



# CENTER ON BUDGET AND POLICY PRIORITIES

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**TESTIMONY OF BARBARA SARD**  
**Director of Housing Policy, Center on Budget and Policy Priorities**  
**House Financial Services Subcommittee on Housing and Community Opportunity**  
**June 21, 2001**

I appreciate the invitation to testify today. I am Barbara Sard, director of housing policy for the Center on Budget and Policy Priorities. The Center is a nonprofit policy institute in Washington that specializes both in fiscal policy and in programs and policies affecting low- and moderate-income families. My testimony today focuses on how to make the Section 8 voucher program more effective.

The nation's number one housing problem is the lack of affordable housing for extremely low-income households, particularly families with children. (Extremely low-income households have incomes at or below 30 percent of the area median income.) Housing vouchers are the form of housing assistance best suited to ensure housing affordability for extremely low-income families while maintaining the flexibility to meet changing needs. Vouchers work better than other forms of housing assistance to help families move from neighborhoods of concentrated poverty to areas where adults and children have improved employment, earnings, education and health outcomes. But vouchers can only produce these positive results if families can use them to obtain housing in neighborhoods that afford greater opportunity.

The vast majority of families issued vouchers succeed in using them. The most recent national study found that 87 percent of families issued vouchers were able to use them.<sup>1</sup> While reports from various housing authorities and advocacy groups indicate that vouchers have become more difficult to use as rental markets have tightened in recent years, a March 2000 survey of large PHAs found that on average 81 percent of families issued vouchers by these agencies used them, and these PHAs used 93 percent of their Section 8 budget authority.<sup>2</sup> Many well-managed PHAs use all their vouchers by reissuing them until enough families succeed.

Publicly available data from March 2001 indicate that approximately 88 percent of vouchers were in use that month. (These data are posted on HUD's web site and are based on housing agencies' reports to HUD.) Some of the unutilized vouchers are reserved for future uses such as the relocation of tenants from public housing that will be demolished. But a substantial portion of the unutilized vouchers reflect families' inability to lease housing with vouchers they have received. Indeed, probably far more than 12 percent of families with vouchers are unable to

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<sup>1</sup> Stephen D. Kennedy and Meryl Finkel, *Section 8 Rental Voucher and Rental Certificate Utilization Study: Final Report*. Washington, DC: Department of Housing and Urban Development, Office of Policy Development and Research (1994). HUD has contracted for a new study on voucher utilization, but results are not yet available.

<sup>2</sup> Subcommittee on VA, HUD, and Independent Agencies of the Senate Committee on Appropriations, "Empty Promises: Subcommittee Staff Report on HUD's Failing Grade on the Utilization of Section 8 Vouchers," (September, 2000).

use them. Similar to airlines' practice of overbooking flights, housing agencies that predict that some families will not succeed in renting units overissue vouchers to achieve full utilization of the authorized number of vouchers. Despite the achievement of full utilization of vouchers by such effective management, the inability of a substantial number of families that receive vouchers to use them to rent housing remains a problem. The need to overissue vouchers strains agencies' administrative resources, and these families' disappointments may lessen support for the voucher program.

The failure at any given point in time to utilize approximately 200,000 of the vouchers authorized by Congress is most unfortunate in the face of continuing severe needs for housing assistance. (HUD has contracted with PHAs to administer approximately 1.8 million vouchers.) Solving the problem of underutilization of vouchers may require measures to:

- help families search more efficiently for available units;
- bring more owners into the program;
- increase the amount of subsidy that a voucher provides; and
- increase the number of rental units of adequate quality that can be rented with vouchers.

Measures directed at each of these objectives are not necessary in all geographic areas. Many areas, for example, have enough decent-quality units for rent at moderate prices. Vouchers may still be underutilized in such areas if too few of the owners of these units accept vouchers, in which case the solution is to bring more owners into the program and help families search more efficiently for the units that are available. In areas with available but overly expensive housing, an increase in voucher payments is necessary. In areas where the limited number of vacancies in rental housing of decent quality poses a serious barrier to voucher use, additional supply-side measures are needed to rehabilitate existing units or produce new housing.

Housing agencies that administer the voucher program already have some of the tools necessary to undertake the types of measures necessary to improve voucher utilization. For example, they can use their administrative fees or partner with other agencies to initiate outreach programs to landlords or to provide services and benefits to help families obtain housing. In addition, housing agencies may increase the amount of subsidy provided by a voucher to 110 percent of Fair Market Rent and may request HUD approval of a further increase if justified by available data.<sup>3</sup> They also may "project-base" up to 20 percent of their vouchers — that is, direct the funds to particular buildings rather than tenants — as well as use vouchers for homeownership.

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<sup>3</sup> HUD determines the Fair Market Rent for each metropolitan area and non-metropolitan county annually, based on Census data and inflation adjustments. For a limited number of larger metropolitan areas, HUD conducts rent surveys between the years of the decennial census. The FMR generally is equivalent to the rent for the bottom 40 percent of non-luxury units available for rent in the prior two years. In January 2001, HUD increased the FMR in 39 metropolitan areas to cover half of the rental units (50th percentile).

Yet many agencies that are not able to use all their vouchers have not initiated such programs or taken advantage of the flexibility currently offered by the voucher program rules. Recent data indicate that approximately 70 percent of the PHAs that administer voucher programs set their voucher payment standard at 100 percent or less of the FMR.<sup>4</sup> Less than a quarter of the PHAs that acknowledge that overconcentration of poor and minority households is a problem in their voucher program undertake special efforts to attract owners in non-concentrated areas to participate in the voucher program or to provide counseling or other assistance to voucher holders so they can obtain units in such areas.<sup>5</sup>

Why don't more PHAs do more to help families locate units with their vouchers or to ensure that vouchers pay enough to bring sufficient units within the reach of voucher holders? Some do not fully understand the flexibility afforded by recent changes in program rules and are not aware of steps they could take to improve voucher use. Some are accustomed simply to complying with program rules rather than making their own decisions about how to achieve program goals. I agree with Secretary Martinez's statement that a central cause of the current underutilization of vouchers is inadequate administration of the program by some PHAs. More effective management by these agencies is central to improved program performance. Both HUD and Congress could take a number of steps to improve program management, as I will explain below.

Yet for a substantial number of PHAs, underutilization of vouchers cannot fairly be blamed on management practices. These PHAs are doing what is possible within their funding and market constraints. For the well-managed PHAs that nonetheless have inadequate program outcomes, additional policy changes are needed. These policy changes also are outlined below.

While the policy changes noted below are likely to improve the administration of the voucher program somewhat, achieving excellent and efficient administration of the Section 8 program requires a fundamentally different delivery system at the local level. Approximately 2,600 PHAs administer the voucher program; more than two-thirds of them have fewer than 250 vouchers. The proliferation of small agencies greatly multiplies the obstacles to effective HUD oversight or support. With an average of more than 50 administering agencies per state — Texas has more than 400! — the number of administrators who need to learn complex program rules and policy interactions is multiplied, economies of scale are not obtained, many rules are not followed, policies are not understood, barriers to participation by eligible families are increased, and scarce funds are spent on duplicative and sometimes ineffective program administration. Program reforms should be designed to reduce the number of administering agencies, promote regional operation of the voucher program throughout metropolitan areas, and improve agency performance, in addition to whatever specific objective they may seek to achieve.

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<sup>4</sup> Office of Policy Development and Research, U.S. Dept. of Housing and Urban Development, *The Uses of Discretionary Authority in the Tenant-Based Section 8 Housing Program*, January, 2001, 46 - 56.

<sup>5</sup> *Ibid.* at 26 - 32.

**a. Changes HUD Could Make to Improve the Voucher Program**

As discussed above, improved administration of the voucher program at the local level could increase owner participation, enhance families' ability to obtain housing, and improve planning and coordination with other agencies. *HUD could improve local program administration through targeted training and technical assistance and through aggressive enforcement of current remedies for poor program enforcement, including reassigning administration of vouchers from under-performing to better-performing agencies.* These important proposals are explained briefly below.

To provide targeted training and technical assistance, HUD should regularly monitor each PHA's utilization of voucher funds and the percentage of families searching for housing that are able to use their vouchers. (Beginning June 1, 2001, PHAs will have to report this "success" data to HUD through the regular tenant characteristics reporting system.) HUD may have to develop new internal procedures to carry out such monitoring in a timely manner; scores from SEMAP, HUD's existing management assessment tool for Section 8 programs, are not available until 120 days after the end of a PHA's fiscal year. HUD should target those PHAs that are having difficulty utilizing Section 8 funds and do not appear to be aware of current policy options or the range of "best practices" in use by other agencies. HUD may need additional funds for this purpose.

Over the course of 2001, each PHA that administers a Section 8 voucher program will receive an initial SEMAP score, which will show HUD which PHAs have not performed adequately under the SEMAP performance indicators. In addition, during 2001, PHAs that utilized less than 90 percent of their voucher funds and leased less than 90 percent of their authorized number of vouchers in fiscal year 2000 will be subject to the sanction provisions of the new Section 8 renewal rule. (This rule permits HUD to reduce permanently the allocation of vouchers to PHAs that fail their initial test and do not increase their rate of utilization of voucher funds to 95 percent by the following year.) HUD should enforce the remedial provisions of SEMAP and the renewal rule aggressively, and should seek new administrators for any agencies that do not make adequate improvements within the corrective action period.

HUD also should use competitive criteria in assigning the administration of vouchers. Where possible, vouchers of low-performing agencies should be consolidated with existing voucher programs of top-performing neighboring, statewide, or regional PHAs that would serve the initial agency's area. In a memorandum submitted in January 2000 in response to the request of the Senate Subcommittee on VA-HUD Appropriations, HUD proposed to use competitive criteria to reassign the administration of the voucher program away from agencies that have "troubled" status under SEMAP and to consolidate the programs of such agencies that have fewer than 250 vouchers. HUD has not indicated whether it will act on this plan once SEMAP scores are available for all agencies, which should occur by the beginning of 2002. Congress should encourage HUD to proceed with this plan.

In addition to these general measures, HUD could take a number of particular steps that would help PHAs improve voucher utilization.

*To increase funds available to PHAs to provide services and benefits to help families obtain housing with vouchers*, HUD should authorize PHAs to use unutilized voucher funding for this purpose, with certain protections. (On behalf of the Center on Budget and Policy Priorities and the National Low Income Housing Coalition, I submitted a specific proposal to HUD in March 2001 to enable certain PHAs to use otherwise unutilized voucher funds to help families use their vouchers to obtain housing.) This change would enable PHAs that have not been able to use all their vouchers to redirect funds to help families search more effectively for available housing, but it will not benefit PHAs that use all their voucher funds but still have low voucher success rates. In these latter cases, additional administrative funds are needed, and HUD should provide these agencies with supplemental administrative fees. HUD has authority to provide supplemental fees under current law but may need additional funds for this purpose.

In addition, HUD should issue a Notice of Funding Availability for the \$10 million appropriated in FY 1999 for the Regional Opportunity Counseling Program, which promotes regional strategies for helping Section 8 families choose neighborhoods that offer better housing, education, and employment opportunities. (HUD has not yet made these funds available.) PHAs seeking this funding should be required to participate in a rigorous evaluation of the effectiveness of their services and benefits in increasing voucher success and deconcentration. It is important to take advantage of this appropriation to improve voucher utilization *and* to learn what types of measures work best under different circumstances.

*HUD could take a number of steps within the existing statutory framework to enable PHAs facing escalating rent and utility costs to increase voucher payments* sufficiently for voucher holders to be competitive in the local market and in neighborhoods outside of areas of concentrated poverty. HUD should:

- Streamline its procedures for reviewing and approving requests from PHAs for payment standards above the discretionary range (90 - 110 percent of the FMR), including establishing a deadline of 90 days for action by its regional offices and delegating more decision-making authority to the regional level.
- Revise its rules to permit PHAs to obtain HUD approval of payment standards above the discretionary range when PHAs demonstrate that higher payment standards are necessary for improved program performance. This option should be available when too many participating families are paying too much for rent and utilities and when too few families succeed in using their vouchers despite reasonable PHA efforts to improve success rates, without requiring PHA submission of rent data.<sup>6</sup>

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<sup>6</sup> HUD's rules generally require agencies seeking approval of a payment standard above 110 percent of FMR to submit rent survey data for the area for which the exception requested, or to demonstrate a pattern of higher rents for certain neighborhoods or towns within a metropolitan area based on the most recent Census. Recognizing that real difficulties in using vouchers can not always be demonstrated through these methods and that many agencies find them excessively costly and burdensome, HUD issued a new policy in October 2000 that allows certain PHAs with voucher success rates below 75 percent to base their payment standard on an FMR at the 50<sup>th</sup> percentile for their area. This success rate payment standard, however, cannot exceed 110 percent of the 50<sup>th</sup> percentile FMR.

- Permit PHAs to increase the payment standard above the discretionary range without HUD approval for vouchers used to lease units financed with Low-Income Housing Tax Credits or HOME funds in developments located outside of poor neighborhoods, up to the maximum reasonable rent allowed for such units. (PHAs are not now permitted to set development-specific payment standards, except for vouchers that are “project-based” in LIHTC-funded units outside of poor neighborhoods.) Also, HUD should permit PHAs to increase the payment standard above the discretionary range without HUD approval for vouchers for persons with disabilities when necessary as a reasonable accommodation.
- Improve the accuracy of Fair Market Rents by performing more annual local rent surveys and by revising the methodology used to set FMRs in light of rapidly rising utility costs, current biases of phone surveys, and lack of adequate data concerning unit quality. (See note 3 for an explanation of how HUD sets FMRs. Congress should ensure that annual appropriations are sufficient for this purpose.)
- Retain the amount of Section 8 reserves needed for PHAs with rising costs to assist the authorized number of families. I will return to this issue later in my testimony. (For a detailed explanation of why agencies may need to draw on their reserves, see my testimony before the Senate Banking Subcommittee on Housing and Transportation, April 25, 2001. I would be happy to provide a copy of this testimony for the record.<sup>7</sup>)

*HUD could help increase owner participation in the voucher program* with measures aimed at federally-financed and other privately-owned housing. HUD should:

- Direct each HUD regional office to post on the web a list of multi-family rental properties in its jurisdiction that are financed by Low-Income Housing Tax Credit (LIHTC) and Home Investment Partnerships Program (HOME) funds, and make PHAs and groups assisting Section 8 voucher holders aware of its availability. These properties have a duty under federal law not to discriminate against Section 8 voucher holders. HUD, in conjunction with IRS, should develop guidance on the meaning of this duty in the HOME and LIHTC statutes. In addition, HUD regional offices should coordinate with state tax credit allocating agencies to ensure LIHTC developments are aware of their duty not to discriminate.
- § Revise its requirements for consolidated plans. (These plans, which state and local governments seeking HUD block grant funds must periodically submit to HUD, outline a community’s housing needs and strategies to meet those needs.) HUD should require that consolidated plans identify barriers to voucher use and propose remedial strategies, including how Community Development Block Grant and HOME funds (as well as other resources) could be used to overcome barriers

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<sup>7</sup> The written testimony is available at [http://www.senate.gov/~banking/01\\_04hrg/042501/sard.htm](http://www.senate.gov/~banking/01_04hrg/042501/sard.htm).

to voucher use and to rehabilitate or produce additional units in which vouchers can be used.

To make more private-market units available to voucher holders, HUD should revise its regulations to help reduce the delays that Section 8 program rules can cause in renting units. Such changes should permit PHAs to make Section 8 payments for certain units for the period after the owner has agreed to rent the unit to the family and the PHA has approved the rent amount, but prior to final inspection and approval by the PHA. This policy could apply to units that have minor defects that are being fixed or lead hazards that are being removed. In tight markets where many families are willing to rent a unit despite minor defects, the lost rent and time that are inherent in the section 8 inspection process are a significant disincentive to landlord participation in the Section 8 program.

#### **b. Changes Congress Could Make to Improve Voucher Utilization**

In addition to encouraging or requiring HUD to make the changes suggested above, there are several statutory changes and appropriations measures Congress could enact to improve voucher utilization.

*Congress could promote the improvement of local voucher program administration by requesting a study from the General Accounting Office or other appropriate agency on what it should and does cost to administer the program and by authorizing the Secretary to use performance-based factors in determining agencies' administrative fees.* Astonishingly, there has never been a study of what it should cost to administer an effective housing voucher program under different market and geographical conditions. Congress should request such a study from the GAO.

Currently, the fees that PHAs charge HUD to administer the Section 8 program are determined by a formula governed by the number of vouchers an agency administers and the rental and labor costs in an area.<sup>9</sup> In 1994, when HUD last studied Section 8 administrative fees, it reported to Congress that "fair market rent levels have no apparent relationship to the cost of administering the certificate and voucher programs."<sup>10</sup> Yet the basic administrative fee continues to be based on historic rental costs.

The current fee system rewards PHAs that maximize the leasing of units at the lowest possible administrative cost. PHAs earn a fee for each month a voucher is used to rent a unit and may use any fees they do not spend on the voucher program for other housing program purposes.

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<sup>9</sup> Section 8 administrative fees are governed by subsection (o)(q), 42 U.S.C. § 1437f(q), by annual appropriations acts, and by HUD regulations and implementing instructions. HUD explains the interaction of these provisions in its most recent notice of Annual Factors for Determining Section 8 Administrative Fees, 66 Fed. Reg. 31,280 (June 11, 2001).

<sup>10</sup> U.S. Department of Housing and Urban Development, *Section 8 Administrative Fees: A Report to Congress*, June 1994.

While rewarding the leasing of units is sensible, reliance on this factor alone creates a disincentive for PHAs to help families rent units in less poverty-concentrated neighborhoods. It also may discourage PHAs from serving families and individuals that may have more difficulty obtaining housing. (Eligibility for the "hard-to-house" supplemental fee of \$75 is too narrow to outweigh this disincentive, as the supplemental fee is available only when disabled individuals or families with three or more children lease units. It does not apply to other applicants who may face greater barriers in obtaining housing, such as those who are homeless, have a limited prior rental history, lack transportation to look at new units, or are members of minority groups.)

Another shortcoming of the current fee structure is that by paying larger fees for the first 600 vouchers, it rewards smaller, potentially less-efficient programs. The fact that agencies with small voucher programs cannot benefit from the economies of scale enjoyed by larger agencies does not necessarily justify paying the former more per voucher. Some PHAs administer a small number of vouchers because of the limited number of eligible families in what may be a geographically large area. Often, however, a PHA has few vouchers because it serves a small, relatively well-off jurisdiction within a populous metropolitan area or because it has not applied for or been awarded new vouchers when they were available. Instead of varying solely with voucher program size, the fee structure should reward performance across a wider range of goals while taking account of cost differences that agencies can do little to alter, such as travel time to inspect units in sparsely-populated rural areas. If fees did not automatically differ based on program size, more agencies might be encouraged to consolidate or form a consortium for administrative purposes. (Congress authorized such consortia in the Quality Housing and Work Responsibility Act of 1998, or QHWRA.)

*Congress also should ensure that the criteria used to award new voucher funds contain incentives to improve local program administration.* Current law requires HUD to use competitive criteria to decide which agencies within a state (or smaller allocation area) receive additional "fair share" voucher funds (Section 213(d) of the U.S. Housing Act, 42 U.S.C. §1439). The specific selection criteria, however, are left up to HUD. Congress could amend the "fair share" statute to require HUD to use criteria that (a) encourage program consolidation, metropolitan area-wide administration, and development of local partnerships to help families obtain housing; and (b) reward Section 8 administering agencies that are high performers on SEMAP and have a proven ability to promote the program goals of deconcentrating poverty and promoting residents' self-sufficiency. Before Congress specifies such criteria permanently in the statute, it may wish to direct HUD to conduct a demonstration of the results of different competitive criteria; a share of new vouchers for FY 2002 could be dedicated to such a demonstration.

*As noted above, some PHAs need additional training and technical assistance to improve voucher utilization and otherwise improve program performance. Congress should ensure that HUD has sufficient funds for this purpose.* Congress should appropriate funds for voucher program technical assistance within the Housing Certificate Fund, rather than within the public housing capital fund as has been the previous practice (and which the Administration's current budget proposal has continued). In that way, such funds would have to be used to improve the administration of local voucher programs rather than being subject to redirection to public housing program purposes.

*To increase funds available to PHAs to provide services and benefits to help families obtain housing with vouchers, Congress should make additional funds available to PHAs that use all of their voucher program funds but have unacceptably low success rates or an over-concentration of voucher families in a particular geographic area.* In addition, if HUD fails to permit PHAs that are unable to use all of their voucher program funds to use a portion of these funds for services and benefits to help families obtain housing, as recommended above, Congress should authorize PHAs to take this step. (A provision similar to this recommendation was included as Section 206 of the House-passed FY 2001 VA-HUD appropriations bill, but was not enacted into law.)<sup>11</sup> It also may be necessary for Congress to clarify that PHAs may use voucher program funds or administrative fees to help with security deposits, moving expenses, or holding fees (to compensate an owner for the time it takes the PHA to approve the unit for rental), if PHAs determine that such expenditures will promote voucher program goals. Apparently some HUD staff believe that such uses of funds are not permitted by current law.

*To make voucher payments more adequate, Congress should amend the Section 8 statute to permit PHAs to set the voucher payment standard up to 120 percent of FMR without HUD approval.* PHAs now are permitted to set the voucher payment standard between 90 and 110 percent of the applicable HUD-determined Fair Market Rent. To set the payment standard above 110 percent of FMR, a PHA must obtain HUD approval. While HUD has recently improved this approval process, the revised policies do not cover all situations in which a higher payment standard is needed to improve voucher utilization or to expand neighborhood choice. In addition, the burden on PHAs still may be onerous and the delays are often substantial. (As recommended above, HUD should streamline its current procedures, and could be directed to do so.)

If the top of the discretionary range were increased to 120 percent of FMR, voucher utilization could be improved substantially. Only PHAs already at the maximum payment standard allowed without HUD approval (110 percent of FMR) would be likely to take advantage of this new authority. (When HUD surveyed PHAs in the first half of 2000, about 20 percent set their voucher payment standard at 110 percent of FMR and did not have HUD approval to exceed this level.) Some have suggested that the most important change that could be made to increase the units available for rent to families with vouchers is to increase the Fair Market Rent throughout the country to the 50<sup>th</sup> percentile rent. (In January 2001 HUD increased the FMR to the 50<sup>th</sup> percentile in 39 metropolitan areas that include approximately 500 PHAs.) It is important to note that 120 percent of the 40<sup>th</sup> percentile FMR is significantly higher than 110 percent of an FMR set at the 50<sup>th</sup> percentile. For example, in the Washington DC metropolitan area, 120 percent of the 40<sup>th</sup> percentile FMR for a two-bedroom unit is \$1036, while 110 percent of the 50<sup>th</sup> percentile FMR is \$998. Consequently, PHAs that still must use FMRs set at the 40<sup>th</sup> percentile (the majority) receive more flexibility in setting their voucher payments if the maximum range is increased to 120 percent than they would if the FMR were raised to the 50<sup>th</sup> percentile across the board. This change also would benefit high-cost areas already at the 50<sup>th</sup>

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<sup>11</sup> See Barbara Sard, *New Administration Proposal Would Make Significant Improvements in the Section 8 Program But Congress Should Approve Use of Funds for Services to Help Families Obtain Housing*, Center on Budget and Policy Priorities, September 21, 2000, available on the internet at <http://www.cbpp.org/9-21-00hous.htm>.

percentile.

*Congress should ensure that Section 8 program reserves remain adequate to enable PHAs that need to increase voucher payments to achieve adequate utilization and deconcentration to do so without reducing the number of families they serve.* The Administration's budget proposes to reduce PHAs' reserves for the Section 8 program from two months to one month of annual budget authority in FY 2002. This proposed reduction in Section 8 reserves may require PHAs with significant cost increases to reduce the number of families they serve. A substantial proportion of PHAs may face increased costs in 2002 for a number of reasons. For example, PHAs may increase their voucher payments to keep pace with an increase in the HUD-determined Fair Market Rent or with rising local rents and utility costs. Small agencies are vulnerable if the cost of assisting a few families increases due to larger family size or moves to higher-cost areas. The completion of the merger of the certificate and voucher programs late this year may increase average subsidy costs.

If sufficient funds are not available to meet these cost increases, PHAs will not be able to provide vouchers to the total number of families Congress has agreed to assist. In addition, if the reduction in program reserves deters PHAs from increasing voucher payments when rents and utility costs increase, fewer families may be able to obtain housing with their vouchers and more voucher funds may remain unutilized. To avoid reducing the number of families receiving voucher assistance, it would be preferable, if resources permit, to retain the current two months' reserve for each agency. At a minimum, Congress should provide sufficient funds for HUD to establish a headquarters reserve. Funds from the headquarters reserve would be available to those agencies C perhaps up to a third of all PHAs C that need more than one month's reserve to provide voucher assistance to the number of families they are authorized to serve. It is difficult to estimate what amount of funds is needed for such a headquarters reserve without current data from HUD on reserve use. \$200 million may be adequate. If this amount is sufficient, more than two-thirds of the savings anticipated by the Administration could still be realized but with more assurance that no adverse consequences would result from this change in agency reserves.

*To increase voucher acceptance by private owners,* Congress should clarify that recipients of funds under HUD's Fair Housing Initiatives Program may use these funds to test for Section 8 discrimination where an owner's refusal to rent to a voucher holder may violate federal or state/local law or may be a pretext for discrimination prohibited by the Fair Housing Act. In addition, to enable PHAs to make payments to owners for the period between an initial agreement by an owner to rent to a family with a voucher and the final approval of a unit after necessary repairs have been made, as recommended above, it may be necessary for Congress to clarify that such payments are permitted under the inspection provisions of the voucher statute, or to modify subparagraph (8) of the voucher statute.

*Voucher utilization also could be increased if more housing units were available in areas where the supply of rental housing with the needed bedroom sizes has been inadequate.* Any new or expanded federal initiative to fund the production of such new rental housing should ensure that owners are required to accept vouchers and that this obligation is easily enforceable.

Some groups have urged Congress to remove or raise the cap on the share of family

income that families may pay when they rent new units under the voucher program. Paragraph (3) of the voucher statute states that new participants in the program and families that move to new units may not pay more than 40 percent of their adjusted income in rent. Since all program participants must pay at least 30 percent of their adjusted income for rent, this provision prevents a family from renting a unit if the cost of rent and the PHA's utility allowance exceeds the voucher payment standard by more than 10 percent of the family's adjusted income.

While a modest change in this provision (such as changing the cap to 40 percent of gross rather than adjusted income) may be appropriate, the provision's goal of ensuring that the adoption of a voucher model for the entire tenant-based program did not lead to excessive rent burdens for families should be retained. HUD data indicated that a majority of families under the voucher component of the program (in contrast to the certificate program) were paying more than 30 percent of their income for rent and utilities; many were paying more than half of their income. To avoid excessive cost burdens in the new merged voucher program, Congress adopted two provisions as part of the 1998 merger legislation: the 40 percent cap and the requirement that HUD monitor participants' rent burdens and direct PHAs to increase their voucher payment standards when a significant percentage of families were paying more than 30 percent of their income. Any change in the 40 percent cap should be consistent with Congress' overarching concern that most families should pay no more than 30 percent of their income, the current federal housing affordability standard.

Some have pointed to the targeting requirements of the voucher program as a reason that some PHAs are having difficulty using all of their vouchers. (At least 75 percent of new families receiving voucher assistance each year from each PHA must have income at or below 30 percent of the area median income.) It is true that if a PHA has set the voucher payment standard so low that few units are available that rent at or below the payment standard it will be somewhat easier for families with more income to use their vouchers. If the cost of rent and utilities is above the payment standard, families must pay the extra cost. Families with higher incomes can pay a larger amount over the payment standard without exceeding the 40 percent of income cap discussed above. The attached tables illustrate how PHA discretion over the voucher payment standard combined with the 40 percent of income cap affect the ability of families with incomes at different levels to obtain housing in the Trenton (NJ) Primary Metropolitan Statistical Area, the median FMR area in New Jersey. These examples illustrate that rather than redirecting scarce housing resources away from families in the greatest need, PHAs can make more housing units available to extremely low-income families with vouchers by increasing the voucher payment standard. A modest change in the 40 percent of income cap from a measure of adjusted income to a measure of gross income also would help make more units available to extremely low income families.

For the minority of PHAs that already set the voucher payment standard at the maximum level permitted without further HUD approval and still encounter barriers to using all their vouchers, the policy changes described above to facilitate increases in the payment standard and otherwise to make more units available to families with vouchers are needed. Weakening the targeting requirements, however, is the wrong solution to the problem. Over three-fourths (77 percent) of the families with "worst case" housing problems in 1999 had extremely low incomes. (HUD defines renters as having "worst case" housing needs if they are unsubsidized renter

households who have incomes at or below 50 percent of the area median income and pay more than half of their income for rent and utilities or live in severely substandard rental housing.) The incidence of severe housing needs among extremely low-income families and individuals is much greater than among those with higher incomes. In 1999, 68 percent of unassisted extremely low-income renters had worst case problems. By contrast, only 22 percent of unassisted renters with incomes between 31 and 50 percent of area median income had worst case problems in 1999.<sup>12</sup>

The voucher program is the sole federal housing program that remains primarily targeted on families at the income level likely to have the greatest housing needs. There is no sound reason for Congress to change this policy.

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<sup>12</sup> U.S. Department of Housing and Urban Development, *A Report on Worst Case Housing Needs in 1999: New Opportunity Amid Continuing Challenges*, January 2001.

**Section 8 Vouchers: Effect of Payment Standard, 40 Percent Cap and Family Income of \$13,000 on Unit Availability\***

*Family A -- Annual gross income: \$13,000 (\$1083/month). One adult and two minor children. Expenses of \$100/month for child care. Monthly adjusted income = \$903.*

**Payment Standard = 100% of FMR (\$862)**

<i>Rent + Utility Allowance</i>	<b>\$900</b>	<b>\$1000</b>	<b>\$1100</b>
<i>Allowed to Rent?</i>	<b>YES</b>	<b>NO</b>	<b>NO</b>
<i>Family share</i>	\$308	\$408	\$508
<i>% of Adjusted Income</i>	34%	45%	56%
<i>Allowed to Rent If Cap = 40% of Gross Income?</i>	N/A	<b>YES</b>	<b>NO</b>
<i>% of Gross Income</i>	N/A	38%	47%

**Payment Standard = 110% of FMR (\$948)**

<i>Rent + Utility Allowance</i>	<b>\$900</b>	<b>\$1000</b>	<b>\$1100</b>
<i>Allowed to Rent?</i>	<b>YES</b>	<b>YES</b>	<b>NO</b>
<i>Family share</i>	\$270	\$322	\$422
<i>% of Adjusted Income</i>	30%	36%	47%
<i>Allowed to Rent If Cap = 40% of Gross Income?</i>	N/A	N/A	<b>YES</b>
<i>% of Gross Income</i>	N/A	N/A	39%

**Payment Standard = 120% of FMR (\$1034)**

<i>Rent + Utility Allowance</i>	<b>\$900</b>	<b>\$1000</b>	<b>\$1100</b>
<i>Allowed to Rent?</i>	<b>YES</b>	<b>YES</b>	<b>YES</b>
<i>Family share</i>	\$270	\$270	\$336
<i>% of Adjusted Income</i>	30%	30%	37%
<i>Allowed to Rent If Cap = 40% of Gross Income?</i>	N/A	N/A	N/A
<i>% of Gross Income</i>	N/A	N/A	N/A

\*Example based on Trenton (NJ) Primary Metropolitan Statistical Area in 2001. 30 percent of area median income (AMI) for 3-person family is \$19,200. Trenton has the median Fair Market Rent (\$862 for a two-bedroom unit) and the fourth highest income limits of the nine NJ MSAs.

**Section 8 Vouchers: Effect of Payment Standard, 40 Percent Cap and Family Income of \$26,000 on Unit Availability**

**Family B** -- Annual gross income: \$26,000 (\$2167/month).\* Same family size and deductions as family A. Monthly adjusted income = \$1987.

**Payment Standard = 100% of FMR (\$862)**

<b>Rent + Utility Allowance</b>	<b>\$900</b>	<b>\$1000</b>	<b>\$1100</b>
<b>Allowed to Rent?</b>	<b>YES</b>	<b>YES</b>	<b>NO</b>
<b>Family share</b>	\$634	\$734	\$834
<b>% of Adjusted Income</b>	32%	37%	42%
<b>Allowed to Rent If Cap = 40% of Gross Income?</b>	N/A	N/A	<b>YES</b>
<b>% of Gross Income</b>	N/A	N/A	38%

**Payment Standard = 110% of FMR (\$948)**

<b>Rent + Utility Allowance</b>	<b>\$900</b>	<b>\$1000</b>	<b>\$1100</b>
<b>Allowed to Rent?</b>	<b>YES</b>	<b>YES</b>	<b>YES</b>
<b>Family share</b>	\$596	\$648	\$748
<b>% of Adjusted Income</b>	30%	33%	38%
<b>Allowed to Rent If Cap = 40% of Gross Income?</b>	N/A	N/A	N/A
<b>% of Gross Income</b>	N/A	N/A	N/A

**Payment Standard = 120% of FMR (\$1034)**

<b>Rent + Utility Allowance</b>	<b>\$900</b>	<b>\$1000</b>	<b>\$1100</b>
<b>Allowed to Rent?</b>	<b>YES</b>	<b>YES</b>	<b>YES</b>
<b>Family share</b>	\$596	\$596	\$662
<b>% of Adjusted Income</b>	30%	30%	33%
<b>Allowed to Rent If Cap = 40% of Gross Income?</b>	N/A	N/A	N/A
<b>% of Gross Income</b>	N/A	N/A	N/A

\*In the Trenton (NJ) Primary Metropolitan Statistical Area in 2001, 50 percent of the HUD-adjusted AMI for a 3-person family is \$32,000. Family B's income is approximately 40 percent of the Trenton MSA's AMI.