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TESTIMONY OF BARBARA SARD
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Before the House Financial Services Subcommittee on Housing and Community Opportunity

I appreciate the opportunity to testify concerning the proposed Section 8 Voucher Reform Act. I am Barbara Sard, director of housing policy at the Center on Budget and Policy Priorities. The Center is an independent, nonprofit policy institute that conducts research and analysis on a range of federal and state policy issues, with particular emphasis on fiscal policies and policies affecting low- and moderate-income families. The housing work of the Center focuses primarily on the housing voucher program. We receive no government grants or contracts and are funded by foundations and individual donors.

Overview

The Section 8 voucher program is the nation's largest low-income housing program. It has proven effective in reducing homelessness and severe housing costs burdens, and improving housing and neighborhood quality and family well-being. As with any government program, the voucher program needs to evolve over time, as circumstances change and lessons are learned. Nine years have passed since the 1998 enactment of the Quality Housing and Work Responsibility Act (QHWRA), the last major authorizing legislation affecting the voucher program. The Section 8 Voucher Reform Act (SEVRA) represents a timely, balanced, carefully-crafted effort to improve certain aspects of the voucher program, while at the same time leaving in place the core characteristics that have underpinned the program's success.

SEVRA's most important provisions would establish a fair, efficient and comprehensive funding formula to make permanent the reform begun by the fiscal year 2007 appropriations resolution. Largely as a result of flawed funding formulas that HUD and Congressional appropriations committees put in place from 2004 to 2006, the number of families receiving voucher assistance has declined by about 150,000 since early 2004. The SEVRA funding formula would bring badly needed stability to the program, allowing and encouraging agencies to serve additional families and meet other key program goals while maintaining incentives to contain cost growth.

In addition, SEVRA would streamline and strengthen program rules in several key areas -- including voucher housing quality inspections, targeting of vouchers on extremely low-income families, and rules for determining tenant rents in the voucher program, public housing, and privately owned assisted housing – while maintaining vital tenant protections.

We understand that the version of SEVRA to be introduced shortly will omit a section from the version of SEVRA considered in the last Congress (H.R. 5443) which would have expanded the "Moving to Work" demonstration without assurance of meaningful evaluation or adequate opportunities for the families served by the voucher and public housing programs to participate in the development of new local policies. We opposed this provision, and are pleased that the committee has reconsidered its inclusion. Any extension or expansion of MTW should be limited in scope, and carefully designed to ensure that tenants retain fundamental protections of federal housing law and have real opportunities to participate in policy development, and that the demonstration produces real research findings that can be applied broadly to improve the low-income housing programs of the future.

We also would like to draw the committee's attention to several potential improvements to the voucher program that are not included in the discussion draft.

- Simplifying the process used to administer "portability" of vouchers from the jurisdiction of one agency to the jurisdiction of another;
- Ensuring that caps on the rents vouchers can cover, or "payment standards," are adequate to prevent unreasonable rent burdens for poor families and enable families to live outside areas of concentrated poverty;
- Making it easier for housing agencies to use the "project-based voucher" option to promote a range of housing goals;
- Allowing greater use of vouchers in mobile homes; and
- Improving the performance measurement requirement in SEVRA by adding agency performance measures relating to deconcentration of poverty and other important social objectives.

Voucher Renewal Funding Policy

SEVRA's most important improvement to the voucher program would be to establish an efficient, stable formula for distributing renewal funds each year to the more than 2,400 state and local housing agencies that administer the program. The balanced, comprehensive policy will encourage agencies to serve more families with available funds while restraining per-voucher costs, and will make participation in the program more attractive to owners. The SEVRA funding policy also will support core program goals such as affordability and choice.

System Used in Recent Years Allocated Funds Inefficiently

From 2004 to 2006, Congressional appropriations committees and the U.S. Department of Housing and Urban Development (HUD) have made a series of changes in the voucher renewal funding formula. These changes have had the unintended effect of destabilizing the program and causing shortfalls at many housing agencies, even as other agencies have received more voucher funding than they can use.

As a result, about 150,000 vouchers have been lost nationally from early 2004 through September 2006 (the latest HUD data available to us). And voucher "utilization" rates — i.e., the percentage of authorized vouchers actually in use, a standard that is used to measure the program's success — have fallen significantly. Contributing to this decline, many agencies have sought to protect themselves against possible future funding shortfalls by leasing fewer vouchers than they had funds to support. Nationwide, voucher utilization fell from 98.5 percent of the authorized vouchers in 2003-04 to about 92.5 percent in the first nine months of calendar 2006.

One of the central flaws in the voucher funding formula used in 2006 was that it based allocations of voucher funding on outdated data regarding program costs from 2004, inflated by formula inflation factors. If per-voucher costs had increased at the rate of inflation in rent and utility costs in the two year period from the fall of 2004 to the fall of 2006, the average cost increase would have been about $42 per month. Instead, *the average cost of a voucher in September 2006 was $7 less than in November 2004.* The use of outdated cost data was the primary reason that some agencies received more funding than they were permitted to spend in the last two years. Because Congress did not provide sufficient funding to fully fund each agency's allocation under the formula, other agencies received too little, and had to cut vouchers. Indeed, if the funds provided for voucher renewals in 2007 had continued to be allocated under this out-of-date formula, each agency's funding would have been cut 8 percent below the amount due under the formula, a substantially deeper cut than the 5.6 percent proration in effect in 2006.

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

In February 2007, however, Congress enacted a fiscal year 2007 funding resolution with a new voucher funding formula that embodies the primary component of the SEVRA approach. Under the 2007 resolution, voucher funds will be allocated based on the cost of vouchers in use during the most recent 12 months for which data are available (most likely January-December 2006), adjusted for inflation. As a result, agency funding levels in 2007 will be far more closely linked to their actual funding needs than was the case in 2006.

The funding formula in SEVRA would build on the formula in the 2007 resolution, by continuing to base funding on cost data for the most recent calendar year. (That is, in 2008 agencies would receive annual budgets based on leasing and costs in 2007.) Importantly, SEVRA would incorporate this funding approach in permanent law, providing security to housing agencies, property owners, and voucher holders that the first claim on available funds will be to renew vouchers in use. In addition, SEVRA would add three new features that would further improve the funding formula and provide a comprehensive solution to the difficulties the voucher program has experienced in recent years:

- **Reserves.** Housing agencies that do not use all of the funds available in 2007 --- including substantial fund balances built up over the last two years --- would be able to keep up to one month of funding (about eight percent) for use in 2008. By drawing on these reserves, some agencies will be able to increase the number of families served above the 2007 level, helping to make up for the late start of the new funding policy this year.[1] After that, they only would be able to retain reserves up to two percent of their annual funding. Modest reserves can enable agencies to make full use of their funds, because they can serve as contingency funds to cover unexpected cost overruns stemming from local rent surges or other factors.

- **Reallocation.** If agencies leave more funds unspent than they are permitted to keep as reserves, HUD would reallocate the excess funds in the following 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) performed best at using their funds in the previous year to serve eligible families and could use additional funds to put more of their authorized vouchers to use.

- **Funding advances.** Housing agencies that do not have enough unspent funds to provide them with a reserve equal to two percent of their funding would have access in the final months of the year to temporary funding advances. These advances, which would also be capped at two percent of each agency's funding, would ensure that agencies that made full (or nearly full) use of their funds would have an alternative source of contingency funds to cover unexpected overruns, in place of reserves. The advances would be paid back out of the agency's funding allocation for the following year.[2]

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.

Also of importance, SEVRA would reform allocation of **administrative fees** to agencies. The Section 8 authorizing statute calls for agencies to be provided a fee for each voucher actually used during the year. But beginning in 2004, the annual appropriations acts have overridden this policy and required fees to be based, in effect, on the fees agencies earned in 2003, regardless of the number of vouchers now in use. Under this system, agencies receive the same amount of administrative fees regardless of whether they perform well or poorly in putting their voucher funds to use. SEVRA would reinstitute a system that ties each agency's administrative fee payments to its voucher utilization, thereby creating an incentive for agencies to lease the maximum number of vouchers than can be funded within the agency's budget. The restoration of payment of administrative fees based on leasing performance – a change recommended by the Administration in

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[1] It is likely that many agencies will have substantially less than the one month of reserves agencies will be allowed to retain in 2008. We estimate that about one quarter of agencies ended 2006 with less than half of this amount, including 228 agencies with no reserves at all because they used all of their available funds to serve families.

[2] 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.

its 2008 budget request – is an important incentive for agencies to restrain per-voucher costs to the maximum extent consistent with high voucher utilization.

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 families served by the voucher program – and it would do so by improving the efficiency with which funds are distributed and used, not by adding costs to the program. Already, the funding formula Congress enacted for 2007 is likely to bring to a halt the sharp decline in voucher use that has occurred since 2004, and will allow many agencies to restore some of the cuts.

SEVRA would accelerate the restoration of the 2004-2006 cuts, and set the voucher program on a course for sustained high utilization in the future by offering strong incentives to housing agencies to put all of their voucher funds to use. By establishing utilization-based funding as a fixed policy for at least five years, SEVRA assures agencies that if they use as many of their vouchers as possible each year, they will very likely be rewarded with sufficient renewal funding in the future. In addition, under SEVRA agencies would know that any unspent funds (beyond the modest permitted reserve levels) would be reallocated to other agencies. Moreover, 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. [3] And, finally, agencies that use more vouchers would receive more administrative funds, providing a further incentive to increase voucher use.

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 occurred under the policies in place from 2004 to 2006. In 2005, agencies left unspent about $270 million that they could have used to support authorized vouchers (plus an additional $95 million they were not permitted to spend due to the prohibition in the appropriations act on using renewal funds for unauthorized vouchers). In 2006, agencies left unspent about $1 billion of that year's renewal funding, despite the fact that two-thirds of these funds could have been used to support authorized vouchers.[4] The 2007 appropriations act limits

[3] SEVRA expressly permits agencies to draw advance funds to support the costs of "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 or has funds to support. Unless agencies are allowed some flexibility to overlease temporarily, they will have to manage their programs conservatively and will be likely to underutilize available vouchers. (SEVRA would permit agencies to use regular renewal funds as well as their own reserves to lease as many vouchers – potentially above their authorized level – as the funding will support.)

[4] These figures exclude the 18 agencies with special funding agreements under the Moving to Work demonstration and the 14 Gulf Coast agencies that appear to have received approval from HUD to reserve all or a large portion of their voucher funds to rehabilitate public housing damaged in the 2005 hurricanes. The 2006 figures assume that voucher utilization and costs in the last quarter of 2006, for which we do not have data, continue at the average rate for the prior nine months.

the potential for waste of voucher funds, by matching funding more closely to renewal funding needs. SEVRA would go further, by encouraging agencies to use as much of their funding as they can to assist families, and reallocating every dollar that is left unspent (beyond the limited reserve amounts) to the agencies most likely to use them.

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, protecting a certain level of reserve funds 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, while keeping in place important mechanisms for controlling costs overall. 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.

Fully Replacing Lost Affordable Housing Units

Another important provision in SEVRA's funding section affects the issuance of "tenant protection" vouchers to replace federal housing assistance that is eliminated. (Each year, thousands of public housing units are demolished or sold, and private owners of 20,000 – 30,000 apartments with "project-based" subsidies cease to participate in HUD programs.[5]) SEVRA would direct HUD to issue tenant protection vouchers to replace all lost federal housing subsidies, whether or not they are occupied at the time the subsidy was eliminated. This would restore the policy that HUD generally followed until 2006. Vouchers were issued to replace all units because the vouchers were intended not just to help specific residents whose units had been eliminated, but also to compensate the community for the loss of affordable housing resources.[6]

Beginning in 2006, however, it appears that HUD began providing vouchers only for units under lease. This major policy change was tucked into a paragraph on fees for tenant protection vouchers in the January 2006 notice informing housing agencies of how HUD will implement the

[5] In fiscal year 2006, HUD awarded 23,099 new tenant protection vouchers (see 71 Federal Register 77,778, Dec. 27, 2006), at least 3,400 fewer than in each of the previous three years. (In 2005, HUD awarded 26,540 new tenant protection vouchers. See 70 Federal Register 71,548 (November 29, 2005). In 2004, HUD awarded 29,296 new tenant protection vouchers. See 71 Federal Register 17,478 (April 6, 2006). In 2003, HUD awarded 26,787 new tenant protection vouchers. See 69 Federal Register 7,782 (February 19, 2004).)

[6] HUD's policy to award vouchers for the full number of subsidized units lost is contained in Notices PIH 2005-15 (April 26, 2005) and 2004-4 (March 29, 2004) (for public housing) and PIH 2001-41 (for conversion of privately-owned units). In the latter notice at pages 9 - 10, HUD states: "When HUD provides vouchers to a PHA as the result of a housing conversion action, HUD will offer housing choice voucher funding on a one-for-one replacement basis to make up for the loss of the affordable housing units in the community, subject to the availability of appropriations."

voucher funding provisions of the 2006 appropriations act. As a result of this change, communities where some units in a subsidized building are vacant at the time the subsidies are ended would permanently have fewer subsidies available to help low-income people afford housing – even though there are long waiting lists for housing assistance.

Adopting proposed language included in the Administration's 2007 budget, the House passed a 2007 appropriations bill containing a provision directing HUD to continue the policy of providing tenant protection vouchers only for occupied units. The fiscal year 2007 funding resolution rejected that provision, but would still allow HUD to continue its policy if it chose to do so. As a result, without a clear statutory directive like that contained in SEVRA, HUD could continue to chip away at the number of housing subsidies available around the nation.

Determining Tenants' Rent Payments

SEVRA would significantly streamline the rules that determine the amount voucher holders and public and assisted housing tenants are required to contribute toward their rent each month. As a result, it would reduce the burdens rent determinations place on housing agencies, property owners and tenants. The changes would also reduce the likelihood of errors in rent determinations and strengthen incentives for tenants to work.

SEVRA would achieve these gains while retaining the most important strengths of the current system. Most significantly, tenants would still be required to pay 30 percent of their income, minus certain deductions, toward their rent. This tested formula offers 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.

One set of changes in SEVRA would replace the complex work incentives in place under current law with a single, simple earnings incentive. 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 who have recently been unemployed or on welfare. SEVRA would replace both of these provisions with a simple deduction of 10 percent of earned income for *all* employed tenants, up to $10,000 per household.

The SEVRA earnings 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.

SEVRA would also streamline deductions for elderly and disabled households. Currently, these households can deduct medical expenses exceeding 3 percent of their income. 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.

SEVRA would increase the threshold for medical and disability assistance deductions from 3 percent of annual income to 10 percent. That would reduce the number of people eligible for the deduction — and therefore the number of itemized deductions that would need to be verified — by about half, according to the Congressional Budget Office, while still providing some relief for tenants with extremely high medical or disability assistance bills. To offset the resulting increases in rents for some households, SEVRA would substantially increase the easy-to-administer standard deduction for the elderly and people with disabilities, from $400 to $725 per household, and index it for inflation.

In addition, SEVRA contains a number of measures that would simplify the process of determining rent. Housing agencies would be required to review tenants' incomes far less frequently than under current law. In addition, agencies would calculate the rents owed by working families based on income during the prior year, rather than using current or anticipated income as is now the case. This would simplify administration by allowing agencies to use tax forms and other year-end documents to verify incomes. It would also provide an incentive for earnings growth, since an increase in earnings would not result in an increase in rents until the end of the year. Other changes would make it easier for housing agencies to verify the income of tenants.

Overall, CBO estimates that SEVRA will modestly reduce tenant rent payments, because the magnitude of the changes that reduce rents will exceed the increases from other changes. Some individual tenants will pay more rent than they would under current law. In most cases, however, the changes will be fairly small.

One group that could face particularly large rent increases will be tenants that now receive substantial deductions for unreimbursed child care expenditures. If SEVRA becomes law, it will be important that housing agencies provide these households with adequate notice of the change in rent rules, and refer them to any organizations that potentially could provide them with child care assistance. Households with substantial unreimbursed medical expenses will generally experience relatively small rent increases as a result of the change in the medical deduction, but they nonetheless would benefit from advance notice and referrals to providers of Medicare Part D and other health benefits. *In its report on SEVRA, the committee should instruct HUD to require housing agencies to implement notice and referral policies for these groups.*

It is important that Congress be sensitive to the impact of changes in the rent rules on housing agencies that administer public housing. For the last five years, Congress has provided substantially less funding for public housing operating subsidies than is needed to make up the gap between rent revenues and the cost of operating public housing. This has forced many housing agencies to scale back spending on maintenance and services, increase fees and utility charges for tenants, and take other measures that harm needy families. If SEVRA reduced rent revenues without offsetting reductions in housing agencies costs, it could force housing agencies to make further cuts that would impose additional hardships on low-income families.

It appears that SEVRA will reduce rent revenues in public housing to some degree. Fortunately however, by streamlining rent rules SEVRA will also result in large reductions in administrative costs. For example, SEVRA will reduce by roughly a third the frequency with which housing agencies are required to review tenant incomes — one of the most time consuming administrative tasks for which housing agencies are responsible. *Overall, SEVRA will likely reduce public housing administrative costs by at least $50 million.* These savings are likely to offset most of the revenue loss from the rent policy changes in SEVRA. If on further analysis, however, SEVRA is estimated to result in a loss of rent revenues in public housing that significantly exceeds the likely administrative savings, the bill's provisions should be adjusted to reduce the loss of revenues. Given the magnitude of the likely administrative savings, however, any such adjustments should be relatively minor.

Even if the changes in SEVRA are neutral for the public housing program as a whole, individual agencies could have lower (or higher) revenues due to their particular tenant demographics. The bill should include a directive to HUD to adjust the rent revenue base that is used to determine each agency's eligibility for operating subsidy in light of the SEVRA changes.

Income and Asset Limits

SEVRA would end housing assistance eligibility for two relatively small groups of tenants. First, it generally would ban households with incomes above 80 percent of the local area median income from participating in the voucher program or project-based Section 8. Currently, households cannot be admitted to housing assistance programs if their incomes exceed 80 percent of the median income, but under some circumstances households whose incomes later rise above the limit can continue to receive assistance.[7] Second, SEVRA would make tenants with more than $100,000 in assets or any equity in real property ineligible for housing assistance. Currently there is no limit on the amount of assets a housing assistance recipient can have, although earnings from assets are counted as income and therefore increase the amount of rent a tenant is required to pay.

Such limits present difficult tradeoffs. On the one hand, they serve to redirect badly needed housing assistance away from households with significant incomes or assets, to households with more limited means. On the other hand, the limits will disrupt the lives of the affected households, increase program costs (because the households that lose assistance will generally pay more rent and require less in subsidy than the lower-income households that replace them), and in many cases deprive assisted housing developments of long-time tenants who serve as community leaders.

The asset and income limits provisions in the discussion draft are significantly fairer and less punitive that the provisions in H.R. 5443 from the last Congress. Unlike H.R. 5443, the new version of SEVRA would give housing agencies the option not to enforce the income and asset limits in

[7] HUD regulations include an exception to the usual voucher program income eligibility rules for moderate income households who are displaced by prepayment or termination of a federally-assisted mortgage or insurance contract. See 24 C.F.R. §982.201(b)(5). The discussion draft includes an important modification of H.R. 5443 that would preserve eligibility for these families.

public housing. This flexibility is in keeping with a series of Congressional actions over the years designed to promote income diversity in public housing. The new version of SEVRA also places several important new limits on the asset test. For example, it exempts retirement accounts from the limit, and provides that domestic violence victims can not lose assistance because the have an ownership interest in a property in which they cannot safely live.

We recommend one additional change, to make it explicit that housing agencies may delay the termination of over-income voucher holders for up to six months. As now drafted, the bill would allow housing agencies and owners to delay for six months *evictions* of housing assistance recipients who exceed the income and asset limits, but is silent regarding terminations of voucher assistance. Housing agencies should be given similar flexibility in the voucher program. Poor families tend to experience a great deal of income volatility, so it would not be uncommon for a family to have a temporary income increase that would make it ineligible only to see its income quickly drop back to an extremely low level. A voucher can provide an important safety net in this situation, and housing agencies should have the option to temporarily keep the voucher in place. This would be consistent with current voucher regulations, which allow subsidy contracts to remain in place for six months after a household's income rises to a level where the amount of the voucher subsidy falls to zero.

Income Targeting

Currently, at least 75 percent of the new households admitted to the voucher program each year must have incomes at or below 30 percent of the area median income at the time they are admitted to the program. (This requirement does not restrict a household's income *after* it is admitted to the program.) Congress instituted this policy because households with incomes below 30 percent of area median income — which nationally is roughly equivalent to the poverty line — are much more likely to have a severe need for housing assistance than those at higher income levels.

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 revising the targeting requirement to the higher of (a) 30 percent of the local median income *or* (b) the federal poverty line. 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 those most in need. For administrative simplicity, it would make sense to apply the same targeting measure to the public housing program.

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.

The changes would significantly reduce burdens on housing agencies and owners, without significantly weakening the requirement that vouchers be used only to rent decent quality housing.

Suggested Additions and Changes

I will now turn to discussing five areas in which SEVRA could be improved, enabling the bill to further strengthen the voucher program.

Removing Administrative Barriers to Portability

The option to a move to a community of one's choice, referred to as "portability," is a hallmark of the Section 8 Housing Choice Voucher Program. Portability can enable a worker to move to be near a job in another community, a domestic violence victim to flee an abuser, or an elderly person or person with a disability to move closer to family or a needed caregiver. In practice, however, many households who wish to use their vouchers to move are not able to do so. This is largely because portability can impose financial and administrative burdens on housing agencies. These burdens deter agencies from making the portability option easily available to voucher holders.

Under current rules, if a household moves from the jurisdiction of one agency to the jurisdiction of another, the cost of the voucher is covered by the housing agency that first issued it, unless the housing agency in the jurisdiction to which the household moves agrees to "absorb" the voucher. Destination agencies frequently opt not to absorb vouchers, in part because in recent years they have not received any additional funds to cover the resulting costs.

When "ported" vouchers are not absorbed, the two agencies have to engage in a cumbersome billing process, in which the destination agency administers the voucher and then is paid for doing so by the issuing agency. The issuing agency must both take on the administrative burden of a billing arrangement (for only 20 percent of the usual fee), and use scarce voucher funds to assist a family living outside its area. As a result, issuing agencies have had a strong incentive to discourage households from exercising the portability option.

As it is currently drafted, SEVRA would significantly reduce the financial barriers to portability. Destination agencies would have a greater incentive to absorb vouchers, because the SEVRA funding formula would provide additional administrative and subsidy funds directly to absorbing agencies. But for various reasons, some destination agencies may still opt not to absorb portability vouchers. In such cases, issuing agencies will still be forced to undertake a billing arrangement, although they are likely under the revised funding policy to receive supplemental funding if the cost of ported vouchers exceeds the agency's usual voucher cost. As a result, some issuing agencies will still seek do deter portability in order to simplify administration of their programs and maximize assistance to families that remain in their jurisdiction.

Congress could eliminate the needless complexity of the portability process by requiring destination agencies to absorb vouchers. (If the appropriations acts retain a prohibition on exceeding the authorized number of vouchers, agencies at or near their authorized limit could be exempted from this requirement.) The receiving agency would be able in the initial period to draw additional funds, if needed, to cover the cost of the voucher, so it would not face a trade-off between serving its current families and waiting list and providing assistance to families moving to the area through portability. Issuing agencies would have funds freed up to serve a new family from the waiting list.

Project-Based Vouchers

In the FY 2001 VA-HUD Appropriations Act, Congress substantially revised the authority for state and local housing agencies to use voucher monies to enter into contracts for project-based assistance. Regulations implementing the program were finalized in October 2005. Though the final regulations addressed many of the challenges encountered during the initial years of operation under the revised statute, lingering obstacles inhibit the ability of PHAs and their private-sector partners to use the program to achieve the statutory goals of "deconcentrating poverty and expanding housing and economic opportunities."

A broad-based group of advocates, housing agencies, non-profit and for-profit developers, and other groups has proposed a set of 9 recommendations, in addition to the amendments in section 11 of the discussion draft, designed to make it easier to use the project-based voucher option to meet a range of housing goals. We strongly encourage the committee to include all of these provisions in SEVRA.

- Improve coordination with the Low Income Housing Tax Credit program and ensure longer-term affordability by changing the maximum initial contract term from 10 years to 15 years (the initial tax credit affordability term) and clarifying that PHAs and owners may commit in advance to offered extensions of the initial contract term.

- Increase the percentage of voucher funds that a housing agency can use for project-basing from 20 percent to 25 percent, plus an additional 5 percent for units housing homeless individuals and families.

- Make an existing rule limiting the share of project-based vouchers in a building to 25 percent more flexible, including by allowing housing agencies in tight markets to use project-based vouchers in up to 50 percent of units in a project.

- Allow project-based vouchers to be used in co-ops or high-rise elevator buildings.

- Facilitate the renewal of expiring contracts under the "project-based certificate program," a precursor to the project-based voucher option, as project-based vouchers.

- Streamline requirements for environmental reviews of developments with project-based vouchers, and for "subsidy layering" reviews to determine that projects assisted through multiple housing programs do not receive excessive subsidies.

- Override an unnecessarily restrictive HUD policy requiring that housing agencies use a HUD form for project-based voucher contracts, even if an alternative format would meet all other program requirements and better serve local needs.

- Allow owners to manage the waiting list, subject to PHA oversight and responsibility, rather than requiring owners to select tenants from a central housing agency waiting list;

- Allow project-based vouchers to be used as an alternative to tenant-based enhanced vouchers, as part of efforts to keep privately-owned assisted housing affordable in cases when the subsidy previously in place is ended.

Restoring Affordable Rents in the Housing Voucher Program

In recent years, as PHAs have reduced or constrained increases in voucher payment standards to cope with funding cuts, rent and utility cost burdens of families in the voucher program appear to have grown considerably. In 2000, families in the voucher program on average paid 33 percent of their adjusted income for rent and utility costs.[8] Anecdotal reports indicate that at some agencies rent burdens have increased dramatically, with half or more of families *paying more than half their income for rent.* (HUD may have more recent data on rent burdens, which could be requested.) In addition, there are numerous reports that limitations on voucher payment standards have reduced the effectiveness of the voucher program in expanding families' access to neighborhoods throughout metropolitan areas, including areas with better schools and job opportunities.

People with disabilities experience these same problems, with an additional twist. HUD's regulations now permit housing agencies, with HUD approval, to provide somewhat higher subsidy levels to voucher holders who have disabilities and need a more costly apartment as a reasonable accommodation. (See 24 C.F.R. 982.503(c)(ii).) This positive policy, however, is undermined by the administrative hoops HUD requires agencies to go through to get approval *of each request on behalf of a particular individual.*

Finally, because of an unintended interaction between the statutes governing the low-income housing tax credit and voucher programs, owners under some circumstances are allowed to set rents for tax credit units rented to voucher holders above both the voucher payment standard and the maximum tax credit rent. The effect of this practice is that tenants may be charged far more than 30 percent of their income for rent, even though they have a voucher and are living in a subsidized, "affordable" housing unit.

These three related problems could be addressed through the following statutory changes:

- To ensure that program stakeholders have access to timely and relevant information concerning rent burdens during the annual review of agency payment standards required by the PHA Plan process, amend Section 8(o)(1)(E) to require PHAs (as well as HUD) to report on rent burdens. PHAs already report to HUD all the information required for such a report. If HUD's data system does not now generate a rent burden report for PHAs on request, HUD could be directed to add such capacity to its system, so that this obligation will not entail additional work

[8] Devine et al., *Housing Choice Voucher Location Patterns,* HUD, August 2002, p. 96.

for PHAs. In addition, this provision should be amended to require HUD to monitor the extent to which families cluster in particular communities within metropolitan areas, and to analyze whether greater geographic mobility could be achieved by higher payment standards.

- Require PHAs to adjust payment standards within the "basic range" (up to 110 percent of Fair Market Rent) in the amount needed, in the judgment of the PHA, to bring rent burdens below the "significant" level (as defined by current regulations) within a one-year time period, to the extent the PHA has funds available to make the change. If a PHA lacks sufficient funds, it should be required to develop and implement a plan to accomplish this goal in a timely fashion without terminating assistance to participating families.

- Require HUD to approve a PHA's request to increase its payment standard above 110 percent of the fair market rent if such an increase is needed to enable the PHA to meet the statutory standard.

- Give PHAs the authority, without having to seek HUD approval, to increase the payment standard as a reasonable accommodation to persons with disabilities.

- Prohibit housing agencies from approving voucher contracts for tax credit units when the rent exceeds *both* the rent charged for other LIHTC units (not occupied by tenant-based voucher holders) and the housing agency's voucher payment standard.

Use of Vouchers in Manufactured Housing

In some areas of the country, many low-income elderly people and families obtain shelter by making monthly payments on a loan to purchase a mobile home (which is a consumer loan, not a mortgage) and renting lot space in a mobile home park. Prior to the passage of the Quality Housing and Work Responsibility Act (QHWRA) in 1998, vouchers could be used to subsidize housing costs for such families, if they otherwise qualified for the program. QHWRA, however, prohibited use of vouchers to cover loan payment in these situations.

As a result, HUD limited the Fair Market Rent (FMR) for space rentals to 40 percent of the usual FMR. In effect, this change limits the flexibility of the voucher program, particularly in rural areas where there may be few traditional rental properties. Because this policy existed pre-QHWRA, there is no need to establish a pilot program, as the committee-approved version of the Sanders amendment to H.R. 5443 would have done. This change can be made simply and briefly, by defining rent to include all the monthly costs of leasing-to-purchase a mobile home (including loan payments, property taxes and insurance in addition utilities and the lot rent) and then determining the amount of the voucher payment just like in other cases. HUD would no longer have to issue separate FMRs for space rentals.

Performance Assessment

While not required by statute, the housing voucher program has in place a performance assessment process – the Section 8 Management Assessment Program, or SEMAP -- that effectively measures whether housing agencies are in compliance with program requirements. Unfortunately, the discussion draft includes a new statutory section that potentially could weaken the current

SEMAP performance assessment system, by allowing HUD to eliminate a number of key measures and conduct assessments only every few years (instead of annually, as is now the case). Any performance measurement system enacted by SEVRA should continue to require annual assessment. In addition, it should include at least the following required criteria measures:

- Percentage of authorized vouchers in use or committed for project-based voucher contracts;
- Payment of correct amount of subsidy, including the measurement of underpayments and overpayments;
- Reasonableness of rent burdens;
- Timeliness in making voucher payments, inspecting units, and acting on requests for approval of new tenancies and of rent changes;
- Use of vouchers in census tracts with low poverty, low rates of crime, and high-performing public schools;
- For agencies in metropolitan areas, coordination with other agencies to facilitate housing choice throughout the metropolitan area; and
- Enrollment rate of completion of families in the Family Self-Sufficiency program, including a bonus for public housing agencies that serve more than the required number of families.

Any Expansion of "Moving to Work" Waiver Authority Should Be Subject to Careful Limits

Last, I would urge the committee to exercise caution in another area, the expansion of the Moving-to-Work demonstration. 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.[9] 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.[10] The version of SEVRA considered in the last Congress would have made MTW a permanent component of the Housing Act with fairly minor changes in program rules, and would authorize HUD to expand the number of participating agencies to 40.

Expanding MTW in this manner, without subjecting it to additional limitations, would risk significant harm to voucher holders and public housing tenants, and would be unlikely to result in significant benefits. MTW allows sweeping waivers of many federal rules that provide basic

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

[10] 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.

protection for tenants and ensure that funds are used for the purposes intended by Congress. The demonstration offers little guarantee that housing agencies will be accountable for the policies they adopt, or even required to disclose to the public how they have used their flexibility under the demonstration.

Moreover, MTW has not been structured in a manner that allows rigorous evaluation. As a result, it has produced a wealth of anecdotal reports but few hard findings of the type generated by other HUD-sponsored evaluations, including Moving-to-Opportunity and Jobs Plus. This omission has meant that the vast majority of housing agencies and the millions of families they serve cannot benefit from any lessons learned from the experimentation allowed to a few.

The Committee should not to add a Moving-to-Work expansion to SEVRA *unless* it greatly strengthens protections for tenants and accountability for agencies. Any expansion should also be designed in a manner that allows rigorous, experimental evaluation of specific policies identified by Congress. Finally, it is important that the number of agencies added to the demonstration be small, since it will be difficult to provide for adequate monitoring and evaluation if the size of the demonstration is expanded sharply.

United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	2. Organization or organizations you are representing:
Barbara Sard	Center on Budget and Policy Priorities
3. Business Address and telephone number: 820 First Street, NE, Suite 510 Washington, DC 20002	
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2004 related to the subject on which you have been invited to testify?	5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2004 related to the subject on which you have been invited to testify?
☐ Yes ☒ No	☐ Yes ☒ No
6. If you answered "yes" to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
7. Signature: Barbara Sard	

Please attach a copy of this form to your written testimony.