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September 21, 2000

New Administration Proposal Would Make Significant Improvements in the Section 8 Voucher Program But Congress Should Approve Use of Funds for Services to Help Families Obtain Housing

by Barbara Sard

On September 12, 2000, Secretary Andrew Cuomo announced that the Department of Housing and Urban Development intends to increase the maximum amount of rental assistance that housing agencies can provide to families with housing vouchers in certain difficult housing markets. The new policy is intended to make at least half of the rental units in an area — rather than 40 percent of the units — available to families with vouchers in areas where housing choices are too limited or where many families have been unable to use their vouchers. These changes in HUD's regulations will take effect December 1, 2000 and do not require Congressional approval.

To enhance the effectiveness of this new policy, however, additional efforts are needed to recruit landlords to participate in the voucher program and to enable families to access available housing. Such activities require funding. It is important that the final fiscal year 2001 VA-HUD appropriation bill explicitly authorize housing agencies to spend their unutilized funds to provide services to help families obtain housing, as the House bill does, and also appropriate new money for agencies that currently utilize their full budget so they, too, can offer such services. This can be accomplished by adopting a combination of the new appropriations requested for the Administration's Voucher Success Fund and the expanded authority the House bill contains for housing agencies to spend unutilized funds.

Background

The current economic expansion has caused rapid increases in rent levels and substantial declines in the number of housing units available for rent in some areas. As a result, it appears to have become increasingly difficult in such areas for families with vouchers to find landlords willing to accept them. In some other areas, the units that are available to families with vouchers are located primarily in neighborhoods with a high concentration of poor and minority families. Solving these problems requires both the increased rental payments HUD has proposed, as well as additional strategies at the local level to enable families with vouchers to be more competitive within constrained market conditions.

Local strategies may include efforts by public housing agencies to persuade more landlords to participate in the Section 8 voucher program in order to increase the number of housing units available to families with vouchers. In addition, to enhance the efficiency of families' searches for housing, PHAs may provide services to help families locate available units. PHAs also may provide certain types of payments, such as holding fees (to compensate landlords for lost rent while the PHA determines if the unit complies with program quality standards) or loans for security deposits to put families with vouchers on a more equal footing with better-off families seeking the same units. Many PHAs report that despite using all of their administrative fees to manage their voucher programs, they have insufficient funds to provide these enhanced services or payments.

Summary of Proposals and the Center's Recommendations

The fiscal year 2001 VA-HUD appropriations bill that the House passed, as well as the bill the Senate Appropriations Committee approved, would permit housing agencies that serve tight market areas to increase the amount of housing assistance provided to families with Section 8 vouchers. The House bill also permits such agencies to use available funds to provide services to help families obtain housing. (The Senate bill recognizes the importance of such services but does not clearly authorize the use of housing assistance funds to provide them.) These Congressional provisions focus on PHAs that have both a low voucher success rate — that is, where a significant proportion of families issued vouchers are unable to use them to rent housing — *and* that have a substantial amount of unutilized Section 8 funds. Housing agencies facing these circumstances would be authorized to use otherwise unutilized funds to increase voucher payments and, in the case of the House bill, to provide services to help families obtain housing with their vouchers. As a result, the provisions do not require additional appropriations in fiscal year 2001, although the House provision may require additional appropriations in subsequent years.

HUD's newly-announced policy on Fair Market Rents, like the Congressional provisions, also aims to increase voucher success rates by permitting certain PHAs to increase the amount of assistance provided by Section 8 vouchers. The HUD policy differs from the Congressional proposals, however, in several respects. In a nutshell, the HUD policy covers more PHAs but does not authorize affected PHAs to increase the amounts that can be paid for individual units to as substantial levels as the Congressional provisions would.

The HUD policy would provide relief to PHAs that have a low voucher success rate but manage to spend all of their allocated funds (and hence do not have substantial unutilized funds). In addition, unlike the Congressional provisions — which focus only on tight markets where many families issued vouchers cannot use them — the Administration's policy also addresses a different voucher utilization problem: the problem of areas where sufficient housing is available for families to use their vouchers, but only in limited parts of the metropolitan area that are concentrated in high-poverty neighborhoods that often are isolated from areas of significant job growth.

The HUD policy would cover more PHAs than the Congressional provisions because those provisions focus only on tight housing markets where a substantial proportion of families do not succeed in using their vouchers and PHAs are unable to utilize all of the housing assistance funds they receive. The HUD policy covers these areas but also applies to PHAs serving areas with geographically limited housing opportunities. In addition, under the HUD policy, PHAs' ability to increase voucher payments does not depend on whether they have unutilized funds. (PHAs' budgets would be increased to cover the additional costs of serving the approved number of families.)

As stated, the Congressional provisions would allow PHAs to increase voucher payments to a greater degree. Affected PHAs could increase payments up to 150 percent of the Fair Market Rate set at the 40th percentile rent, substantially beyond what the HUD policy would permit. As explained below, the HUD policy will permit certain PHAs to base their voucher payments on an FMR set at the 50th percentile rent. The maximum payment standard these PHAs could use without further approval from HUD would be 110 percent of the 50th percentile FMR. The Congressional limit would exceed the limit allowed under the HUD policy by a large amount, and potentially by more than necessary to achieve the policies' goals.

Cost Impacts

Despite applying to fewer PHAs than the HUD policy, the House provision may be more costly after the first year. Under the House bill, PHAs could initially increase their voucher payments using unutilized funds. In subsequent years, these PHAs would be virtually guaranteed increased funding from HUD to cover the additional cost of serving the approved number of families. The Senate provision would not require increased appropriations: it would effectively reduce the number of families that can be served by the Section 8 program to meet the additional per-family costs.

Rather than substantially increasing the overall costs of the Section 8 program or reducing the number of families receiving housing assistance, it seems to make sense to allow the effects of the new HUD's Fair Market Rent policy to be realized before determining whether further increases in the subsidy provided by housing vouchers are needed in some areas.

The Need for Services

The HUD policy is, however, not fully adequate by itself. It does not respond to the need for additional funds for services to help families obtain housing. Such services may make a critical difference in determining whether these enriched vouchers enable families to succeed in their housing search.

To fund these services, the Administration is seeking $50 million for a Housing Voucher Success Fund. These funds are requested in the Administration's fiscal year 2001 budget. Additional funding of this nature is needed to help surmount the problems of low voucher success rates or concentrated housing opportunities experienced by PHAs that use all of their Section 8 funds.

A provision of the House bill also warrants adoption. Many PHAs have unutilized funds that could be used to provide services to help families obtain housing with their vouchers, but PHAs can not use these funds to provide such services without explicit legislative authority.

As a result, the best approach for addressing issues related to services would be for the final VA-HUD appropriations bill to include both authority similar to that which the House bill contains to permit housing agencies to use available funds for services to help families obtain housing and a new appropriation for a Voucher Success Fund.

HUD's New Policy to Increase Voucher Payments

The new HUD policy will enable PHAs in certain areas to increase the amount of rent paid through housing vouchers.[1] The HUD initiative has two major components, which are designed to improve voucher "success rates" and to enable families to have access to housing opportunities throughout metropolitan areas.

- The proposal would authorize a PHA to use voucher payment standards based on the 50th rather than the 40th percentile rent (potentially allowing voucher-holders access to half of newly-available rental units in an area) if fewer than three-fourths of the families to which the PHA has issued vouchers succeed in using them to find housing over a six-month period.[2] This change, combined with PHAs' existing discretion to set their voucher payment standards between 90 percent and 110 percent of the HUD-determined Fair Market Rent, would enable PHAs with low voucher success rates to increase somewhat the dollar level of their payment standards. (HUD would allow PHAs that have set their payment standards at 110 percent of the FMR for at least six months and still have a low success rate to increase their voucher payment standards to reflect an FMR set at the 50th percentile rent, without submitting new rent studies to HUD.) No data are currently available that indicate how many PHAs will be eligible to increase their payment standards under this component of the policy.

- In addition, HUD would increase FMRs to the 50th percentile in large metropolitan areas where there is *both* concentration among voucher-holders *and* evidence suggesting that this problem may be due to the distribution of affordable rental units in the area. To qualify under this component of the new policy, areas must meet the following three criteria:

    — At least 25 percent of the voucher holders in the metropolitan FMR area must reside in the five percent of census tracts with the greatest number of

[1] The Administration intends to publish revised interim regulations to implement the policy by October 1, 2000. The rule changes will take effect on December 1, 2000. The public may comment on the new rules, and HUD may revise the rules in light of public comments.

[2] The voucher payment standard is the maximum amount that a PHA will pay for a unit leased by a family with a Section 8 voucher. The family must contribute at least 30 percent of its income and pay any rent or utility costs in excess of the PHA's payment standard. Since 1995, HUD has set its Fair Market Rates, which serve as the basis for these payment standards, based on the 40th percentile of rents paid by recent movers.

voucher program participants.

— No more than 70 percent of the census tracts in the metropolitan FMR area must be "accessible" to voucher-holders. (HUD would consider a census tract "accessible" if 30 percent or more of two-bedroom rental units in the tract fell below the 40th percentile FMR in 1990.)

— The metropolitan area must have more than 100 census tracts. (Census tracts usually have between 2,500 and 8,000 persons.)

For the fiscal year beginning October 1, 2000, HUD has determined that 39 metropolitan areas, containing approximately 450 cities and towns, meet these criteria. A list of the 39 metro areas is included in the appendix.

The permissible increase in the maximum subsidy a housing voucher may provide would be the same under both of these components of HUD's new policy. The amount of the increase would vary based on the distribution of rents in an area and is likely to range from about $30 to about $70 per month, according to HUD data.

For example, in the Washington, D.C. area, the rent for a two-bedroom apartment at the 40th percentile is $863, while rent for the same-size apartment at the 50th percentile is $907. The difference is only $44 because rents tend to "clump" fairly close to the middle of the range. A PHA in the Washington metropolitan area now can set its voucher payment standard for two-bedroom units as high as $949 per month by using its authority to set the payment standard at 110 percent of the FMR ($949 equals 110 percent of $863). Under the new HUD policy that enables qualifying PHAs to base the voucher payment standard on 110 percent of the 50th percentile rent, the PHA would be able to set the payment standard up to $998, or $49 higher than currently is permissible.

The new policy allows qualifying PHAs to increase their voucher payment standards in this manner without HUD approval of the specific change in their standards. If, despite this increase, too many families still are unsuccessful in using their vouchers or finding available housing outside of areas of high poverty, a PHA may seek HUD approval to increase its voucher payment standard above 110 percent of the FMR. To obtain approval for such further increases, a PHA must demonstrate to HUD that actual rents in all or a part of its area exceed the HUD rent data for the metropolitan area as a whole.

Because the difference between the 40th and 50th percentile rents is generally not great — the 50th percentile rent is about 6.3 - 8.8 percent higher than the 40th percentile rent in the areas for which HUD has provided these data — HUD's new policy will not result in a dramatic dollar increase in voucher payments. But it should result in approximately a 25 percent increase in the number of rental units in an area that are available to voucher holders. (By definition, including units below the 50th percentile rather than units below the 40th percentile increases the number of available units by 10/40, or 25 percent.) In the Washington metropolitan area, for example, HUD calculates that more than 70,000 additional units would potentially be available to families with vouchers as a result of increasing the FMR to the 50th percentile rent. HUD has estimated that the new policy will increase annual voucher costs by about $100 million per year beginning in fiscal year 2001.

The Administration's Proposal for a $50 Million Housing Voucher Success Fund

In announcing this new policy to increase voucher payments in difficult housing markets, the Administration recognized that "helping families pay for the cost of transportation and other housing search services they need to access a wider range of available units" would enhance the effectiveness of the policy.[3] To fund such services, the Administration is seeking Congressional approval of a $50 million "Voucher Success Fund" included in its fiscal year 2001 budget. The Administration has proposed to use the fund for:

- contracting with technical assistance providers to help state and local housing agencies better understand the many changes in Section 8 voucher program rules over the past two years that give agencies new tools to improve the success of the voucher program;[4]

- assistance for families in using vouchers, including mobility counseling, assistance with security deposits, transportation, and other activities intended to increase the likelihood that families will succeed in leasing units or leasing them outside areas of concentrated poverty; and

- further outreach to landlords and community groups to encourage participation in the voucher program.

The proposed Voucher Success Fund is a promising means to achieve improved voucher program performance at a modest cost. Neither the House nor the Senate VA-HUD appropriations bills include funding for this purpose. As discussed below, the House bill would permit some housing agencies to use unutilized funds for the same types of assistance to families and for landlord recruitment efforts.

Section 206 of the FY 2001 House VA-HUD Appropriations Bill

The House-passed fiscal year 2001 VA-HUD appropriations bill includes a general provision to enable more families in tight rental markets to locate rental units for which they can use Section 8 vouchers. Section 206 of H.R. 4635 would amend the Section 8 statute to allow a PHA that serves a "difficult utilization area" to use the funds it receives from HUD for the

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[3] Statement by the President, September 12, 2000.

[4] For a brief description of some of the ways that housing agencies could improve the administration the tenant-based Section 8 program under existing rules, see Barbara Sard and Jeff Lubell, "Section 8 Utilization and the Proposed Housing Voucher Success Fund," Center on Budget and Policy Priorities, March 22, 2000. This paper is on the internet at <http://www.cbpp.org/3-22-00hous2.htm>.

tenant-based Section 8 program in two ways not permitted under current law:

- PHAs would be permitted to increase the amount of housing assistance provided on behalf of individual families to 150 percent of the HUD-established Fair Market Rent.

- PHAs could use some of their Section 8 funds to provide additional housing-related payments or services to help families locate housing with their Section 8 vouchers. The cost of such one-time payments or services for an individual family may not exceed six months' worth of housing assistance.[5] PHAs could determine what types of payments or services to provide in light of local market conditions. Currently, PHAs may use their Section 8 administrative fees but not their housing assistance funds to provide such payments and services.

HUD would establish the specific criteria used to determine what is a "difficult utilization area." The House provision indicates that three factors are of particular importance: a low vacancy rate in the area's rental housing; a high rate of inflation in rental costs; and the inability of 30 percent or more of the families issued vouchers to use them to rent housing despite the voucher payment standard being set at 110 percent of the FMR. (The House bill was passed prior to HUD's announcement of its new policy on FMRs and payment standards.)

The new uses of funds that would be permitted by this provision of the House bill do not require increased appropriations in the first year. Rather than returning Section 8 funds unused at the end of the year to HUD, PHAs could use some of the funds they already are contracted to receive both to provide one-time services or payments to help families use Section 8 vouchers they have been issued and to increase subsidies to landlords. If, however, a PHA increases the amount of subsidy it pays to landlords, its average cost for each family assisted may increase in subsequent years. To avoid reducing the number of families that a PHA with increased costs is authorized to serve, it likely will be necessary eventually to increase the individual PHA's annual Section 8 contract with HUD.

How much Section 206 would increase the total budget authority required in future years for Section 8 renewals to maintain the number of families served nationally is uncertain. Only a portion of PHAs will be eligible to use the flexibility that Section 206 would provide. In addition, some eligible PHAs may choose to raise subsidy payments by less than the maximum amount that section 206 would allow. The Office of Management and Budget estimates that Section 206 eventually could increase Section 8 costs by up to $500 million annually.

Unlike an increase in the voucher payment standard, the provision of one-time services or

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[5] The limitation of the cost of benefits or services to a particular family to six months' worth of housing assistance means that such payments would effectively be capped at about $3,000 per family assisted. Recent experience has shown that services to help families use vouchers to relocate to low-poverty areas cost approximately $3,000 per family that makes such a move. Successful services to help families lease units regardless of neighborhood characteristics can cost $600 - $1,000 per family. See Margery Austin Turner and Kale Williams, *Housing Mobility: Realizing the Promise*, The Urban Institute, 1998.

payments to assist families with vouchers in obtaining housing does not need to increase the future cost of maintaining the number of families on the program. (To prevent cost increases in future years, it may be necessary for Congress to specify that housing assistance funds spent for such services or benefits are not considered part of Section 8 program expenditures in calculating the cost of renewing voucher assistance for an agency's authorized number of participating families.) PHAs serving areas in which a relatively low percentage of families succeed in leasing housing with their vouchers will be left with funds they are unable to use for housing assistance. If Congress permits them to use available housing assistance funds to provide services and payments to enhance families' leasing possibilities, a higher rate of voucher utilization is likely to be achieved without additional appropriations. More families will benefit from affordable housing, and more are likely to be able to live in better neighborhoods.

The Senate Appropriations Committee's Proposed Section 8 Voucher Success Demonstration

On September 13, 2000, the Senate Appropriations Committee approved a VA-HUD appropriations bill that contains authorization for what the bill calls a "Section 8 Voucher Success Demonstration."[6] The proposed program bares similarities to Section 206 of the House bill in certain respects but also differs in important ways. Like the House bill, the Senate provision is aimed at helping PHAs operating in tight rental markets to increase voucher utilization by expanding their authority to increase voucher payment standards, and would assist only those PHAs that have unutilized Section 8 funds. Like the House bill, the Senate proposal permits qualifying PHAs to increase their voucher payment standard to 150 percent of the FMR.[7] HUD would appear to have a greater role under the Senate bill than under the House bill in deciding which PHAs would be eligible to increase their voucher payment standards, as well as in determining the level of the increase permitted, based on reviews of PHAs' proposed plans to increase voucher success rates.[8]

There are two drawbacks to the Senate approach as compared to the House provision.

- The Senate bill does not explicitly authorize PHAs to use housing assistance

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[6] The Senate's demonstration proposal is contained in Title II of the "Housing Needs Act of 2000," introduced by Senator Bond on September 12, 2000 and incorporated in the Senate fiscal year 2001 VA-HUD appropriations bill at the Appropriations Committee mark-up on September 13. Although it is not made a part of the voucher statute, the demonstration is proposed as an ongoing program, with no ending date and no limit on the number of PHAs eligible to participate.

[7] This appears to be the intent of the provision. As drafted, the provision would authorize PHAs to increase their payment standard to 150 percent of 110 percent of the FMR.

[8] A PHA's voucher success plan must be designed to "ensure that not less than 97 percent of families with vouchers will be able to obtain suitable housing in [the PHA's] market area within 120 days." While a laudable goal, this may be a nearly impossible standard to meet in any market, as some families decide not to move and others may not search sufficiently. The Senate may have intended to require that not less than 97 percent of *all* of a PHA's vouchers — rather than of newly-issued vouchers — be used to make rental assistance payments to owners.

funds to provide services and benefits to assist families to lease housing with their vouchers. While the bill would require PHAs to describe the actions they will take to assist families "to identify and obtain suitable and available affordable housing that is close to transportation, employment opportunities, quality schools and appropriate services," it does not state that PHAs can use Section 8 funds for this purpose in addition to regular administrative fees. This result may be due to a drafting oversight and may not have been the intended policy. Without explicit legislative authorization for Section 8 Housing Assistance funds to be used in this way, however, services to obtain housing can not be provided with housing assistance funds, and families will have less ability to utilize their housing vouchers.

- The Senate bill would freeze that the funding of any PHA that participates in the demonstration at its October 1, 2000 allocation unless the PHA is awarded incremental vouchers. In other words, PHAs that use the new flexibility to increase the amount of housing assistance provided to some families would have to reduce the total number of families they can assist.

The funding freeze that the Senate bill would impose on these PHAs is contrary to current voucher program policy that assures that areas with rising housing costs can continue to assist the number of families intended when new vouchers were initially awarded. Otherwise, families in the greatest need of affordable housing may suffer the burdens of both increased housing costs and longer waits for voucher assistance compared with families in areas of the country where housing prices have remained stable or decreased.

Comparing the HUD Proposal and the House and Senate Provisions: What are the Best Routes to Follow?

HUD's new FMR policy gives a larger number of PHAs the flexibility to increase their voucher payment standards than the Congressional provisions would do. As a result of its broader scope, it has the potential to improve voucher program performance in more areas than would occur under the Congressional provisions. At the same time, its broader scope is tempered by a lower increase in payments, ensuring a lower overall eventual cost than the House provision.

The House bill takes the important step of adding explicit legislative authority for PHAs to use their unutilized funds to provide services to families seeking to obtain housing. These services often are critical to families' successful utilization of their housing vouchers. In addition to this authority, new funding also is needed to enable PHAs with low voucher success rates or limited housing opportunities — and without unutilized funds — to provide assistance to families to obtain housing.

Three differences between the new HUD policy and the Congressional provisions account for the difference in the number of PHAs they will affect.

- The provisions in the House and Senate appropriations bills focus on PHAs that face tight market conditions where many families do not succeed in using their vouchers because vacancy rates are low and rents are increasing rapidly. The HUD policy responds to the problem of low voucher success rates but also increases voucher payments in metropolitan areas where housing choices are unduly restricted. Many of the PHAs that serve areas covered by this component of the HUD policy — where housing market conditions may be causing the concentration of voucher-holders in relatively few neighborhoods within the metropolitan area — would not be permitted to increase their payment standards under the House provision, because the proportion of voucher holders failing to lease units with their vouchers does not equal or exceed 30 percent. It is unclear whether PHAs in these metropolitan areas with restricted housing choices would be eligible to increase their payment standards under the Senate demonstration because the Senate bill does not specify what voucher success rate a PHA must have to qualify for the demonstration. The Senate bill delegates the establishment of specific eligibility criteria to HUD.

- Fewer PHAs would be considered to have low voucher success rates under the House bill than under the HUD policy. The HUD policy applies to PHAs where 25 percent or more of the families that receive vouchers fail to use them to rent housing. This component of the HUD policy considers only a PHA's voucher success rate — a PHA with a low success rate need not demonstrate that the problem is due to the tightness of the housing market. The House bill requires that 30 percent or more of the families issued vouchers must have failed to use them *and* that the area meet objective criteria of market tightness. The more lenient threshold chosen by HUD — a failure rate of 25 percent rather than 30 percent — is preferable because it gives more PHAs the ability to increase their payment standards.[9]

- Under the Congressional provisions, many PHAs that satisfy the criteria to increase their payment standards or provide additional assistance to help families obtain housing will not be able to take these steps. PHAs will only be able to increase the cost of serving individual families if they have unutilized funds available. This requirement will exclude PHAs that have managed to use all of their Section 8 funds, but by having families concentrate in lower-cost, higher-poverty neighborhoods. The HUD policy recognizes these PHAs also need more flexibility in setting their payment standards to prevent the undesirable

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[9] Regardless of the success-rate threshold selected, however, it would be best to give added flexibility to increase voucher payment standards only to PHAs where low voucher success rates are due to market conditions and not to poor program management. The House provision and the HUD policy share this objective, although they use different means to achieve it. The House bill adds tight market criteria to the success rate measure, while the HUD policy does not apply to PHAs that have been found to be deficient in managing their Section 8 programs. Without better data than currently exist, it is not possible to determine whether the HUD policy and the House provision are functionally equivalent in this regard.

consequences of limited housing opportunities.

> The Congressional provisions also would exclude PHAs that have low voucher success rates but have managed to use all of their Section 8 funds by issuing vouchers to as many families as required to lease all of their allocated number of subsidies. For example, the Oakland, California Housing Authority reported in March 2000 that it was utilizing 100 percent of the funds it received from HUD for the Section 8 program, despite 43 percent of families turning their vouchers back unused. Similarly, Los Angeles reported a turnback or failure rate of 26 percent but also used 100 percent of its allocated section 8 funds.[10] There is legitimate concern to avoid disappointing families that may have waited years for a Section 8 subsidy and then are unable to use it. When many families experience a Section 8 voucher as a useless piece of paper, the program loses community and political support.

Those PHAs that would covered by the Congressional provisions would be able to increase their voucher payment standards without HUD approval to a greater degree under the provisions than under the new HUD policy. Using the Washington, D.C. example, if the FMR is set at the 40th percentile rent, or \$863 for a two-bedroom apartment, the Congressional provisions would permit a PHA to increase its voucher payment standard to \$1,295, or 150 percent of the FMR. By comparison, the PHA would be able to increase its voucher payment standard to \$998 under the HUD policy. The magnitude of the payment standard increase permitted by the Congressional provision may be larger than is needed to improve voucher utilization significantly.

Some may argue that the HUD policy does not increase payment standards sufficiently. No national data exist either to support or refute such an argument. It is important to understand that PHAs' payment standards are not limited to the modest increase the HUD policy would permit. PHAs that can demonstrate, based on local rent and other data, that a payment standard based on 110 percent of the 50th percentile rent is insufficient to utilize available voucher funds, or to permit families to live in a broad range of neighborhoods throughout the metropolitan area, could receive HUD approval to use a higher payment standard.

Given the lack of data on this matter, there is not a sound basis for concluding at this point that the HUD policy will be insufficient to address the problem of inadequate voucher payment standards in most areas. PHAs that can document that the newly-permitted increase is insufficient in light of actual rent costs may obtain approval from HUD to increase their payment standards further. The HUD policy appears to be significantly less costly on an annual basis than the House provision would be beginning in 2002, when the budgets of PHAs that initially paid for higher voucher payment standards with unutilized funds would need to be increased, based on

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[10] Subcommittee on VA, HUD, and Independent Agencies, "Empty Promises---Subcomittee Staff Report on HUD's Failing Grade on The Utilization of Section 8 Vouchers," Sept. 12, 2000 (Appendix: Results of CLPHA Membership Survey Section 8 Tenant-based Voucher Utilization).

the increased cost of serving individual families. Most significantly, the Administration's policy does not require that the number of families receiving Section 8 assistance be reduced (assuming Congress adequately funds Section 8 renewals), while the Senate provision eventually funds the payment standard increase by reducing the number of families that can be served in the affected areas. The prudent course would be to let HUD's policy take effect and review its results next year, rather than enacting the payment standard component of the Congressional provisions as part of the fiscal year 2001 appropriations act.

To enhance the effectiveness of increased voucher payments in difficult markets, however, families need assistance in obtaining suitable housing. Many PHAs have found that relatively small expenditures for such services increase their voucher success rate substantially. Congressional action is needed to make it more feasible for PHAs to provide such services. PHAs that already spend all of their administrative fees to implement the Section 8 program need access to other funds for this purpose. PHAs with unutilized housing assistance funds cannot use them to provide such services unless Congress permits them to do so; HUD does not have the authority to make this policy change. In addition, as explained above, some PHAs with low voucher success rates or limited housing opportunities — where families are most in need of such services — do not have unutilized housing assistance funds available.

Providing funds for the Voucher Success Fund, as requested by the Administration, would meet the need for additional service monies and also could enable HUD to provide PHAs with much-needed technical assistance. In addition, whether or not Congress makes additional appropriations available for this purpose in conference, Congress should adopt a provision similar to the services component of Section 206 of the House bill, authorizing certain PHAs to use unutilized housing assistance funds to provide services to help families lease suitable housing. Any funds spent in this manner can be excluded from the calculation of future Section 8 renewal costs.

In light of HUD's new policy, it would be most sensible to grant this flexibility to all PHAs that meet HUD's new criteria for increased voucher payment standards. Some may be concerned that PHAs would abuse this flexibility and reduce the number of families receiving housing assistance in order to increase the number of staff providing administrative services, but such a concern may be unwarranted. There is no financial incentive for PHAs to reduce the number of families served to increase their administrative budgets, since PHAs lose administrative fees if fewer families use vouchers. [11] Moreover, the concern could be met by incorporating the Senate's concept that PHAs that seek to be part of the demonstration be required to prepare a voucher success plan and submit it to HUD for approval.

[11] PHAs' administrative fees are tied to the number of families leasing housing with Section 8 subsidies rather than to the amount of Section 8 funds they use. If a PHA can succeed in expending all of its Section 8 funds each year without using some of the funds to provide services, it will have more families participating in the program and receive more administrative fees. As a result, a PHA is likely to provide additional services with Section 8 funds only if it concludes that such strategies will result in an increase rather than a decrease in the number of families using vouchers.

Appendix

39 Metropolitan Areas Where HUD Is Increasing the Fair Market Rent to the 50th Percentile to Expand Housing Opportunities

Albuquerque, NM MSA
Atlanta, GA MSA
Austin-San Marcos, TX MSA
Baton Rouge, LA MSA
Bergen-Passaic, NJ PMSA
Buffalo-Niagara Falls, NY MSA
Chicago, IL PMSA
Cleveland-Lorain-Elyria, OH PMSA
Dallas, TX PMSA
Denver, CO PMSA
Detroit, MI PMSA
Fort Lauderdale, FL PMSA
Fort Worth-Arlington, TX PMSA
Grand Rapids-Muskegon-Holland, MI MSA
Houston, TX PMSA
Kansas City, MO-KS MSA
Las Vegas, NV-AZ MSA
Miami, FL PMSA
Minneapolis-St. Paul, MN-WI MSA
Newark, NJ PMSA
Norfolk-Virginia Beach-Newport News, VA-NC MSA
Oakland, CA PMSA
Oklahoma City, OK MSA
Orange County, CA PMSA
Philadelphia, PA-NJ PMSA
Phoenix-Mesa, AZ MSA
Richmond-Petersburg, VA MSA
Sacramento, CA PMSA
Salt Lake City-Ogden, UT MSA
San Antonio, TX MSA
San Diego, CA MSA
San Jose, CA PMSA
St. Louis, MO-IL MSA
Tampa-St. Petersburg-Clearwater, FL MSA
Tulsa, OK MSA
Ventura, CA PMSA
Washington, DC-MD-VA-WV PMSA
West Palm Beach-Boca Raton, FL MSA
Wichita, KS MSA