform the organization serving this group how and when its clients can apply for vouchers, and give that organization responsibility for housing search. This model can be used for private market rental housing found by the provider organization, for housing leased by the provider organization and then sub-leased to the voucher holder, or for special housing types such as group homes. In the latter case, the vouchers remain tenant-based (the voucher holder can move out and use the voucher elsewhere), but the special arrangement between the PHA and the provider organization ensures that additional members of the client group receive vouchers to move into the group home.

However, early evidence from HUD's Welfare to Work and Access Housing demonstrations suggests that many PHAs face problems in designing and implementing workable collaborative programs. At the same time, service providers and disability organizations sometimes experience difficulties in gaining access to and working with housing providers, and in understanding and meeting the requirements of the voucher program. Collaboration seems to be the clear solution, particularly if the voucher program continues in its current form, which involves intensive administration. There are numerous start-up costs associated with performing the income verification, HQS inspections, monthly payments to landlords, and electronic reporting to HUD required by the current program that may make it difficult for service organizations to administer the program on any significant scale (Basgal 2001, forthcoming). At the same time, it becomes increasingly difficult for HUD to monitor the program as an ever larger number of entities administer vouchers. However, many PHAs do not have the expertise or the resources to provide effective employment and training services to welfare to work populations, for example, or counseling for persons with mental illness.

If HUD proves unable to mandate such partnerships, the impetus of Olmstead and other initiatives to serve special needs population through mainstream housing may necessitate competition for special allocations among PHAs and other entities.

5. Should the Commission recommend as a goal increasing the ability of families with vouchers to rent housing in neighborhoods with access to jobs and good schools? Should this goal influence the allocation of resources?

There is a growing body of evidence that neighborhood conditions play a role in shaping individual outcomes through mechanisms such as the quality of local services, socialization by adults, peer influences, social networks, exposure to crime and violence, and physical distance and isolation. Most studies of neighborhood effects analyze data at the census tract level and use one or more proxy measures, such as percentage of persons with income below the poverty level, to represent neighborhood conditions. These studies have generally found that neighborhoods with high poverty

and unemployment rates and high rates of welfare receipt can have a negative effect on certain outcomes for adults and their children. However, family characteristics have consistently been found to be more significant than neighborhood effects. Furthermore, beyond the proxy of poverty level, there is little consensus about which neighborhood characteristics are most important for family outcomes or how distressed neighborhoods might be identified by PHAs and voucher holders. (This literature is summarized in Ellen and Turner 1997). The ongoing Moving to Opportunity (MTO) demonstration, a controlled experiment, will test the impact of different neighborhoods and forms of housing assistance on the well-being of adults and children.

The voucher program does a better job than public housing or project-based assistance in providing low income families, especially welfare families, with housing opportunities outside of extremely high poverty neighborhoods (Khadduri, Shroder, and Steffen 1999). Researchers that have substituted poverty levels for measures of neighborhood distress have also found that voucher recipients are less likely than other poor renters to live in distressed neighborhoods (Pendall 2000). Nonetheless, considering the program's Fair Market Rents, even at the 40th percentile, the voucher program does not place as many families in low poverty neighborhoods as should be possible. Preliminary results from a forthcoming HUD study on patterns of dispersion among voucher holders in the 50 largest MSAs suggest that voucher holders are penetrating a majority of neighborhoods that contain affordable housing in both central cities and suburban areas. However, in some neighborhoods there are more voucher holders than might be expected based on the availability of affordable rental housing, while in other neighborhoods there are fewer voucher holders than expected. In general, there appear to be a number of suburban neighborhoods with affordable housing that are underutilized by voucher holders and a smaller number of neighborhoods that have been more extensively tapped. The same is true in the central cities, where there may be "clusters" of voucher holders in certain neighborhoods, typically neighborhoods with a high percentage of poor and minority families.

Preliminary results from the HUD study also suggest that there may be differences in the characteristics of central city and suburban neighborhoods and the voucher holders who live in them. In general, suburban voucher holders are more likely to live in low poverty neighborhoods than their counterparts in central cities. Voucher holders in suburban areas also tend to have higher incomes, be more likely to be employed, and be less likely to be dependent on welfare. Preliminary analysis suggests that these differences are most striking among African-American voucher holders.

Although this research cannot address the question of whether location in suburban neighborhoods helps families become employed and increase their incomes, it nevertheless presents a case for supporting mobility efforts and/or modifying voucher allocation formulas to favor suburban locations. Comprehensive mobility counseling, however, is expensive, averaging \$1,455 per family counseled in the MTO demonstration (Goering et al. 1999, cited in Basgal 2001, forthcoming). Furthermore, HUD's Regional Opportunity Counseling (ROC) program, which provides incentives to PHAs in metropolitan areas with high concentrations of poor and minority populations to partner with local nonprofits to provide mobility counseling, has thus far had only mixed results. Among PHAs not participating in funded mobility demonstrations or under court order to increase dispersion, mobility efforts appear to be somewhat limited (Devine et al. 2001). A National Low Income Housing Coalition survey found that although 96 percent of PHAs reported they offered assistance to voucher holders in their housing search, most of the assistance was in the form of providing apartment listings. Few PHAs conducted outreach to landlords or provided voucher holders with information on low poverty neighborhoods (Maney and Crowley 2000).

Some voucher holders choose to live in moderate or high poverty neighborhoods because they value the social networks, access to public transportation, or other benefits they bring. A second forthcoming HUD study, based on the first year of the Section 8 Housing Quality and Customer Survey, questioned voucher holders about their satisfaction with their housing, neighborhood, and PHA and should provide key insights in this area. Early analyses of these data suggest that voucher holders may be more likely to express satisfaction when living in low poverty neighborhoods.

In addition to questions about the cost effectiveness of mobility counseling, other difficulties with making the dispersion of voucher units across a broad range of neighborhoods a key program goal include the challenge of identifying and implementing appropriate performance measures. Furthermore, there is a danger that the methods that PHAs use to encourage such dispersion will compromise household choice or, if relying on FMRs and higher payment standards, will create an upward bias in the cost of the program. In particular, there may be some areas that are so high cost and have such a limited number of affordable units that it is not reasonable public policy to make vouchers work there. Providing additional subsidies to enable a small percentage of voucher holders to live in these neighborhoods may compromise the goal of horizontal equity in the program. Instead, the neighborhoods may be better candidates for achieving dispersal through supply side approaches, including HOME, LIHTC, project-basing of vouchers, and any new production program (Nelson 2001, forthcoming).

Options:

- A. Continue the current reality, in which this goal is embodied in some program incentives (SEMAP, higher FMRs for some metro areas, exception payment standards) and receives some special funding, but is limited by competition with other goals – including cost control, maximizing the number of households served within program resources, minimizing the dependency of households on public subsidies, permitting local choices for program design and implementation, and ensuring the full utilization of program funding. Consider making only minor programmatic changes, such as changing the 40 percent cap on the family’s rent contribution on newly executed voucher contracts to 40 percent of gross rather than adjusted income.
- B. Make dispersion a more prominent program goal: increase FMRs, mandate and fund mobility counseling programs, reward PHAs that encourage “portability” across jurisdictional lines, and give dispersion across a broad range of neighborhoods a larger role in performance measurement.
- C. Concentrate on good basic administration of the program as a means to encourage participation by a broad range of owners of rental housing within subsidy levels set high enough to encourage household success in using vouchers but no higher.

Recommended option: A

This is a challenging and complicated issue that ultimately involves a value choice. The MTO demonstration notwithstanding, the evidence of benefits from the level of moves to low poverty neighborhoods that can be brought about by mobility counseling over the long term is not overwhelming. The proposed recommendation attempts to balance the per unit costs of the program

against the need to address concentration issues and the unique opportunity that the program presents to give a wide range of households access to high quality neighborhoods.

6. Should the Commission recommend high utilization and success rates as key goals? Should this influence the allocation of resources?

In the absence of the full implementation of SEMAP, HUD currently collects two types of data that indicate whether PHAs are issuing vouchers to as many families as possible based on their annual funding and whether these families are, in turn, successfully using the vouchers to rent housing. The first measure, the *utilization rate*, is defined as the percentage of available vouchers⁶ that the PHA has under lease or the percentage of its annual budget authority that it has spent. The second measure, the *success rate*, is defined as the percentage of families provided vouchers who lease a unit meeting the program requirements within the allotted amount of time. Both utilization rates and success rates appear to be declining and, for many PHAs, are unsatisfactorily low.

The national utilization rate for vouchers, defined as the number of units under lease compared with the number for which HUD has signed contracts with PHAs, is approximately 92 percent. Almost half of all PHAs (49 percent), representing 27 percent of available program units, have utilization rates below 90 percent, HUD's minimum threshold for satisfactory performance. The causes of low utilization are not well understood, but analysis so far suggests little relationship between market conditions that may make it difficult for families to find housing and low utilization rates by PHAs. For example, a recent internal HUD analysis comparing PHAs' utilization rates to rental vacancy rates in their jurisdiction found no clear relationship between the two. Furthermore, some PHAs with clearly difficult market conditions nonetheless are able to use all of their voucher subsidy resources.

Even if PHAs are "utilizing" all of their voucher subsidy resources, this does not necessarily mean that individual households attempting to use vouchers have a high rate of success. A study just completed for HUD by Abt Associates found that the national success rate (for urban areas) has dropped from the peak reached in the early 1990s to a level similar to the success rate of the mid 1980s. Success rates vary widely among PHAs, and some PHAs with difficult market conditions nonetheless have high success rates. In general, however, relatively low success rates are associated with low rental vacancy rates at those rent levels affordable to households with vouchers (i.e., not luxury housing and generally not new market rate rental housing).

Success rates do not vary by race and ethnicity and – with the exception of families needing large units – show little variation by other household demographic characteristics. Success rates are actually higher for households with incomes below 30 percent of area median income (who now must comprise at least 75 percent of households newly using vouchers) than for somewhat higher income households.

Low *utilization rates* mean that families who need housing assistance are not receiving it and that housing program resources appropriated by Congress are at risk of being diverted to other uses. Reallocating vouchers away from program administrators with low utilization to those with high utilization with the ability to serve the same jurisdiction would enable HUD to make efficient use of limited resources and serve the families most in need across different geographic areas. However, we

⁶ Not counting vouchers allocated less than a year ago or held aside for special purposes.

do not yet know much about how to address the underlying causes of low utilization, particularly how much is related to market factors and how much to PHA practices. HUD has recently funded a new study on voucher utilization to examine these issues.

Low *success rates* are a problem to the extent that unsuccessful voucher holders may be more or equally in need of housing assistance as those who are successful in leasing units. Emphasizing success rates as a program goal encourages PHAs to pay attention to landlord outreach, search assistance, and improved PHA practices (such as reducing processing time), which may have benefits for tenant mobility as well. In addition, PHAs with low success rates may be able to achieve full utilization but find it costly to do so. The recent study of voucher success rates found that most PHAs in difficult market conditions are able to use their entire allocation of vouchers by issuing vouchers to larger numbers of households. However, because some 70 percent of the administrative costs of the program come from client intake rather than annual maintenance (Leger and Kennedy 1990, cited in Maney and Crowley 2000), maintaining high utilization with low success rates is highly inefficient. This suggests the danger of focusing on utilization as a goal without considering success rates at the same time.

However, a difficulty in making success rates for individual families a program goal against which PHA performance is assessed (as contrasted with other approaches to attempting to increase success rates) is that PHAs may encourage voucher holders to lease the easiest, most available units and do little to encourage mobility to low poverty neighborhoods. PHAs may also be reluctant to devote resources to serving special needs populations, such as those with disabilities, who may have (or be perceived to have) lower voucher success rates. Finally, PHAs focusing on improving success rates to meet performance measures may have less incentive to enforce HQS or rent reasonableness if they believe that these things make it more difficult for voucher holders to lease units.

Options:

- A. Continue the current system, in which high utilization is a key goal of the program with rewards and sanctions attached. Resources are allocated away from PHAs with low utilization. Success rates are a national goal for HUD, but not a goal imposed on individual PHAs because of presumed perverse incentives (to get units under lease at the expense of program integrity) and interference with other goals such as dispersion and serving difficult population groups. The national policy on FMRs is based on capturing the same fraction of the rental housing market everywhere. Exceptions are based on documented rent levels in MSA submarkets. PHAs are given modest flexibility to adjust payment standards within HUD-determined FMRs.
- B. Make success rates a performance goal for PHAs.
- C. Continue the current system for encouraging high utilization, but reallocate voucher units away from low utilization PHAs to entities that will serve the same geographic area and households. These might be state or regional agencies or other local PHAs permitted by state law to operate in the jurisdiction. Where state law does not make this feasible, HUD could require the PHA to contract with another public or private entity to administer the unused vouchers. Give preference to households on the original PHA's waiting list for the reallocated vouchers, then combine the waiting lists once these are leased up. To improve success rates, diagnose reasons for low success rates among PHAs (perhaps differentiating between those operating in "tight" and "moderate" rental markets) and provide additional technical assistance to PHAs. Maintain the

current FMR system, but with increased resources devoted to adjusting FMRs that may be lagging the market.

Recommended option: C

The threat of reallocation appears to be an effective means of encouraging PHAs with low utilization rates to improve the use of their resources. According to the recent HUD study of the uses of discretionary authority in the voucher program, SEMAP has encouraged PHAs to adopt higher payment standards in order to keep their utilization rate high or earn bonus points for deconcentration (Devine et al. 2001). However, in sanctioning PHAs for low utilization, it is important not to penalize further households living in these jurisdictions. Declining success rates in the program also need to be addressed, both for program efficiency and to ensure that no needy groups are systematically left behind. Nonetheless, we should not create incentives for PHAs to improve their success rates at the expense of other program goals, such as mobility and serving “hard to serve” households.

7. Should the Commission recommend rewarding work, helping build assets, or imposing time limits on voucher holders as key goals? Should this influence the allocation of resources?

There is increasing recognition that housing vouchers can play a role in helping welfare dependent families move to work and helping marginally employed household members improve their job stability, job quality, and earnings potential. The current focus on the use of tenant-based housing assistance as part of an upward mobility strategy began early in the 1990s with the Family Self Sufficiency program. It gained momentum with the enactment of welfare reform in 1996. The Welfare to Work Voucher program, a special allocation of vouchers in 1999, was intended to create partnerships between PHAs and TANF agencies (and state agencies administering Welfare to Work employment and training funds) and to provide housing assistance to those families transitioning from welfare to work. Because housing assistance helps families maintain a stable and affordable residence, the hypothesis is that it may play a key role in helping families to secure and maintain employment.

One can also argue that housing assistance might create negative outcomes for welfare families. Families who receive vouchers may feel less need to work because the voucher covers part of their basic living expenses. Housing assistance may also cushion the effects of noncompliance with welfare reform requirements (Newman ed. 1999). Furthermore, families may be less inclined to increase their income through more hours of work or more demanding work because the voucher program collects as family-paid rent 30 percent of each additional dollar of income. In some cases, this voucher “tax” may be interfering with work incentives that state welfare agencies have attempted to build into the TANF program.

A recent review of 29 welfare reform initiatives that used a rigorous random assignment design suggests that there is still much to be learned about the effects on employment and income of key program features such as mandatory employment services, earnings supplements, and time limits. The review found that programs that included mandatory employment services usually left families no better off financially than they would have been without the programs. The only programs that both increased work and made families better off financially were those that included some form of earnings supplements for low-wage workers. Finally, the review found that there are not enough data

to warrant firm conclusions on the effects of time limits on earnings. However, the experience of programs that have adopted time limits suggests that their effect may vary depending on how the time limits are implemented and under what circumstances families are granted exemptions or extensions (Bloom and Michalopoulos 2001).

To date, there have been few studies on the long-term impacts of work incentives within housing programs. Other than the ongoing Welfare to Work and Moving to Opportunity demonstrations, recent HUD programs aimed at encouraging self-sufficiency – such as Project Self Sufficiency, Operation Bootstrap, and Family Self Sufficiency – have not followed an experimental design.⁷ To date, the Family Self Sufficiency (FSS) program, which includes case management and an escrow account for earnings increases, has been underutilized (Sard 2001). Based on 1999 HUD data, fewer than half of PHAs offer the FSS program to residents, and fewer than five percent of families with children in the public housing and voucher programs participate in FSS. In addition, PHA reported data to HUD reflect enrollment of only about 23 percent of the number of families required to be participating in FSS (internal HUD analysis 2001).

Thorough data on the outcomes of FSS participation have yet to be collected and analyzed systematically.⁸ However, there are some national HUD data on participation rates in FSS, employment rates among participants, and escrow balances, as well as anecdotal evidence of significant success among individual PHAs (Sard 2001, Bogdon in Newman ed. 1999).

Under the Moving to Work (MTW) demonstration, PHAs are currently experimenting with a range of program changes designed to encourage employment and self-sufficiency among voucher holders and other assisted households. Key design elements being tested include: flat or stepped rents and subsidies (designed to eliminate the 30 percent “tax” on earnings); time limits on assistance (ranging from three to seven years); case management (varying degrees of intensity, offered in-house and through partnerships with local agencies); variations on the FSS escrow account; and mandatory employment or participation in employment services. Some MTW sites using these approaches have begun to show interesting results. The MTW demonstration does not, however, include an experimental evaluation component. In addition, the localized design and implementation of the demonstration limits the potential for cross-site comparison.

Options:

- A. Continue the current system, in which PHAs may have preference for working families as long as overall at least 75 percent of all households admitted to the program (including elderly and persons with disabilities) are extremely low income (below 30 percent of area median income). There are no time limits on assistance (except for homeownership vouchers). Family Self Sufficiency is voluntary for households and creates an incentive for economic independence (to

⁷ The Welfare to Work Voucher demonstration, which includes a controlled experiment, offers the best opportunity to measure the impact of tenant-based assistance on the self-sufficiency of welfare, ex-welfare, and welfare-eligible families. However, the demonstration is at too early a stage in its implementation to yield any results at present.

⁸ The current HUD-sponsored evaluation of the FSS program is expected to be more useful in comparing approaches to program design and implementation than in demonstrating impact (because of the absence of a control group).

build an escrow account and actually obtain it). Except for FSS, rents are income based and income is taxed at 30 percent.

- B. Continue experimentation with time limits and rent incentives by high performing agencies under the Moving to Work demonstration or other authority, but require rigorous long-term evaluations that could inform national policy. Experiment with mandatory FSS participation, including a time limit on housing assistance, for working age households without disability. Provide increased funding for FSS service coordinators as part of the demonstration.
- C. Provide immediate, system-wide PHA discretion to use time limits and self-funded rent incentives. Require reporting of actual income and rents charged so that self-funding of rent incentives can be implemented and program results can be monitored.

Recommendation: B

Building incentives for employment, savings, and long-term self-sufficiency into the voucher program helps to legitimize it in the community, leading to better relations with tenants, landlords, and the general public. Rewarding work and asset development among voucher holders also creates the potential for success stories that increase public support for low income housing. However, at present little is known about how these goals might be accomplished – what kinds of incentives work for families and how program design changes would affect PHAs. Many of the programs being tested through the MTW demonstration place the PHA in the role of coordinator or convener of services to welfare households, which may be a better role for other institutions. Also, considerations for this role may vary between project- and tenant-based assistance because some services, and access to families that may need them, are easier to provide in a place-based setting. Finally, the impact of welfare reform on housing needs is still not well understood, particularly the issue of whether families will be able to achieve enough earnings to be self-sufficient in high cost areas. Additional controlled demonstrations that allow for careful evaluation are warranted before giving PHAs discretion to implement time limits and new rent initiatives.

8. Should the Commission recommend the creation of greater rental housing choices for poor households, through production and project-basing? Should this goal influence the allocation of voucher resources? Of resources for a separate production program?

Recent experience with tight housing markets in some parts of the country and in some neighborhoods, combined with declining voucher success rates, has raised interest in housing production programs. Supply-side production subsidies for rental housing exist and will continue to exist, because there is no policy consensus that vouchers can be the sole basis for rental housing policy. There currently are four major production subsidy programs for rental housing: the Low Income Housing Tax Credit (LIHTC); the HOME block grant program; the HOPE VI program for redeveloping distressed public housing; and the Section 202/811 program for developing housing for the elderly and persons with disabilities. These programs enjoy broad support in Congress and are likely to continue to be authorized and funded.

In addition, the regulations governing project-basing in the voucher program were recently substantially revised to increase the percentage of tenant-based funds that PHAs can project base and expand the range of properties eligible for project-basing. At the same time, the regulations limit the

proportion of units in a building that may receive project-based assistance and require PHAs to provide tenant-based assistance to families who wish to leave project-based units. HUD's initial guidance on the regulations also requires that all new project-based units must be located in census tracts where less than 20 percent of the population is living below the poverty line.

These limits are designed to preserve the advantages of household choice and for program efficiency. At the same time, some analysts argue that household choice would be further expanded – particularly in low poverty neighborhoods – if more project-basing and/or housing production were allowed. This may be particularly true in places where there are very severe shortages of housing that is affordable to very low and extremely low income households and very low vacancy rates for units with rents at or below the FMR (Nelson 2001, forthcoming). Comparison of HUD FMRs and census data in metropolitan areas suggests there are few neighborhoods where there are no units affordable to voucher holders, although this analysis does not address neighborhood or unit quality (internal HUD analysis 2001). Nevertheless, there may be a larger group of neighborhoods that are effectively cut off to voucher holders because of low landlord participation. In these neighborhoods, it is not clear how far voucher administrative reforms and programs of counseling and search assistance can succeed in increasing household choice. Thus, there is a valid argument that in order to offer voucher households genuine choice, it may be necessary to expand the supply of affordable housing *in certain desirable neighborhoods*.

However, it is very difficult to achieve a policy that targets supply side approaches only to places where they are needed or cost-effective compared with vouchers. First, it is politically challenging to limit additional federal resources to narrowly defined geographic areas. This was demonstrated by the eligibility list for the Housing Development Grants (HoDAG) program active in the late 1980s. The list of places in which HoDAG funds could be used was expanded by Congress from a list originally proposed by HUD to include only those places with demonstrable housing shortages to include many places with no such shortages. States and localities also find it hard to match policies to housing market conditions, as shown by very limited use of option for tenant-based assistance under the HOME program by participating jurisdictions (Urban Institute 1999). Finally, PHAs already have strong incentives to project base within their communities that suggest that if PHAs were awarded further discretion to project base, they would probably do so, weakening the choice-based nature of the program.

There are strong reasons for maintaining the choice-based nature of most of the program slots in the voucher program. They include avoiding concentration of poor households in particular projects and neighborhoods, incentives for owners to maintain good rental housing, and, ultimately, controlling the costs of federal housing subsidies. This is in addition to the most obvious reason: letting families themselves rather than program administrators decide on the housing unit and location that is in the family's best interest.

Options

There is a range of measures that can be taken to link vouchers to a production program. A, B, C, and D are exclusive options and represent a continuum from full project-basing of vouchers to no project-basing. E and F could be used in combination with A, B, or C. The remaining options, G-I, could be implemented by themselves or in combination with A, B, C, or D.

- A. Permit full project-basing for some portion of the PHA's voucher program. Full project-basing means that the household cannot move elsewhere with the voucher. This is the authority that formerly existed for a small fraction of the units in the certificate program, but not for the voucher program.
- B. Permit project-basing for some portion of the PHA's voucher program. The household can move elsewhere, in which case the PHA is obliged to allocate another voucher (e.g., an unused voucher or the next voucher to turn over) to the project. This is the current system, described above.
- C. Permit some portion of the PHA's voucher program to be designated for "first use" in a particular housing project. This is different from the current system in that there is no guarantee to the project of a specified number of vouchers over time.
- D. Permit no project-basing at all.
- E. Permit project-basing under one of the meanings described above, but only in neighborhoods that increase access to jobs and good schools. This is another feature of the current system (B), but it could be combined with either full project-basing (A) or "first use" (C).
- F. Provide a special allocation of new, incremental vouchers that will be project-based under one of the meanings described above (A, B, or C) and that are to be linked to a particular production program (for example, the LIHTC or a new production program that might be recommended by the Millennial Housing Commission).
- G. Allocate the subsidy authority associated with a production program so that it is targeted to those places in which voucher success rates are low or in which national data demonstrate that there is a shortage of rental housing at rents that can be reached by the voucher program's FMRs. For example, include strong planning requirements that direct subsidies to places (within a state or within a metropolitan area) in which additional supply of rental housing is needed to make the voucher program effective.
- H. Step up enforcement of the rules of the LIHTC and HOME programs (and any new program) that require the owners of housing produced under these programs to accept households with vouchers. Mandate information links between these programs and the voucher program.
- I. In the interest of sustaining the mixed income character of housing developments, permit owners of rental housing developments subsidized by a production program to limit the number of voucher households to 20 percent of the units in the development. Such a limitation should not apply to small projects (10 or fewer units.)

Recommended option: C, E, F, G, H, and I

The Millennial Housing Commission is interested in designing contemporary production programs in a way that avoids the mistakes of the past. Instead of concentrating the poor in particular projects, the Commission is interested in enabling mixed income housing through a program that produces rental housing partly occupied by voucher holders, but with most households paying rents that cannot be

afforded by extremely low income households unless the household has a voucher. This recommendation supports that objective.

“First use” project-basing establishes a strong link between the rental development and the voucher program, but does not guarantee the owner a specified number of voucher holders. All of the units in the development must attract tenants who choose the development over other housing. In addition to recommending this “lightest” form of project-basing, the authors recommend that the feature of the LIHTC that enables owners to charge voucher holders (project-based or otherwise) higher rents than the rents otherwise permitted for the development be repealed or neutralized. It could be neutralized through the rent reasonableness provision of the voucher program. Some PHAs may already insist that voucher holders pay no more than other residents of the same LIHTC project, while others may consider the rent in a LIHTC project reasonable so long as it is not greater than the market-determined rent in a comparable development. HUD has not provided clear guidance on this matter.

Despite the potential need for a production program in some locations and housing markets, the authors are concerned about weakening the choice-based nature of the voucher program and, therefore, recommend that the percentage of vouchers that can be project-based be maintained at no more than the current 20 percent and be limited to low poverty neighborhoods as at present. Furthermore, only a modest fraction of the incremental vouchers for which funds are appropriated by Congress each year (e.g., 5,000 of 50,000 or 10,000 of 100,000) should be linked in any way to a production program.

This recommendation preserves the essential choice-based nature of the voucher program for reasons of cost and efficiency and to avoid the harm that can be associated with projects (such as concentration of the poor and weak incentives to maintain good housing). Low success rates in certain markets could be addressed by local planning jurisdictions as well as PHAs. For example, the Consolidated Plan that governs the use of HOME and Community Development Block Grant (CDBG) funds could be required to include information about the success rates of voucher holders in their jurisdiction and to identify barriers to voucher use. Where voucher success rates are low, the Consolidated Plan could propose remedial strategies using CDBG and HOME funds (as well as other resources). In addition to targeting production of rental housing to locations and types of units for which voucher success is low, HOME funds can be used for voucher program enhancements such as assistance with security deposits.

9. What recommendations should the Commission make for increasing local discretion to make program design decisions while retaining performance monitoring against federal goals?

The current national program is designed to meet goals of horizontal and vertical equity. The basis for calculating FMRs provides households in different parts of the country with the same subsidy level relative to local housing costs. In addition, the income targeting and verification requirements are designed to provide larger subsidy to more needy households and to define income in the same way for all households. Further, the national design attempts to maximize households’ housing choices by minimizing differences in program administration across jurisdictions.

Although the program has retained the key elements of its national design, HUD's recent study of discretionary authority in the voucher program provides many examples of areas of program administration where, since the passage of QHWRA, PHAs now have much greater latitude than they had in the past. This discretionary authority does not just affect daily operations, but also how PHAs carry out their basic program mission (Devine et al. 2001). At the same time, QHWRA imposed some new conditions, including new income targeting requirements and the 40 percent cap on tenant rent burden, that restrict how PHAs can use their local authority. The HUD study suggests that although some PHAs appear to be taking a "wait and see" approach to the new legislation, others are using the latitude that it provides to shape the program to fit local priorities.

Almost by definition, however, a national program design limits the ability of local administrators to design programs as part of a local consensus-building process. Many PHAs spend considerable time, energy, and expense in formulating their PHA Plans and Annual Plans and, as a result, have become involved in the coordination of community services based on local needs. National standards for income targeting, percent of income allowable for the tenant's portion of the rent, percent of vouchers that can be set aside for project-based housing, for example, have the potential to prevent PHAs from agreeing to use vouchers as part of a locally designed program.

Perhaps the most important area in which there is a tension between national program design and local discretion is the setting of subsidy levels for individual households. Subsidy levels are a function of:

- 1) The occupancy standard determined by the PHA to be appropriate for the household (which governs whether the household gets a subsidy based on the one bedroom payment standard, the two-bedroom payment standard, etc.). PHAs have flexibility in establishing this occupancy standard and must state its terms in the voucher program's Administrative Plan;
- 2) The level at which the payment standard is set. Currently the PHA can set the payment standard between 90 and 110 percent of the HUD-published Fair Market Rent or can apply for an "exception rent" for all or a portion of its jurisdiction. The PHA must demonstrate that average market rents in that portion of geography are higher than implied by the FMR that covers an entire metropolitan area; and
- 3) The amount of the rent that the household is required to pay from its own resources (generally 30 percent of adjusted income, except for experimentation under the MTW demonstration authority described under Issue 7).

Another key area is income targeting. Under QHWRA, at least 75 percent of households newly admitted to the voucher program must have incomes below 30 percent of area median income (extremely low incomes). Some PHAs—generally administering small programs in small towns or non-metropolitan areas—have reported finding it difficult to use their full allocation of vouchers because there are too few households with extremely low incomes on their waiting lists.

Options:

- A. Endorse the current (generally) uniform national program design and (largely) rule-based rather than goal-based performance monitoring system.

- B. Continue a uniform national program design, with federal income targeting requirements, subsidy levels that follow a uniform national standard adjusted to local rent levels, and federal targets for number of households served. Modify the monitoring system to focus more on goals and collect data needed to measure goal achievement. Continue experimenting with local discretion on a demonstration basis (like MTW), but with a strong evaluation component to inform decisions about nationwide implementation of greater discretion in particular areas of program administration.
- C. Set federal goals for income targeting (75 percent extremely low income). Permit PHAs to modify subsidy levels per household—both payment standards and rent rules—within a fixed budget based on a presumptive national program design. Evaluate outcomes of locally chosen designs and transfer resulting information.

Recommendation: B

QHWRA gives PHAs considerable flexibility to design programs to meet local needs, while preserving a national program design with respect to income targeting, subsidy levels per household, housing quality, and tenant mobility, and portability. Eliminating some or all of these design elements on a national scale may entail a reduction in horizontal equity and household choice, as PHAs may opt to serve fewer households by increasing payment standards beyond what HUD will fund on a cost per unit basis or otherwise providing larger benefits per household. Alternatively, PHAs may choose to serve more households but providing “inadequate” benefits. For example, under the level of flexibility already made possible by the voucher program, some PHAs spread the subsidy around through keeping the payment standard down and matching households to bedroom sizes in a way that some would interpret as crowding. Under the formula for renewing the funding of voucher contracts, this would only be possible in the first year of the allocation, before the funding catches up to the true cost per unit served. A program that provided more flexibility to PHAs to set subsidy levels would imply a change to this funding system.

Finally, PHAs might well use additional regulatory flexibility to move toward a project-based rather than tenant-based program, as discussed under issue 8.

While we do not recommend that PHA discretion for setting payment standards be expanded, we recommend two administrative reforms for HUD that would improve the current system. First, HUD should expand the resources devoted to surveys of market rents so that the published FMRs do not lag market rents in rapidly changing housing markets. Second, approval of “exception rents” should be close to automatic (e.g., considered approved if not disapproved within 15 days) when decennial census data demonstrate that the portion of geography for which the exception is sought has average rents at the level of the exception sought (with some upper limit, such as 120 percent of the metro-wide FMR).

In the area of income targeting, we recommend that individual PHAs that are having difficulty finding large enough numbers of housing-needy extremely low income households to use their voucher allocations be granted waivers to the 75 percent minimum, but that these PHAs thereby relinquish their ability to apply for allocations of incremental vouchers.

The authors’ recommendation does not preclude the addition of further flexibility in the design and administration of the program. For example, as discussed above, a more flexible application of HQS

may be desirable in order to attract additional owners to the program. At the same time, continued support for demonstrations on local discretion, combined with rigorous analysis, will help to inform future policy decisions. Areas in which it may be particularly fruitful to allow PHAs to design local variations on the program include: employment and self-sufficiency initiatives; dispersion and mobility strategies; and serving special needs or hard to house populations.