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BIPARTISAN BILL IN HOUSE WOULD MAKE MARKED IMPROVEMENTS IN HOUSING VOUCHER PROGRAM

But Bill's Waiver Provision Raises Concerns

by Barbara Sard and Will Fischer

Executive Summary

On June 14, 2006, the House Financial Services Committee approved the Section 8 Voucher Reform Act (SEVRA), which would make a series of changes in the housing voucher program and other housing assistance programs. The bill (H.R. 5443), which is expected to be considered by the full House of Representatives in early September, offers a thoughtful alternative to Administration proposals to replace the voucher program with a block grant. This analysis reviews SEVRA's main elements.

The Section 8 housing voucher program is the nation's largest low-income housing assistance program. Vouchers help about 2 million low-income households — most of them working families, elderly people, or people with disabilities — afford modest housing in the private market. The voucher program has proven to be highly effective in meeting the nation's most severe housing problem: rents that exceed families' ability to pay.

The Administration's block-grant proposal, the State and Local Housing Flexibility Act, would eliminate many features of the voucher program, including features that have made it effective. This proposal was introduced as H.R. 1999 by Representative Gary Miller (R-CA) and as S. 711 by Senator Wayne Allard in April 2005, but Congress has taken no action on it. Like the voucher proposals put forward by the Administration in 2003 and 2004, it would replace the voucher program with a block grant and eliminate or significantly weaken key program rules that protect low-income families. In addition, the proposal would eliminate federal rules for setting rents in public housing and grant HUD sweeping authority to waive statutory provisions governing both the voucher program and public housing programs.[1]

In contrast to the Administration's approach, SEVRA attempts to build on the voucher program's success, making the program simpler and more flexible while retaining the key federal standards that protect low-income families. SEVRA was introduced on May 22, 2006 by four senior House Financial Services Committee members: Bob Ney (R-OH), chair of the Housing and Community

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[1] For further information on SLHFA, see Center on Budget and Policy Priorities, "Administration Proposal Lays Groundwork for Planned Funding Reductions," May 9, 2005, http://www.cbpp.org/5-9-05hous.htm.

Opportunity Subcommittee; Maxine Waters (D-CA), ranking member of that subcommittee; Barney Frank (D-MA), ranking member of the full committee; and Christopher Shays (R-CT). If enacted, SEVRA would be the first major "authorizing" legislation altering the basic statutes governing federal housing assistance since the Quality Housing and Work Responsibility Act of 1998.

SEVRA would make a series of concrete changes to address issues facing the voucher program:

- **Establish a more efficient voucher funding policy.** SEVRA's most important change would be to establish a new formula for distributing voucher renewal funds to state and local housing agencies. Since 2004, funds have been provided under a series of flawed formulas that have given some agencies less funding than they need 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 can use. SEVRA would replace this flawed formula with one that would match funding more closely to an agency's actual needs and reward agencies that use more of their voucher funds. That would encourage housing agencies to put more vouchers into use, while at the same time ending the waste that occurs under the current system.

  If the proposed funding policy were used in 2007 to distribute the level of funding that the Administration's budget requests, we estimate that every agency would receive sufficient funds to cover all vouchers it had in use in 2006. That is, no proration would be required, in contrast to the 6.7 percent across-the-board reduction in formula funding that we estimate will otherwise be required under the Administration's budget request.

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

  For example, SEVRA would replace the complex set of provisions intended to encourage work among tenants with a simple provision, under which 10 percent of the earned income of employed individuals would be deducted when determining a household's income for purposes of calculating its rent. SEVRA also would allow housing agencies to review the incomes of tenants with fixed incomes (such as elderly individuals on SSI) every three years instead of every year and to assume that in the intervening two years, the tenant's income rose at the rate of inflation (which is used to make annual cost-of-living adjustments to many fixed-income benefits). In addition, SEVRA would require agencies to base rents of working families on actual earnings in the previous year rather than on anticipated earnings in the coming year, which would minimize the need for subsequent mid-year adjustments in rents.

- **Make income targeting rules more flexible.** Currently, a housing agency must allocate 75 percent of the vouchers it issues each year to households with incomes at or below 30 percent of the area median income. In areas with unusually low median incomes, this requirement prevents agencies from serving certain needy families, including some low-wage working families. SEVRA would address this issue by requiring agencies to issue 75 percent of their vouchers each year to households with incomes at or below (a) 30 percent of the local median income *or* (b) the federal poverty line, whichever is higher. This would give added flexibility to agencies in the lowest-income areas while maintaining the program's emphasis on assisting the

families most in need.

- **Modify housing inspection rules.** The voucher program requires housing agencies to inspect apartments where a voucher holder will live to certify that they meet federal quality standards. SEVRA would give agencies the option of making modest changes in their inspection rules, such as conducting inspections every two years rather than annually, in order to ease burdens on agencies and encourage landlords to make apartments available to voucher holders.

One provision of SEVRA, however, stands in contrast to the positive changes outlined above: an expansion of the number of housing agencies participating in the Moving-to-Work (MTW) program. Under MTW, HUD can grant agencies broad waivers allowing them to experiment with different policies to promote work among voucher holders and residents of public housing or merely to achieve "cost effectiveness." Agencies can use these waivers to raise rents on tenants substantially or to establish time limits on housing assistance even for working families that cannot afford market-rate housing on their own. Agencies in MTW also can shift assistance away from the neediest households to those with higher incomes.

While the size of the MTW expansion proposed in SEVRA appears modest at first glance (an increase from the current 25 agencies to 40), as many as *one million households – one-third of all families receiving public housing and voucher assistance nationally* — could eventually fall under MTW if HUD were to target waivers on the largest agencies. HUD has provided waivers disproportionately to large agencies in the past. As a result, the expansion could cause a large number of working-poor families and other needy households to face substantially higher rent burdens, or to go without assistance entirely because subsidies were being shifted to households with less serious needs.

It is unlikely that the experimentation allowed under the expansion would generate many valuable housing policy lessons, because SEVRA does *not* require that waivers be designed to test particular policies or be accompanied by rigorous evaluations. Targeted, rigorously-evaluated housing policy demonstrations (such as Moving-to-Opportunity and Jobs Plus) have generated a far greater quantity of useful findings than the existing MTW demonstration, with much less disruption to tenants.

The MTW provision could undercut the positive impact of various other provisions of SEVRA. Of particular concern, HUD could use it as a backdoor way to implement, in MTW areas, many of the changes the Administration is seeking in the voucher program. HUD could encourage (or pressure) housing agencies to request waivers that further Administration policy preferences. The MTW provision should be removed or its scope significantly narrowed.[2]

Voucher Funding Formula

SEVRA's most important improvement to the voucher program would be to establish a new formula for distributing renewal funds each year to the more than 2,400 state and local housing agencies that administer the program. Since 2004, voucher funds have been provided under a series of flawed funding formulas that have provided some agencies less funding than they need to cover

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[2] For a detailed comparison of the provisions of SEVRA with current law and the Administration's proposal (SLHFA), see the Appendix at http://www.cbpp.org/5-30-06hous-app.pdf.

the costs of their vouchers — forcing them to cut back on assistance to needy families — while providing other agencies with more funds than they can use, resulting in a wastage of funds. The SEVRA formula would encourage housing agencies to put more vouchers into use while at the same ending the waste that occurs under the current system.

Current System Allocates Funds Inefficiently

The voucher funding formulas used in 2004, 2005, and 2006 have varied to some degree, but in each year voucher funding levels for individual housing agencies have been based on the agencies' costs during a three-month period in the past (with limited adjustments) rather than their current funding needs. Beginning in 2005, agency funding levels have been based on voucher utilization and cost data from May-July 2004, with two adjustments. First, average voucher costs were adjusted for inflation by applying regional HUD rent inflation factors, called Annual Adjustment Factors (AAFs). Second, funds were added to cover the costs of new "tenant protection" vouchers that were issued to replace demolished public housing and other lost federal housing subsidies and required renewal funds for the first time. For 2007, the Administration proposes again to base voucher funding on the same 2004 "snapshot" with similar adjustments.[3]

For several reasons, however, these adjustments do not reflect actual changes in funding needs from year to year. Rental trends are driven by *local* housing markets, and both rents and utility inflation rates for a particular market may differ substantially from one year to the next. But HUD's AAFs are set for *regions* that stretch across as many as 16 states. In addition, the AAFs are based on inflation data that are two years old. For example, the AAFs in use in 2006 reflect changes in rent and utility costs between 2003 and 2004.

In addition, the funding formula does not account for changes in the proportion of an agency's vouchers that are actually in use. Typically, not all of the vouchers that an agency is authorized to administer are in use at any given time, often because some families are unable to find an apartment where they can use their vouchers. Voucher utilization rates can change quickly as a result of changes in local market conditions, since an increase in the local vacancy rate will make it easier for voucher holders to find an available apartment. (Housing agencies' management practices also affect voucher utilization.)

Adding to these problems, in the past two years Congress has failed to appropriate sufficient funds to give agencies the funding they are due under this formula, so HUD has made pro-rata reductions in each agency's allocation. In 2006, HUD has awarded agencies 94.6 percent of the funding called for by the formula.

Thus, the funding that an agency receives under the current formula may differ significantly from the amount needed to renew its vouchers in use. Some agencies receive more funding than they need to support all of the vouchers they are legally authorized to administer, which wastes needed funds. In 2005, agencies received about $115 million in funding that they were not permitted to use (i.e., they received $115 million more than the amount they needed to cover the costs of all vouchers

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[3] For additional information on the Administration's 2007 proposal, see Barbara Sard and Douglas Rice, *President's 2007 Budget Renews Same Number of Housing Vouchers Funded in 2006,* Center on Budget and Policy Priorities, April 25, 2006, http://www.cbpp.org/3-13-06hous.htm.

they were legally authorized to administer). The amount of wasted funding will *nearly double* in 2006, to $225 million.[4] At the same time, other housing agencies do not receive enough funding to support their vouchers and thus are forced to cut back on the amount of assistance they provide needy families and/or the number of families they assist.

Furthermore, some agencies that do not face funding shortages have reduced the number of families they assist, by "shelving" vouchers that have become available when families have voluntarily left the program, instead of issuing these vouchers to new families that are waiting for them. Such agencies have taken this step to build a reserve against future funding shortages. Voucher program costs can be very difficult to predict with precision, because the average cost of a voucher and the number of vouchers in use fluctuate in response to local housing market conditions that can be somewhat volatile. (Voucher costs also fluctuate with changes in the income of participating households; such changes can occur on a significant scale where local economic conditions change, such as during an economic downturn.) As a result, it is impossible for a housing agency to use 100 percent of its funds without taking some risk that it will incur more costs than it can cover. Until recently, agencies had access to individual "program reserve" accounts to cover such overruns, but decisions by Congress and HUD have scaled back those reserves, and a substantial number of agencies now have no contingency funds remaining.[5]

As a result of these various factors, by December 2005 the voucher program served more than 70,000 fewer families than it had served in early 2004. During that same period, HUD allocated 60,000 new vouchers to replace other federal housing assistance (such as apartments in public housing projects that were being demolished), with the result that the true reduction in the number of families assisted since 2004 exceeds 130,000.

Similarly, the percentage of authorized vouchers in use has fallen from a peak of 96.3 percent in April 2004 to 90.3 percent in December 2005.[6] This decline nearly wipes out the progress made by state and local housing agencies since the beginning of the decade, at the urging of Congress and HUD, in raising the voucher utilization rate and providing housing assistance to more qualifying families.

The Administration's budget proposal for 2007 would continue to base funding allocations on May-July 2004 costs, which in 2007 would be three years out of date. Agencies' funding levels

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[4] Using Voucher Management System (VMS) data that state and local housing agencies submit to HUD, we calculated the average per-voucher cost at each agency in 2005. We then used this figure to determine how many vouchers each agency's 2005 renewal funding allocation would cover and compared that total to HUD data on the agency's authorized number of vouchers in January 2005. (HUD provided separate funds for awards of new vouchers during 2005.) For 2006, we used a similar method, except that we had to estimate renewal funding allocations – HUD has not released data on actual awards – and project per-voucher costs. We assumed that per-voucher costs are increasing in 2006 (from each agency's actual cost in the last quarter of calendar 2005) at the rate of the applicable AAF.

[5] In the 2005 appropriations act, Congress directed HUD to reduce each agency's program reserve account from one month to one week's worth of funds by September 30, 2005. HUD made this reduction, effective April 1, 2005. Beginning in calendar year 2006, HUD recaptured all pre-2005 funds from agency reserve accounts. (These accounts were maintained by HUD; funds were not held by individual agencies.) Though HUD has eliminated agency reserve accounts, it has allowed agencies to retain unspent 2005 funds and use them to support additional authorized vouchers in 2006. (See PIH Notice 2006-03, January 11, 2006.) Many agencies, however, have no such carry-over funds. For agencies that do, it is unclear if HUD will permit agencies to retain such funds.

[6] CBPP calculation using VMS data (see note 3).

would diverge even further from their actual needs than in previous years, and approximately 70 percent of agencies would likely have to cut the number of vouchers in use below the 2006 level.

SEVRA Would Put More Vouchers to Use and End Waste of Unspent Funds

SEVRA would establish a new funding policy for at least five years (2007-2011) that would make several major changes in recent funding policies.

- Each agency's renewal funding level would be updated at least every two years, based on the number of the agency's vouchers that were in use and the average cost of those vouchers in the most recent calendar year for which data are "available, substantially verifiable, and complete."[7]

- HUD would reallocate funds from agencies that did not use them in the previous year to other agencies that (1) need the funds to cover costs related to "portability," or the movement of voucher holders from one agency's jurisdiction to another's; (2) need the funds to cover costs under HUD's Family Self-Sufficiency asset-development program; or (3) used at least 99 percent of their funds in the previous year and could use additional funds to put more of their authorized vouchers to use serving needy families.

- Housing agencies seeking to put all of their voucher funds to use would have access in the final months of the year to temporary funding advances, in amounts of up to two percent of their annual funding. These advances would serve as contingency funds to cover unexpected cost overruns stemming from local rent surges or other factors and would be paid back out of the agency's funding allocation for the following year.[8]

If Congress provided insufficient funds to cover the amount that housing agencies are eligible for under the SEVRA formula, each agency's funding level would be reduced on a pro-rata basis. If, on the other hand, Congress provided more funding than the formula would allocate, the additional funds would be distributed to agencies that meet the same three criteria as are listed above for the distribution of reallocated funds.

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[7] The bill stipulates that the leasing data should be adjusted to include vouchers that are not actually in use during the period the data are drawn from but are committed to be used as "project-based" vouchers. Housing agencies are permitted to use up to 20 percent of their voucher funding for project-based vouchers that are designated to be used in a particular building through an agreement between the housing agency and the building owner. (Normally, vouchers are "tenant-based" and can be used in a modest apartment of the voucher holder's choosing.) Project-based vouchers are often used to help build or rehabilitate affordable housing, because the rent revenues from the vouchers can be used to repay debt incurred during construction. In the period just before a new or rehabilitated building comes into use, a housing agency generally must leave the project-based vouchers committed to the building unused, so that they will be available to the building as soon as tenants can use them. The 2004 and 2005 appropriations acts treated vouchers that were out of use for this reason during the period used to set funding levels like any other idle voucher and provided no funding to cover them. In contrast, the 2006 appropriations act provided an adjustment that was intended to cover these vouchers but worded in a manner that HUD considered impossible to implement. The Administration's 2007 budget (like SEVRA) provides an effective adjustment covering these vouchers.

[8] HUD provides voucher renewal funding to agencies on a calendar year basis. (E.g., HUD used funds made available by the fiscal year 2006 appropriations act to provide renewal funding to agencies for the 12 months beginning January 1, 2006.) Because the last three months of the funding year are in the subsequent federal fiscal year (which begins October 1), HUD may draw on funding for the next federal fiscal year to make such advances. By directing that the agency's next calendar year allocation be reduced by the amount of the advance, the bill provides important flexibility to agencies at no cost to the federal Treasury.

As explained below, these policies would work together to serve three key, closely related goals: reversing the recent decline in the number of vouchers in use, cutting waste, and restoring stable funding at the local level.

Reversing the Decline in the Number of Vouchers

SEVRA would likely result in a significant increase in the number of authorized vouchers that are in use *without* requiring any added voucher funding. It would offer a strong incentive to housing agencies to put every dollar of voucher funding to use, because they would know that any unspent funds would be reallocated to other agencies and that their future funding would depend on their voucher use. In addition, agencies could be confident that they could receive temporary funding advances to cover unexpected cost overruns that occurred due to factors they could not anticipate.

Moreover, fewer agencies would need to cut back on the number of families they assist due to funding shortfalls, because their funding level would more closely match their actual needs. This would be the case both because the formula would update funding levels every two years based on actual voucher cost and utilization data, and because it would be more likely than under the formula proposed in the Administration's budget that agencies would actually receive the amount the amount the formula allocates to them. We estimate that if the funding policy in H.R. 5443 were adopted for 2007 and used to distribute the funding requested in the Administration's budget, no proration would be required, in contrast to the 6.7 percent reduction in formula funding that we estimate would be required under the budget as proposed. In addition, a small amount of funds would remain to meet the additional costs related to portability moves and FSS program savings accounts, as well as to increase modestly the number of authorized vouchers that agencies could support. (Funding levels could be linked even more tightly to actual needs if those levels were updated annually, rather than every two years as would be the case under SEVRA..) And the reallocation of any unspent funds would put resources into the hands of agencies that can use them to serve more families.

Ending Waste Caused by Unspent Funds

The flip side of using available voucher funds to serve more families is the elimination of the waste of voucher funds that occurs under the current system. In 2005, agencies left unspent more than $200 million that they could have used to support authorized vouchers. By encouraging agencies to use as much of their funding as they can to assist families, and reallocating unspent funds to the agencies most likely to use them, the bill would solve the problem of inefficient use of funds that has occurred periodically in the voucher program.[9] In addition, because agencies' funding under SEVRA would be matched more closely to their need, few agencies would receive more funding than they could use to renew all of their authorized vouchers.[10] (Under an amendment by Rep.

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[9] Prior to 2003, when Congress adjusted the voucher funding policy to provide funding only for vouchers in use, some agencies failed to use large portions of their funding, undermining program credibility.

[10] SEVRA expressly permits "temporary overleasing" — that is, an agency's serving more than the authorized number of families for a brief period of time. Because every family issued a voucher does not use it to rent housing, agencies typically overissue vouchers just like airlines overbook available seats. If more families succeed in using their vouchers than an agency had estimated, more vouchers may be leased than the agency is authorized to use. Unless agencies are

Fossella (R-NY) approved in full committee, agencies would be permitted to retain unspent prior year funds in the amount of one-twelfth of their annual allocation in the first year of implementation of the new formula. This provision would enable many agencies to restore some of the cuts made to respond to funding shortfalls and policy changes in recent years.)

Restoring Stable Funding for Housing Agencies

Under SEVRA, the voucher program's total funding level would still be set each year in the HUD appropriations bill. SEVRA would, however, take decisions about how funds are allocated among housing agencies out of the appropriations process. As result, it would provide housing agencies, landlords, and low-income families with much greater certainty about future voucher funding than they have had in the past few years, when the allocation formula as well as the funding level has been decided in the appropriations bill each year. Moreover, by basing renewal funding on regularly updated data and allowing agencies that run short of funds at the end of the year to borrow from the next year's allocation, the proposed funding policy would better enable agencies to maintain assistance to current program participants.

Thus, SEVRA would restore the type of predictability that was in place through 2003, when agencies were assured of receiving funds for authorized vouchers in use. Setting funding formulas through authorizing legislation and related regulations that remain in place over multi-year periods is the typical practice in other federal programs.

SEVRA Reallocation Process Would Help Cover Costs of Portability and FSS

In addition to promoting efficient use of funds and encouraging agencies to serve additional families, SEVRA's reallocation process for unspent voucher funds could help the voucher program in two ways. First, it would provide a source of funding to cover the costs of "portability," the practice of using a voucher to move from one housing agency's jurisdiction to another's. Portability can enable a family to move to a community with better schools or job opportunities, or permit a person who is elderly or has a disability to move close to family members who can provide needed support. But portability can carry costs either to the agency in the community to which the voucher holder moves (if that agency chooses to absorb the voucher into its program) or to the agency that first issued the voucher (if rents are higher in the destination community than in the community the family left, and the agency in the destination community opts not to absorb the voucher).

Second, the bill would direct HUD to set aside a portion of reallocated funds to cover increased costs stemming from the Family Self-Sufficiency (FSS) program, an innovative program that helps low-income families enrolled in the housing voucher or public housing programs to build assets, increase their earnings, and make progress toward self-sufficiency. Participants in the FSS program receive case management support to help them access work-promoting services in the community. In addition, any increased rental payments that participants would have owed as a result of earnings growth are deposited instead into an escrowed savings account. Participants who successfully fulfill their responsibilities under the program and become independent of welfare assistance for at least a

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allowed some flexibility to overlease temporarily, they will have to manage their programs conservatively and will be likely to underutilize available vouchers

year may access their escrow funds for the downpayment on a home, further education, capital to start a business, or other purposes. Research suggests that FSS is effective in supporting work.[11] But FSS can cause a housing agency's costs to rise over time, either because the number of families enrolled in FSS rises or because increasing amounts of rent revenues are paid into escrow accounts as a result of earnings growth among FSS participants.

Congress has not provided any funding to cover year-to-year growth in FSS costs in any of the last three years. Congress similarly provided no funding for portability-related cost increases in 2005; in 2006, it did set aside a small amount from the regular voucher renewal funding that HUD could use to meet portability costs, but there is no certainty that a similar reserve will be made available in future years.[12] It is important that authorizing legislation establish an ongoing policy to meet these costs so that agencies can manage their programs with confidence that the funding will be available.

Determining Tenants' Rent Payments

Tenants in HUD's primary rental assistance programs — including the voucher program, the separate "project-based" Section 8 program (which provides subsidies directly to private owners for assisted units in particular buildings) and public housing — are required to pay 30 percent of their income for rent, after certain deductions are applied. This system represents the most efficient way to allocate rent subsidies among families. It provides larger subsidies to families who have little income and thus need substantial help to cover the rent, such as minimum-wage workers and poor elderly people and people with disabilities, and smaller subsidies to families with somewhat higher income and less need. In addition, having a standard set of rent rules across programs and housing agencies protects tenants who move from one jurisdiction to another and owners who operate across local boundaries or under multiple programs from having to negotiate an unwieldy patchwork of local rules.

Some critics have argued, however, that the current process for determining incomes and deductions places too much of a burden on housing agencies and private owners of subsidized housing. Some also argue that the current rules discourage work, because a family's rent rises when its income rises. The Administration's block-grant proposal would sweep aside the current rules and allow local agencies to set rents in virtually any manner they chose in the voucher program and public housing.

SEVRA would take a different approach, maintaining the key strengths of the current system — including standard rent rules and rents based on 30 percent of income — while improving work incentives and streamlining aspects of the system that place unnecessary burdens on housing agencies. Most significantly, the bill would:

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[11] See HUD, "Evaluation of the Family Self-Sufficiency Program," April 2004, http://www.huduser.org/publications/econdev/selfsufficiency.html.

[12] The fiscal year 2007 HUD appropriations bills approved by the House and by the Senate Appropriations Committee would each set aside funds that could be used by HUD in part to adjust for portability costs, and also would direct HUD to adjust agency funding for the increased costs of FSS escrow accounts. It is not yet clear whether the final bill would include these provisions.

- **Replace complex work incentives with a simple, equitable earnings deduction.** Two provisions of current law that are intended to encourage work and support working families increase agencies' administrative burdens and are administered inconsistently by agencies: (1) an itemized deduction for a family's actual child care expenses, and (2) a "disregard" of *increases* in earned income for certain voucher holders with disabilities and public housing tenants. The earned income disregard in particular is quite complex, since it generally is limited to people who were recently unemployed or on welfare and provides a different benefit to households during the second 12 months after an earnings increase than during the first 12 months. Moreover, it limits the number of months for which a household can receive the benefit during a four-year period, requiring housing agencies to maintain records of how long a household has received the disregard and to consult the records before factoring the disregard into a household's rent.

  SEVRA would replace both of these provisions with a simple deduction of 10 percent of earned income for all employed individuals.[13] This deduction would help compensate for a family's child care, transportation, and other work-related expenses and provide incentives for work, without the administrative complexity created by the current deductions. It also would be fairer than the current income disregard because it would apply whether a worker has just begun working or has succeeded in holding a job. Research indicates that while most non-elderly, non-disabled housing assistance tenants work, many have difficulty retaining jobs or increasing income over time. It is appropriate to structure earnings incentives to encourage job retention and advancement in addition to a tenant's initial move off welfare into the workforce.

  These changes would raise rents substantially on certain families that have high child care expenses and do not receive child care subsidies. Many eligible households, however, do not receive the existing child care deduction; this may occur because PHAs do not inform tenants about the deduction or because tenants do not report their expenses. It would be much easier for PHAs to administer the 10 percent earnings deduction (and also for HUD to monitor whether eligible households are receiving it), so it is likely that it could be implemented more consistently. As a result, a significant number of households with large unsubsidized child care costs could actually be better off under the SEVRA earnings deduction than under the current system. In addition, the 10 percent deduction in SEVRA would help many working families that do not have high unsubsidized child care costs but struggle to make ends meet because of high transportation costs (for which no deduction is generally now provided[14]) or for other reasons.

- **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 the income of households that qualify as elderly or disabled

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[13] Two types of workers, minors and full-time students over 18 years old, would not be affected by the earnings disregard because the rent rules already exclude all of their income from the rent calculation.

[14] No deduction for work-related transportation costs is permitted in the voucher program or the project-based section 8 program, except for special costs for people with disabilities. In the public housing program, it is optional for housing agencies to deduct work-related transportation costs. Some agencies have adopted such a policy.

families under HUD rules.[15] Housing agencies frequently state that the 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. In part because of the effort it requires from both agencies and recipients of assistance, 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. That 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, from $400 to $750 per household, and index it for inflation. (A similar standard deduction of $480 for each child or other dependent would be raised more modestly, to $500, and also would be indexed to inflation.)

- **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). For tenants with earned income, SEVRA would require agencies to base rents on a tenant's actual income in the previous year. This would provide an incentive for earnings growth, since an increase in earnings would not cause an increase in rent for a year. It also would simplify administration 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 rise or fall during the year. SEVRA also would allow housing agencies and owners to set rents based on prior-year income for tenants with unearned income.

- **Reduce the frequency of required income reviews.** Currently, housing agencies must conduct income reviews every year 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 fixed incomes (including private pensions and certain other periodic payments along with Social Security and SSI) every three years, and simply assume that in the intervening two years the tenant's income rose at the rate of inflation (which is used to make annual cost-of-living adjustments to many fixed-income benefits)..

  Housing agencies also must currently make rent adjustments between annual reviews at the request of any tenant whose income drops. SEVRA would require adjustments only in cases where a family's annual income drops by $1,500 or more, reducing the number of such "interim recertifications" that a housing agency must make while enabling tenants to obtain rent adjustments in cases where they would otherwise face serious hardship. Interim rent adjustments would be required for *increases* in annual unearned income exceeding $1,500 as well.

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[15] To qualify as an elderly or disabled family, the head, spouse or sole member of a household must be age 62 or over or a person with disabilities.

The Congressional Budget Office estimated in a July 6, 2006 analysis that the changes in SEVRA would reduce overall tenant rents. As a result, SEVRA would raise federal costs, if the federal government gave agencies and owners additional funding to cover the rent revenues that would be lost. It is likely that if the bill moves forward, Congress will seek to modify it to minimize those additional costs. These changes could include making the rent rules somewhat less favorable to tenants.[16]

Under SEVRA's current provisions, some individual tenants would face higher or lower rents, but for the most part those changes would be relatively modest. For example, when the change in the medical deduction is offset by the increase in the elderly and disabled standard deduction, an elderly person or person with a disability whose medical costs are at or above 10 percent of income, and whose annual income is $10,000, would face a maximum rent increase of about $9 a month.

The changes would, however, substantially reduce burdens on agencies, owners, and tenants. An elderly tenant, for example, would need to go to the management office for an income review only once every three years, and for some tenants that review would be significantly easier because they would no longer have to compile and submit medical receipts. For housing agencies and owners, the cost savings resulting from the proposed changes should be considerable.[17]

Income Targeting

Currently, a housing agency must reserve 75 percent of the vouchers issued to new households each year for households that have incomes at or below 30 percent of the area median income. Congress instituted this policy because households with incomes below this level — which nationally is roughly equivalent to the poverty line — are more likely to have a severe need for housing assistance than those at higher income levels. (The remaining 25 percent of vouchers must go to households with incomes that do not exceed 80 percent of the area median income.)

The Administration's block-grant proposal would not target *any* vouchers on households below 30 percent of the local median income. Instead, it would require that 90 percent of vouchers go to households with incomes that do not exceed 60 percent of the local median income. (The remaining 10 percent of vouchers would be restricted to households with incomes below 80 percent of the median.) The Administration's proposal thus would allow a substantial shift of voucher assistance away from the neediest people.

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[16] Unlike the other sections of SEVRA, the changes in rent policy would not be effective until fiscal year 2008, even if the provisions were to be enacted this year. This delay is intended to allow time for complete analysis of the likely fiscal impact of the proposals, as well as for HUD to issue the implementing regulations and guidance that agencies and owners will need for smooth implementation of the changes.

[17] As a result of an amendment approved by the Financial Services Committee, SEVRA would also end housing assistance eligibility for two relatively small groups of tenants. First, it would ban all households with incomes above the housing assistance income limit (80 percent of the local area median income) from receiving assistance or living in a subsidized unit. Currently, households cannot be admitted to housing assistance programs if their incomes exceed 80 percent of the median income, but some households whose incomes later rise above the limit can continue to receive assistance or live in pubic housing or privately-owned subsidized housing. Second, it would make tenants with more than $100,000 in assets or any equity in real property ineligible for housing assistance. For additional information on these provisions and on SEVRA's rent provisions, see "Rent Changes In Housing Bill Will Help Many Tenants," August 1, 2006, available at http://www.cbpp.org/7-27-06hous.htm.

The Administration has justified its proposal by arguing that the current targeting requirement serves as a work disincentive. This claim has little merit, since the current requirement states only that a household's income must be below 30 percent of median income at the time that it is admitted to the voucher program, regardless of whether a household's income rises above this threshold after it receives its voucher. Moreover, in most areas of the country, the 30-percent threshold is high enough to cover large numbers of working families. Since, as noted, the 30-percent threshold is roughly equivalent to the poverty line, by definition, most working-poor families fall below it.

Some housing agencies have argued, however, that in areas with unusually low median incomes — especially poor rural areas — the 30-percent requirement prevents them from serving certain needy families, including some low-wage working families.

SEVRA would address this concern by requiring that agencies use 75 percent of their vouchers each year for households with incomes at or below *the higher of* 30 percent of the local median income or the federal poverty line. (In 2006, the federal poverty line for a family of three is $16,600, the equivalent of full-time year-round work at $8.00 per hour. The poverty line for a family of four is $20,000, equivalent to full-time year-round work at $9.60 an hour.) This change would give agencies in the lowest-income areas added flexibility to serve low-wage working families while maintaining the voucher program's emphasis on housing assistance for the poor.

Housing Quality Inspections

The voucher program requires that housing agencies inspect apartments where a voucher holder will live before any payment is made to the landlord, and each year thereafter, in order to certify that the apartment meets certain minimum federal quality standards. This requirement ensures that voucher holders do not live in substandard housing. It also gives landlords an incentive to make repairs.

SEVRA would maintain the core requirement that every apartment where a voucher holder lives be inspected regularly, but would give agencies several options intended to ease their administrative burdens and encourage landlords to make apartments available to voucher holders. Most significantly, inspections would be required every two years rather than annually. In addition, the bill would allow an initial subsidy payment to the owner even if a 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 owner to receive continued payments.

"Moving to Work" Waiver Authority

While improving many aspects of the voucher program and other housing assistance programs, SEVRA also contains one provision that could compromise those improvements — an expansion of the number of housing agencies that can participate in the Moving to Work (MTW) program.

Established as a demonstration by Congress in 1996, MTW permits HUD to grant agencies broad waivers that allow agencies to experiment with different rent rules, time limits on assistance, and other housing policies.[18] MTW also allows HUD to grant waivers that authorize agencies to operate under very few federal rules — with deregulation, rather than tenant self-sufficiency, as an end in itself. For example, under MTW, HUD may allow agencies to blend their public housing and voucher funds and to divert a portion of voucher funds (which otherwise would go to help low-income families rent housing) to meet an agency's administrative costs or to provide *non*-housing services.

The 1996 law authorized HUD to provide waivers to 30 agencies; because waivers for some agencies have expired, 24 housing agencies are currently participating in MTW.[19] SEVRA would make MTW a permanent component of the Housing Act, make fairly minor changes in program rules, and authorize HUD to expand the number of participating agencies to 40. (If agencies now in the demonstration wish to continue their waivers, they will be shifted into the new program when their current contracts expire unless they fail to comply with performance standards to be issued by HUD.)

The MTW provisions in SEVRA would give HUD total or near-total flexibility to issue waivers that sweep away most of the rules governing the voucher and public housing programs. For example, HUD could issue waivers that allow PHAs to raise rents substantially on tenants or to establish time limits on housing assistance, even for working families who cannot afford market-rate housing on their own. HUD also could allow housing agencies to shift assistance away from the neediest families. (Agencies would be subject only to the relatively permissive requirement that 90 percent of the families being assisted have incomes below 60 percent of the local median income, which is the same requirement that the Administration has proposed as part of its voucher-block grant legislation.) In addition, under the SEVRA MTW provision, and unlike under the original MTW authorization, HUD could grant waivers of the Davis-Bacon Act requirement that workers on certain federally-funded construction projects be paid the prevailing local wage.[20]

The SEVRA MTW provision also would allow housing agencies freely to shift funds appropriated by Congress for the voucher program to public housing (or vice versa). It is likely that housing agencies would seek waivers allowing them to use funds appropriated by Congress for the voucher program to pay for the upkeep of public housing projects. The funding provided to local housing agencies for public housing has been cut repeatedly in recent years, and some housing agencies receive funding levels that are too low to enable them to manage their projects effectively. While

[18] Unlike some other federal agencies, HUD has no other authority to waive statutory provisions.

[19] HUD has not increased the number of participating agencies back to the maximum of 30 by providing MTW waivers to new agencies when the waivers of agencies previously participating expired. This appears to be because HUD interprets the language of the 1996 MTW authorization as prohibiting the selection of replacement agencies. The application of the Charlotte (N.C.) Housing Authority to participate in MTW is "in negotiation." Some years ago Congress instructed HUD to admit Charlotte to the program. Section 321 of the fiscal year 2007 Transportation-Treasury-HUD appropriations act approved by the House of Representatives in June would specifically permit HUD to increase the number of agencies participating in MTW to 32.

[20] As under the current MTW demonstration, SEVRA would prohibit HUD from waiving the rules and procedures that apply to the demolition and sale of public housing. HUD also would have to continue requiring that MTW agencies assist substantially the same number of households as would have been served if housing program funds had not been combined. The Appendix contains a detailed comparison of the MTW provisions of current law, SEVRA, and the Administration's proposed State and Local Housing Flexibility Act.

the voucher program also has experienced funding shortfalls, many housing agencies may be reluctant to allow public housing projects to fall into disrepair and may feel pressure to shift funds from vouchers to public housing. A housing agency may believe it will be more likely to be held accountable by the public for poor security, broken windows, or overgrown lawns at projects it owns and manages than for the higher rent burdens and longer waiting lists that would result from voucher cuts.

Allowing HUD to authorize agencies to shift large amounts of funds from vouchers to public housing would, however, usurp the authority of Congressional appropriators to determine funding levels for the different housing programs. Appropriators (and other Member of Congress) would have no input into decisions to approve waivers authorizing the shifting of funds.

Moreover, if agencies with a large number of public housing units received waivers allowing them to shift funds appropriated for vouchers to support their public housing programs instead, this would constitute a reversal of a sea change that has marked federal housing policy in recent decades. Since the 1970's, the federal government has significantly expanded the housing voucher program while providing little funding for construction of new public housing. This has reflected a belief among many housing experts that providing vouchers that allow households to choose to move out of high-poverty neighborhoods would better promote self-sufficiency and other positive social outcomes than concentrating large numbers of poor people in particular buildings, as many public housing projects did. Some also believed that providing housing through the private market would be more effective and efficient than providing it through government-owned and managed public housing.

While the immediate effect of such funding shifts would be to increase resources for public housing at the expense of vouchers, allowing funds to be moved in this manner at agencies selected by HUD could make the public housing program as a whole *more* vulnerable to cuts. This is the case because MTW waivers could enable a number of the most politically influential housing agencies to escape the consequences of public housing funding cuts, making it more difficult for other agencies to persuade Congress to provide adequate funding.

The size of the MTW expansion from 24 agencies to 40 appears modest at first glance. In the past, however, HUD has granted MTW waivers disproportionately to large housing authorities, which tend to have greater political influence. Moreover, the SEVRA minimum-size rules — only agencies that administer at least 500 public housing units or 500 vouchers could be newly selected for MTW — would disqualify large numbers of small housing agencies. If HUD provided waivers solely to the largest housing agencies, as many as one million households — one-third of voucher holders and public housing tenants nationally — could eventually fall under the MTW demonstration.

Under SEVRA, HUD potentially could administer the MTW program in a manner that would maximize the lessons learned and minimize the potential harm to tenants. It could do so by: selecting agencies based on the quality of their proposed demonstrations rather than favoring the largest agencies; allowing time limits, changes in rent rules, and other major rule changes only in limited cases where doing so would be necessary to test a particular policy; and requiring meaningful evaluations. SEVRA does include a significant change from the 1996 law that could increase the chances of positive outcomes. Under SEVRA, only agencies that have qualified as "high performers" under both the public housing and voucher programs could qualify for MTW waivers.

This is an important condition, as it increases the chance that demonstrations will be well planned and implemented.

But the bill also would allow HUD to use the MTW expansion as a backdoor way to implement many of the changes it has sought through its block-grant proposal. HUD could do by approving only, or primarily, waivers that make sweeping changes in federal rules. While HUD could grant waivers only to agencies that apply, it would have the means to place pressure on agencies to seek waivers that further HUD's policy preferences. In particular, a local agency that faced a serious shortfall in public housing funding could feel it had little alternative but to apply for an MTW waiver that would provide the agency with significant fiscal relief by enabling it to shift federal voucher funds into administration and maintenance of the agency's public housing projects.

Congress could foster innovation to generate useful housing policy lessons much more effectively — and without granting HUD the blank check contained in the SEVRA MTW provision — by authorizing targeted demonstrations of particular policies and requiring rigorous, controlled evaluations. Two ongoing housing policy demonstrations — Moving-to-Opportunity and Jobs Plus — offer examples of demonstrations that were designed in this manner and, as a result, have produced reliable research results and valuable policy insights. MTW by contrast, has so far produced a wealth of anecdotal reports but few hard findings of the type generated by Moving-to-Opportunity and Jobs Plus.[21] (SEVRA places somewhat stronger obligations on HUD to evaluate the effectiveness of policy changes adopted under MTW than the initial statute authorizing the demonstration; it is possible that HUD would implement these requirements in a manner that would generate more useful information than the first round of MTW demonstrations, but there is no guarantee of that.)

To the degree that new agencies are added to MTW, this should be done by expanding from the 24 current participants to the maximum of 30 contained in current law. MTW also should be subject to some restrictions on income targeting and rent rules that ensure that the basic goals and standards of the housing assistance programs are maintained. In addition, the lower limit on the size of housing agencies that may participate in MTW, which serves no clear purpose except to improve larger agencies' chances of receiving a waiver, should be removed and high performing agencies of all sizes be permitted to compete for waivers.[22]

Conclusion

SEVRA's provisions regarding the allocation of voucher renewal funding, rent determinations, and housing quality inspections would result in a more efficient and effective housing voucher program Because the proposed changes in rent policy extend beyond the voucher program, the bill would improve the public housing and project-based Section 8 programs as well.

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[21] HUD contracted with the Urban Institute to conduct an evaluation of the original Moving to Work demonstration, but the evaluators noted in a 2004 report that "MTW was not designed as a rigorous research demonstration with clearly defined changes to be evaluated or a set of controls for the comparison of outcomes," and that this and other factors limited the amount that could be learned from the demonstration. Martin D. Abravenal et al, *Housing Agency Responses to Federal Deregulations: An Assessment of HUD's "Moving to Work Demonstration,* Urban Institute, January 2004.

[22] For additional analysis and recommendations concerning MTW, see "Inspector General Reports on HUD's Moving to Work Demonstrations Raise Serious Questions," July 13, 2006, available at http://www.cbpp.org/7-13-06hous.htm.

The bills' voucher funding provisions would likely result in tens of thousands of additional families receiving voucher assistance without any increase in appropriations, since these families could be served with money that otherwise would go unused. In addition, the bill's rent-determination and inspection provisions would substantially reduce the burdens placed on housing agencies by two of the most time-consuming aspects of voucher program administration and would also have benefits for owners and tenants.

The bipartisan group of representatives who introduced SEVRA have shown that with modest changes, various criticisms of (and weaknesses in) the voucher program and HUD rent policies can be addressed, and the effectiveness of the housing programs enhanced. Unfortunately, the expansion of broad waiver authority that HUD would be granted under the bill's MTW provisions stands in contrast to the well-crafted policies in the rest of the legislation and would lessen the bill's positive impact. The bill would be substantially improved if the MTW provision were removed or its scope significantly narrowed.