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SENATE BILL WOULD UPDATE AND STREAMLINE HOUSING VOUCHER PROGRAM

Improves on House Bill Passed With Strong Bipartisan Support

by Will Fischer and Barbara Sard

On March 3, 2008, Senate Banking Committee Chair Chris Dodd, Senate Housing Subcommittee Chair Charles Schumer, and several other Senators introduced S. 2684, the Section 8 Voucher Reform Act (SEVRA). SEVRA would make significant changes to the "Section 8" Housing Choice Voucher program and related changes in other housing assistance programs. The Senate bill closely resembles H.R. 1851, a version of SEVRA that the House passed by a bipartisan vote of 333-83 on July 12, 2007.

Ten years have passed since the 1998 Quality Housing and Work Responsibility Act, the last major authorizing legislation affecting the voucher program. SEVRA represents a carefully crafted effort to update and improve certain aspects of the program while retaining features that have proven effective.

Some of the most important SEVRA provisions would:

- **Stabilize the voucher funding system**, which has faced substantial volatility in recent years.
- **Simplify rules for setting tenant rent payments,** while continuing to cap rents at 30 percent of tenants' income.
- **Streamline housing quality inspections** to encourage private owners to participate in the program.

KEY FINDINGS

- Senators Dodd and Schumer recently introduced the Section 8 Voucher Reform Act (SEVRA), which would make significant improvements in the housing voucher program. The House approved a similar bill last year by a vote of 333-83.
- SEVRA would build on the housing voucher program's success by establishing a stable, efficient policy for funding vouchers. In recent years, 150,000 vouchers have been lost due to funding instability.
- SEVRA also includes reforms in areas such as tenant rent payments and housing quality inspections to make the voucher program more efficient and effective, while retaining key tenant protections.
- The House SEVRA bill contains an expansion of the Moving-to-Work (MTW) demonstration that is far larger than needed to test alternative policies, has inadequate evaluation mechanisms, and poses some risks to tenants. If an MTW expansion is added to the Senate bill, it should be more limited in order to facilitate oversight and evaluation and minimize unintended harm from untested policies.

Housing Vouchers One of the Most Effective Federal Programs, According to Administration

The Housing Choice Voucher program, the centerpiece of the nation's low-income housing policy, assists about 2 million families. Families generally use vouchers to rent modest housing of their 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, more jobs, and less crime.

As the Administration's fiscal year 2009 budget documents note, an Office of Management and Budget assessment found the program to be "one of the Department's and the Federal Government's most effective programs" and stated that that it "is widely recognized as a cost-effective means for delivering decent, safe, and sanitary housing to low-income families."

- **Protect tenants of owners who face financial difficulties** by giving housing agencies new tools to ensure that buildings are kept in livable condition.

- **Help develop and preserve affordable housing** by facilitating use of "project-based" vouchers.

- **Expand housing choice** by linking the maximum value of a voucher more closely to local market rents and by making it easier for a family to use its voucher to move beyond the local housing agency's jurisdiction.

- **Promote homeownership** by allowing vouchers to be used for downpayments or to help cover the cost of purchasing a manufactured (mobile) home.

- **Support work** through a new earnings disregard and by stabilizing funding for employment counseling and financial incentives provided through the Family Self-Sufficiency program.

In each of these areas, the Senate SEVRA bill is similar to the House bill. Because nearly all of the changes that the Senate bill's sponsors made to the House bill represent improvements, the Senate bill would strengthen housing assistance programs to a still-greater degree than the House bill.

One major difference between the two bills is that the Senate bill omits a House provision to expand HUD's Moving-to-Work (MTW) demonstration to include up to 80 state and local housing agencies, from up to 29 agencies today. MTW (which the House bill would rename the Housing Innovation Program, or HIP) seeks to promote innovative housing policies by allowing agencies to operate their voucher and public housing programs without regard to many federal statutes and regulations. A number of the policies that MTW allows agencies to test, however, could have adverse effects on vulnerable families, such as alternative rent schemes that require sharply higher payments from some tenants and time limits that cut off subsidies even for working-poor families who cannot remain in their homes without assistance.

The House HIP provision, which could affect as many as one third of all voucher holders and public housing residents in the nation, would place far more tenants at risk of harmful consequences than is necessary to test innovative policies. Moreover, the evaluation requirements of the House provision are not sufficiently rigorous to ensure that the program will fulfill its purpose as a testing ground for future housing policies.[1] A HIP provision will likely be added to the Senate bill later in the legislative process; to build upon, rather than undermine, the improvements made by SEVRA's other components, it will be important that such a provision limit HIP to a size that is appropriate for a demonstration.[2]

Establishing a Stable, Efficient Voucher Funding Policy

SEVRA's most important provisions would establish a comprehensive policy for distributing funds to the approximately 2,400 state and local agencies that administer the voucher program. 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 flawed system reduced the number of low-income families using vouchers by approximately 150,000.

In appropriations legislation for fiscal years 2007 and 2008, Congress required HUD to match voucher funding more closely to each agency's actual needs, by basing funding on the cost of each agency's vouchers in the preceding year. This change has enabled agencies to begin restoring the vouchers that were lost from 2004 to 2006. SEVRA would build on this progress through a series of mechanisms that encourage agencies to put as many of their vouchers to use as possible:

- **Extending the new, efficient funding formula into future years.** SEVRA would establish, as part of the authorizing statute governing the voucher program, an ongoing policy that agencies' renewal funding each year will be based on the cost of their vouchers used in the prior year. This will provide agencies — as well as families with vouchers and private owners — with more confidence that renewal funding needs will be met in future years, even if agencies succeed in significantly increasing the share of their authorized vouchers that are in use. (By contrast, the practice during 2004-2006 of changing the funding formula with each annual appropriations act caused many agencies to leave vouchers unused out of concern that funding would not be available to cover the cost of their vouchers in the following year.)

  Recent Administration actions provide further proof of the need for a stable funding policy. Even though Congress has already enacted "recent-cost" formulas for 2007 and 2008 — and is unlikely to back away from that approach in 2009 — the Administration has proposed that voucher funding in 2009 be based primarily on voucher costs back in 2007 (rather than on costs in 2008, as would be the case under a recent-cost approach). Accordingly, HUD staff have

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[1] Jeffrey Lubell and Jon Baron, "The Importance of Integrating Rigorous Research Objectives into any Reauthorization of the 'Moving to Work' Demonstration," Center for Housing Policy and Coalition for Evidence-based Policy, March 2007, http://www.nhc.org/pdf/pub_chp_mtw_0307.pdf.

[2] For additional discussion of the House HIP provision, see Barbara Sard and Will Fischer, "Bipartisan Legislation Would Build on Voucher Program's Success," Center on Budget and Policy Priorities, revised July 26, 2007, http://www.cbpp.org/5-4-07hous.htm.

informed some housing agencies that if they increase the share of their authorized vouchers that are in use in 2008, they should *not* expect to receive funding to cover the costs of those added vouchers in 2009. Because Congress has not yet enacted a clear statement (like that contained in SEVRA) of what the future funding policy will be, HUD's statement is likely to cause some agencies to leave vouchers unused rather than distribute them to eligible families.

- **A balanced policy toward unspent funds.** From 2005 through 2007, housing agencies were permitted to accumulate unlimited amounts of unspent voucher funds. This policy — together with factors such as the volatility in voucher funding during those years — encouraged agencies to amass large balances of unspent funds as insurance against future funding shortfalls. SEVRA would allow agencies to keep a modest amount of unspent voucher funds as a reserve, but would encourage them to put their unspent funds to use by making clear that agencies would lose any unspent funds that exceed the permitted reserve amounts.[3]

- **Bonus funds for agencies with high utilization rates.** SEVRA would use the reallocation of excess unspent funds to reward the agencies that have been most effective in putting their voucher funds to use assisting families. Under both the House and Senate bills, utilization of voucher funds would be one of the main criteria used to distribute reallocated funds.[4]

- **Temporary advances for agencies that exhaust their voucher funds.** To encourage agencies to use all of their voucher funds, SEVRA would create an advance-funding mechanism that 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, many agencies would have no choice but to aim for substantially less than 100 percent voucher utilization, for fear that events beyond their control — such as an unexpectedly rapid growth in local rents or a drop in tenants' incomes — would cause a temporary uptick in their expenses and cause them to exceed their budgets. (Agencies could also use reserve funds to cover unexpected cost surges, but they would not have accumulated reserves if in previous years they had used all of their funds to assist needy families.)

- **More administrative funding for agencies that use more vouchers.** From 2004 to 2007, HUD distributed administrative fees without regard to how well an agency performed. Both SEVRA bills would require HUD to allocate these fees primarily based on the number of vouchers the agency put to use in the previous year, thereby encouraging agencies to maximize voucher utilization. (Congress restored this policy, which had been in place until 2004, in the

[3] The two SEVRA bills would employ different mechanisms to take away excess unspent funds, but the effects on agencies would essentially be identical. Under the House bill, HUD would recapture the funds from the agency. Under the Senate bill, the agency would retain its unspent funds, but the excess funds would be"offset" against — in other words, deducted from — the agency's funding for the following year. The fiscal year 2008 appropriations act includes an offset mechanism similar to the one included in the Senate bill.

[4] Housing agencies that need funds to cover costs stemming from (1) absorbing "portability" vouchers held by families moving from the jurisdiction of another agency or (2) financial incentives under the Family Self-Sufficiency program would receive top priority for reallocated funds. The remaining reallocated funds would be distributed to other agencies based on their performance in utilizing their voucher funds and, under the Senate bill, on the "relative need of communities" for additional voucher funds.

2008 appropriations bill; SEVRA would make clear that Congress intends to maintain this policy in future years.) The Senate bill would go a step farther and allow HUD to add incentives for agencies to perform well in other areas of program administration.

These incentives to serve additional families would *not* weaken Congress's control over the cost of the program. Congress would still determine the amount of annual program funding, and if the funds appropriated in a given year were insufficient to fully fund the renewal formula, HUD would reduce each agency's funding by the same percentage so funds would still be allocated in accordance with agencies' relative needs. SEVRA would simply ensure that, *for any given level of funding*, more families would receive the important benefits that vouchers have been shown to provide.

In addition to encouraging the restoration of the approximately 150,000 vouchers that were lost in recent years, SEVRA would authorize the expansion of the voucher program by 20,000 "incremental" vouchers per year for five years. This would not directly raise federal costs either, however, since the incremental vouchers would be created only if Congress included the funds for such vouchers in future appropriations bills.

Simplifying Rules for Determining Tenants' Rent Payments

Tenants in HUD's housing assistance programs generally must pay 30 percent of their income for rent, after certain deductions are applied. The House and Senate SEVRA bills would streamline several aspects of the process for determining tenants' incomes and deductions.[5] As a result, the bills would reduce the burdens that rent determinations place on housing agencies, property owners, and tenants. The changes would also reduce the likelihood of errors in rent determinations and strengthen incentives for tenants to work.

Most significantly, SEVRA would:

- **Reduce the frequency of required income reviews.** Currently, agencies must conduct annual income reviews for *all* tenants, including those who receive most or all of their income from Social Security or SSI and consequently are unlikely to experience much income variation from one year to the next. SEVRA would allow agencies to review the incomes of tenants with

[5] The House SEVRA bill contains a provision, added as an amendment on the House floor, that would move in the opposite direction by making the process for determining rent payments *more* complex. It would allow agencies to establish alternative formulas for setting rents so long as no family pays more than it would pay under the regular formula. The prohibition on raising rents above the level now permitted is important, since alternative rent systems could otherwise be used that would raise rents substantially on vulnerable families. However, alternative rent systems that only *reduce* rent levels would increase the total cost of housing subsidies, creating a need for additional federal funding. In addition, to ensure that no tenant's rent is increased, agencies that establish alternative formulas would need to calculate each tenant's rent payment twice — once under the alternative formula and once under the regular formula. This would create administrative burdens for agencies, confusion for tenants, and oversight difficulties for HUD. All parties would be better served by the approach taken in the other SEVRA rent provisions, which maintain a single national formula that sets rents based on 30 percent of household income, while simplifying aspects of the current system that create unnecessary burdens.

fixed incomes (including private pensions and certain other periodic payments, along with Social Security and SSI) every three years.[6]

Currently, agencies also must make rent adjustments between annual reviews at the request of any tenant whose income drops. The Senate SEVRA bill would require such adjustments only in cases where a family's annual income drops by $1,000 or more, thereby reducing the number of such "interim recertifications" that an agency must make while enabling tenants to obtain adjustments in cases where they would otherwise face serious hardship. Interim rent adjustments would be required for *increases* in annual unearned income exceeding $1,000 as well. (The House bill uses a $1,500 threshold for such required interim rent changes.)[7]

- **Simplify deductions for the elderly and people with disabilities.** Currently, housing agencies and owners are required to deduct medical expenses and certain disability assistance expenses that exceed 3 percent of a household's income if the household head (or his or her spouse) is elderly or has a disability. Agencies frequently state that this deduction is difficult to administer, since they must collect and verify receipts for all medical expenses. It also imposes significant burdens on elderly people and people with disabilities, who must compile and submit receipts that may contain highly personal information. Largely for these reasons, a significant number of households eligible for the deduction do not receive it. By contrast, a second deduction targeted to the same groups — a $400 annual standard deduction for each household headed by an elderly person or a person with a disability — is quite simple to administer.

  SEVRA would increase the threshold for medical and disability assistance deductions from 3 percent of annual income to 10 percent. This would substantially reduce the number of people eligible for the deduction — and therefore the number of itemized deductions that would need to be verified — while still providing some relief for tenants with extremely high medical or disability assistance bills. At the same time, SEVRA would substantially increase the easy-to-administer standard deduction for the elderly and people with disabilities (to $700 per household under the Senate bill and to $725 per household under the House bill) and index it for inflation.

- **Replace complex work incentives with a simple, equitable earnings deduction.** The House bill would eliminate the deduction for child care expenses (which evidence suggests is implemented inconsistently) and a complex provision that deducts some or all of the earnings of certain voucher holders with disabilities and public housing residents who have recently begun working. In their place, it would create a simple provision, under which all working

[6] Many fixed-income benefits, such as Social Security and SSI, increase annually due to cost-of-living adjustments. To avoid a loss of revenue from this streamlined option, agencies would be required to assume that in the intervening two years these tenants' incomes rose by a rate of inflation specified by the HUD Secretary.

[7] Neither bill would require families actually to lose (or gain) the full threshold amount before they can receive a rent adjustment. Instead, adjustments would be required for any income change "estimated to result in" an annual change at or above the threshold. For example, under the $1,000 threshold in the Senate bill, a family that experiences a loss of $83 in monthly income (which corresponds to a rent reduction of $25) that is expected to continue would be eligible for a rent adjustment immediately. Under the House bill's $1,500 threshold, a monthly income loss of $125 (corresponding to a rent reduction of $38) would trigger a rent adjustment. In addition, both bills would allow housing agencies and owners to set lower thresholds for rent adjustments due to income reductions (and the Senate bill would allow lower thresholds for rent adjustments due to income increases under some circumstances).

families (not just the limited groups covered by the current deductions) would have 10 percent of their first $10,000 in earnings deducted. The Senate bill would adopt a similar approach, except that it would retain a deduction for particularly high child care expenses (those exceeding 5 percent of the family's income) and would apply the 10 percent deduction only to a family's first $9,000 in earnings.

- **Base rents on a tenant's actual income in the previous year.** Currently, rents are based on a tenant's anticipated income in the period that the rent will cover, usually the coming 12 months. The Senate SEVRA bill would require agencies to base rents on a tenant's actual income in the previous year. This would give tenants an incentive to increase their earnings, since such an increase would not affect their rent for a year. It also would simplify administration, both by allowing agencies and owners to use tax forms and other year-end documentation to verify income and by reducing the need for mid-year rent adjustments for tenants whose earnings change during the year. (The House bill contains a somewhat more complex — and potentially more error-prone — provision that requires agencies to use prior-year *earnings* in calculating rents and allows agencies to decide whether to use prior-year or anticipated *unearned income*.)

SEVRA's Impact on Rent Payments Would Generally Be Modest

A Congressional Budget Office (CBO) estimate released on September 5, 2007 indicates that the House bill's various rent determination provisions would reduce total tenant rent payments by $205 million a year over five years. As a result, the bill can be expected on average to lower rents for households currently receiving housing assistance. The bill would *not* reduce the total rent revenues paid into the housing assistance programs, however. This is because another provision of the bill would target more vouchers and other assistance to households that have modestly higher incomes — and thus can afford higher rents.[8] Taken together, the changes in SEVRA would *increase* the total amount of tenant rent payments by $10 million a year, according to CBO. (CBO has not released an estimate of the Senate bill, but its overall effects on tenant rent payments would likely be similar.)

Some individual tenants would face higher or lower monthly rents under SEVRA, but the impact would generally be modest. For example, when the change in the medical deduction is offset by the increase in the $400 standard deduction, an elderly person or person with a disability with an annual income of $8,000 who currently receives a large deduction for medical expenses would face a maximum monthly rent increase of $6.50 under the Senate bill and $5.88 under the House bill. The maximum rent reduction for a person who has few or no unreimbursed medical expenses (or has such expenses but does not currently receive the deduction to which he or she is entitled) would be $7.50 a month under the Senate bill and $8.13 under the House bill.

[8] Currently, 75 percent of vouchers and 40 percent of project-based Section 8 and public housing units must be allocated to households with incomes at or below 30 percent of the median income in the local area at the time they enter the program. SEVRA would adjust these criteria to require that those vouchers and units be allocated to households with incomes at or below 30 percent of local median income *or the poverty line,* whichever is higher. This change would address concerns, expressed by some housing agencies in areas with particularly low median incomes, that the current targeting criteria prevent them from assisting working-poor families. At the same time, it would maintain the emphasis on assistance for the poor.

The House bill's elimination of the child care deduction would lead to the largest rent increases for individual households under either bill. For some households, the new earnings disregard in the House bill would be worth less than the discontinued child care deduction. For example, a family with $10,000 in earnings and no unearned income that receives a child care deduction of $250 a month (approximately the average received by families that benefit from the deduction) would see a rent increase of $50 a month under the House bill. A family that receives an above-average child care deduction would see higher rent increases.

Under the Senate bill, in contrast, such a household would actually see a modest rent cut regardless of how high its current child care deduction is. On the other hand, the Senate bill would not simplify rent calculations or reduce burdens on housing agencies, owners, and tenants to the same degree as the House bill, which would entirely eliminate the need for tenants to demonstrate child care expenses in order to prove deductions.

Streamlining Housing Inspection Rules to Encourage Participation by Private Owners

The voucher program requires that vouchers be used only in houses or apartments that meet federal quality standards. The SEVRA bills would allow agencies to make modest changes in the inspection process used to ensure that units meet those standards. The changes would ease burdens on agencies and encourage landlords to make apartments available to voucher holders.

Most significantly, SEVRA would allow agencies to inspect apartments every two years instead of annually.

In addition, to eliminate inspection-related delays, the bills would allow agencies to (1) rely on recent inspections performed for other federal housing programs, and (2) make initial subsidy payments to owners even if the unit does not pass the initial inspection, as long as the failure resulted from non-life-threatening conditions. Defects would have to be corrected within 30 days of initial occupancy for the payments to continue. These provisions would encourage owners to participate in the voucher program by minimizing any financial loss due to inspection delays. They also would enable homeless families to have a place to live more quickly than under current rules.

Protecting Tenants of Owners in Financial Difficulty

Owners who rent to voucher holders sometimes fail to maintain the units in decent condition or to pay utility bills for which they are responsible. Such situations occur from time to time under any circumstances, but are reportedly more frequent during the current housing market downturn, as many owners struggle to make their mortgage payments while meeting other obligations.

Under current rules, if the owner does not make needed repairs or utility payments within a reasonable time, an agency has no choice but to terminate the subsidy payment, requiring the family to move. Such involuntary moves can disrupt children's schooling, force families to double up with others (or become homeless), and possibly lead to the loss of voucher assistance if families are not able to find a suitable new unit to rent.

The SEVRA bills would encourage owners to bring their properties up to standards by stopping subsidy payments for a few months — or until the repairs are made — while families remain in their homes. In addition, the bills strengthen agencies' options when an owner fails to make needed repairs. The Senate bill would allow agencies to use the subsidy payments to make or contract for repairs if the defects are life-threatening; the House bill would go further and allow agencies to use the subsidy payments to repair any significant defect, whether or not it is life-threatening.

In addition, the Senate SEVRA bill (but not the House bill) would give agencies new authority to intervene when owners fail to make utility payments. Under current law, tenants in such cases would be forced to endure utility interruptions and to leave their homes if the units became uninhabitable. Under the Senate bill, the agency would be permitted to divert subsidy funds that would normally be paid to an owner and use them for payments to utility companies that are needed to maintain service.

Facilitating Use of Project-Based Vouchers

The SEVRA bills would make it easier for housing agencies to enter into agreements with owners for a share of an agency's vouchers to be used at particular housing developments. Through such "project-basing," agencies can partner with social service agencies to provide supportive housing to formerly homeless people or to support development of mixed-income housing in low-poverty neighborhoods with strong educational or employment opportunities but tight rental markets. The bills would, for example, eliminate certain unnecessary procedural requirements and reconcile conflicting rules that have made it difficult to use project-based vouchers in combination with the federal Low-Income Housing Tax Credit.

In addition, the Senate bill would provide housing agencies with greater flexibility to use project-based vouchers to preserve housing previously subsidized through other federal programs. Currently, when an owner leaves another federal housing program or a subsidy is lost for another reason, families living in the building generally receive tenant-based vouchers; these vouchers enable tenants to stay in the building as long as they wish (and continue to need assistance), but once those tenants leave, the subsidies go with them. At the present time, project-based vouchers generally are not used in these circumstances. The Senate bill would change this, and by making it possible for agencies to use project-based vouchers in these cases, would enable the agencies (together with willing owners or a new entity that purchases the property) to ensure that all or a portion of the units in the building remain affordable. This new option would be especially useful for buildings that are particularly desirable to maintain as affordable housing, such as those located in neighborhoods that are becoming higher income or have strong employment opportunities.

It is important to note that residents of units with project-based voucher assistance have the right to move with voucher assistance after one year, using the next voucher that becomes available when another family leaves the program or the agency receives additional funding. (When this occurs, a voucher remains attached to the housing development, and the family moving out of the development receives a separate voucher.) This "resident choice" feature and other policies make the project-based voucher option, which SEVRA would effectively expand, significantly different from earlier programs that provided project-based assistance.

Expanding Housing Choice

One of the chief benefits of a voucher is that a family can use it to rent modest housing anywhere in the country where there is a voucher program. This mobility has important benefits for many groups of low-income people. For example, it can enable a family to move to a neighborhood with good schools and lower crime, a worker to relocate closer to a job or to take a new job in another community, an elderly person or person with a disability to move closer to family or a needed caregiver, or a domestic violence victim to flee an abuser.

In practice, however, many families face barriers to using a voucher to rent a unit in the location of their choice. SEVRA contains a series of measures designed to address these barriers and expand the choices available to voucher holders.

- **Easing barriers to "portability."** Under current law, a family has the right to use a voucher to move from the jurisdiction of one housing agency to the jurisdiction of another. Many voucher holders who could benefit from this "portability" option do not, however, because current policies create disincentives for agencies to facilitate a family's relocation to another agency's jurisdiction.

  A major reason is that the 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. For their part, destination agencies are often reluctant to absorb portability vouchers because that would divert scarce resources away from families on the agency's own waiting list.

  SEVRA would resolve this impasse by requiring destination agencies to absorb the vouchers while allocating additional funding (initially from funds left unused by other agencies) to those agencies to cover the resulting costs. This solution treats both agencies equitably and ensures that the portability process is not unnecessarily cumbersome.[9]

- **Supporting regional coordination of voucher programs.** Many vouchers are administered by local agencies with jurisdiction only over small segments of metropolitan regions. These agencies often have little capacity to help families find housing in another part of the region or provide other assistance with cross-jurisdictional moves. And they have no ability to support project-based voucher developments in other jurisdictions.

  Two provisions included in the Senate SEVRA bill (but not in the House bill) would address these issues. First, the bill would give entities that provide voucher assistance on a regional basis preferential treatment in the allocation of the new incremental vouchers the bill would authorize. This preference would direct more resources toward existing regional voucher

[9] The Senate bill modifies the portability provisions in the House bill to clarify that the obligation to absorb portability vouchers is contingent on the availability of the additional funding, and to authorize HUD to direct agencies to revert to current billing procedures if sufficient funds are not available. In addition, the Senate bill provides important safeguards for agencies that would be most affected by the transition to the new policy.

programs and encourage agencies to consolidate or create other mechanisms to administer vouchers on a regional basis.[10]

Second, the Senate bill would allow agencies to transfer some vouchers to another agency that administers vouchers in the same or a neighboring metropolitan area or county, for use in project-based voucher developments. This would enable agencies to coordinate the development of affordable housing on a regional level.

- **Linking caps on voucher payments more closely to the local market.** Housing agencies generally must 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 areas. However, HUD generally sets a single FMR for an entire metropolitan area — even for some very large metropolitan areas with millions of residents and major variations in rental costs across local submarkets. In many communities, therefore, FMRs (and thus payment standards) are far above or below the cost of a typical modest rental unit.

  When payment standards in a portion of a metropolitan area are too low, many families can only use their vouchers in neighborhoods where rents are below average for the area. Such neighborhoods are more likely to have higher poverty rates and weak schools.

  The SEVRA bills require HUD to set FMRs using smaller geographic areas with more uniform rental costs. This change — which would make use of newly available data from the Census Bureau's American Community Survey that allow rent estimates for small areas to be updated more frequently — would result in voucher payments more closely calibrated to local rental costs. That, in turn, would increase access to housing in lower-poverty neighborhoods with greater employment and educational opportunities. The bills also include other changes to encourage agencies to set payment standards at levels that balance the competing goals of containing per-voucher costs, ensuring affordable rents, and providing voucher holders with access to a range of neighborhoods.[11]

Promoting Homeownership

Two SEVRA provisions would allow housing agencies to use vouchers to support homeownership in new ways. Most significantly, the bills would allow vouchers to be used to cover loan payments, insurance payments, and other periodic costs of buying a manufactured home

[10] The Senate bill also provides a preference for agencies that use vouchers to preserve existing affordable housing. Both preferences would apply to the selection of agencies to receive new voucher awards after HUD makes preliminary allocations of available funds among states based on formula need factors, such as the number of renters, poverty rates and rent burdens. (Under a longstanding statutory provision, HUD sets the need factors by regulation.) The House bill does not state a preference for how the incremental vouchers it authorizes would be allocated.

[11] In the voucher program, families pay 30 percent of their income plus any difference between the maximum voucher subsidy and their actual rent and utility costs. According to a CBO analysis of HUD data, nearly half of the families in the 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. House Report 110-216, Section 8 Voucher Reform Act of 2007, June 28, 2007, p. 51.

(subject to the same limits on maximum subsidy levels that are applied to other vouchers), in addition to the cost of renting a space for a manufactured home.

Currently, vouchers can be used to cover the full range of periodic homeownership costs for the purchase of a traditional home or a manufactured home set on land owned by the family. But if a family rents the space for a manufactured home, which is common, the voucher subsidy is limited to the space rental costs and excludes the costs of purchasing the home. SEVRA would allow vouchers to be used effectively in this segment of the housing market that in some areas is the most readily available source of affordable housing — and that for many low-income families offers the most realistic avenue to homeownership.

In addition, the bills would allow a family (with approval from its housing agency) to use its voucher to pay as much as $10,000 in a single lump sum toward a downpayment, rather than continuing to receive ongoing voucher assistance. Although the use of this option likely would be quite limited, it could enable some families to purchase homes in cases where the primary barrier to purchase is the lack of funds for a downpayment.[12]

Strengthening the Family Self-Sufficiency Program

The Family Self-Sufficiency (FSS) program encourages work and savings among voucher holders and public housing residents through employment counseling and financial incentives. A key component of this program is funding for agency staff to counsel participants and coordinate employment services with social services agencies and other service providers.

Unfortunately, HUD has changed the criteria for allocating this funding repeatedly in recent years, with the result that many agencies have experienced abrupt funding cutoffs and enrollment in the FSS program has declined.[13] To reverse this decline and encourage agencies to provide FSS services and asset-building opportunities to more families, the SEVRA bills provide a stable, dedicated source of funding for FSS program staff.

Conclusion

The Senate SEVRA bill, like the House bill it closely resembles, would build on the voucher program's many strengths through a series of measured, targeted improvements. Moreover, because several of the bill's provisions extend beyond the voucher program, it would improve the public housing and project-based Section 8 programs as well.

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[12] In all but the most expensive areas of the country, $10,000 would exceed the annual cost of a voucher subsidy. (In 2007, the average voucher subsidy was about $6,700.) If a housing agency elected this option and chose to pay more than the annual subsidy for which the family would be eligible, it would need to reduce somewhat the number of families served in the current year or draw on reserve funds to obtain the funds needed for the higher downpayment subsidy.

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

If an expansion of the Moving-to-Work demonstration is included in the final bill, it will be important that the expansion be on a more manageable scale than under the House bill and that the evaluation requirements be strengthened. If this is done, and the balanced, carefully crafted nature of the bill's other policy changes is maintained, SEVRA would provide significant benefits to the more than 4 million families served by the nation's major low-income housing assistance programs. If the Senate acts quickly on S. 2684 and builds on the momentum created by the strong bipartisan support the bill received in the House, it should be possible to achieve these benefits during the current Congress.