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GLOSSARY OF MEASURES TAKEN IN RESPONSE TO HUD'S FISCAL YEAR 2004 FUNDING POLICY

This document defines and describes the impact of ten measures that some state and local housing agencies have taken to reduce costs as a result of HUD's fiscal year 2004 voucher funding policy:

1. Freezing turnover vouchers
2. Withdrawing vouchers from families that are searching for housing
3. Terminating vouchers
4. Reducing the voucher payment standard
5. Freezing or reducing rents
6. Raising minimum rents
7. Using "preferences" to serve higher-income families
8. Restricting portability
9. Providing fewer project-based vouchers
10. Reducing participation in the Family Self-Sufficiency program

1. Freezing turnover vouchers: Agencies may reduce costs by shelving vouchers that become available when families leave the voucher program instead of issuing the voucher to another low-income family. Nationally, about 12 percent of families leave the program each year, with the turnover rate varying greatly from one agency to another. Freezing turnover vouchers reduces the number of families with vouchers through attrition, and as a result leaves more families languishing on waiting lists. Such families are struggling to cover the cost of housing; many are living in severely substandard or overcrowded housing, in shelters, or on the streets.

2. Withdrawing vouchers from families that are searching for housing: It may take several months for a family to rent housing after it has been issued a voucher. Some housing agencies facing a funding shortfall have taken vouchers back from families that are searching for housing and have not yet begun to use the voucher, even though many of these families have devoted considerable effort to finding a unit they can rent with their voucher. Often, such families have spent several years on a waiting list before being issued the voucher that is now being recalled.

3. Terminating vouchers: A housing agency may cut off assistance to families currently using a voucher to help pay their rent, if the agency has not received sufficient funding from HUD to cover the cost of the voucher. This step can have harsh consequences for families, which often will not be able to afford to stay in their homes without the voucher. Terminating voucher subsidies also adversely affects landlords, who lose rental income if the family is unable to cover the rent without its voucher and in some cases may need to take costly legal action to evict tenants who cannot pay the rent.

4. Reducing the voucher payment standard: The "payment standard" is the maximum amount of rent that a voucher can cover. A voucher subsidy covers the difference between the family's rent (including allowable utility costs) up to the payment standard and about 30 percent of a family's income. If the rent exceeds the payment standard, the family pays the extra amount in full. Local agencies may set the payment standard at any level within 10 percent of a "Fair Market Rent" set by HUD, which is based on rents for modest apartments that were recently rented in the local housing market.

Lowering the payment standard cuts costs because it reduces the size of voucher subsidies. But it also makes it more difficult for voucher holders to move beyond neighborhoods with very low rents. Often such neighborhoods have high poverty and few employment or educational opportunities. If a family is unable to find an apartment it can rent at the new, lower payment standard that the local agency has set, the family will be forced either to bear a larger share of the rent itself or to turn back its voucher.

The poorest families are likely to have particular difficulty using vouchers if the payment standard is very low, because they will have less income available to cover costs beyond the payment standard. Moreover, when families first receive voucher assistance or move to new units, they are prohibited from spending more than 40 percent of their income for rent and utility expenses. This rule is more restrictive for a family with very little income than for a family with more income, since 40 percent of the poorer family's income is a smaller amount.

(Families receiving voucher assistance that remain in their current apartments are generally protected from the effects of payment standard reductions for one to two years by federal regulations. HUD has indicated, however, that it plans to eliminate this protection or provide waivers to enable agencies to bypass it.)

5. Freezing or reducing rents: Housing agencies must approve the rents for all apartments rented using a voucher, even if the rent is below the payment standard. Agencies can use this authority to reduce costs by refusing to approve rent increases that the agency claims are unreasonable or even requiring rent reductions. HUD studies have found that most voucher rents are in line with market rents for comparable apartments, so in most cases freezing or reducing rents will push rents below the amount that a landlord would receive by renting the apartment to a family without a voucher. As a result, this step may cause many landlords to stop accepting vouchers and make it more difficult for families that have been issued vouchers to use them.

6. Raising minimum rents: Housing agencies are permitted to impose a minimum rent of up to $50 per month on all families with vouchers, including those with little or no income. Until now, the majority of agencies have chosen not to use this option due to the hardship it can cause for destitute voucher-holders. Some agencies, however, are imposing new minimum rents or raising existing minimum rents to cut costs in response to HUD's new policy.

7. Changing "preferences" to serve higher-income families: Because a voucher subsidy covers the difference between the rent and about 30 percent of a family's income, families with lower incomes require larger subsidies and are more expensive to serve. Housing agencies must issue 75 percent of their vouchers to families with incomes below 30 percent of the local area median income and may not issue any vouchers to families with incomes above 80 percent of the area median income, but within those percentages agencies have broad flexibility to set "preferences" for particular populations. To cut costs, a housing agency that, in response to local community priorities, has previously given preference to a group with especially low-incomes, such as the homeless, may now feel compelled to end that preference.

Agencies may also reduce costs by instituting preferences for groups — such as the elderly or people with disabilities — that on average are made up of smaller households than voucher holders as a whole. Such households are able to live in smaller apartments and consequently tend to receive smaller subsidies. Again, such a change would constitute a shift away from the priorities that the local community had previously decided upon.

8. Restricting portability: Under the voucher program, families are permitted to move with their vouchers to any community in the nation where there is a voucher program. This "portability" is important to many voucher holders; it may, for example, enable a worker to relocate to find or keep a job, an elderly person to move closer to family that can provide care, or a domestic violence victim to flee an abuser.

The agency that issues a voucher to a family continues to be responsible for covering the costs of the voucher after the family has moved to a different community, unless the housing agency in the community to which the family moves agrees to take on those costs through its voucher program. If the community to which the family moves has higher rents than the jurisdiction of the housing agency that issued the voucher, the move may drive up the average costs of the agency that issued the voucher. Some housing agencies have sought to reduce costs by banning moves outside their jurisdictions or forcing families that have already moved to other communities either to move back or to give up their vouchers. Refusing to permit such moves may be illegal.

9. Providing fewer project-based vouchers. Housing agencies are permitted to require that up to 20 percent of their vouchers be used at designated housing projects. Such "project-basing" allows vouchers to support production of affordable housing by guaranteeing developers a source of rental revenue they can use to repay debt incurred during construction. Some housing agencies facing funding shortfalls have been compelled to cancel plans to provide project-based vouchers to new developments and instead leave the vouchers unused. Agencies facing very large shortfalls may have no choice but to break *existing* contracts to designate vouchers for use at particular developments. In addition to derailing the specific projects that agencies cancel or break contracts for, these measures may deter developers and lenders from participating in other developments supported by project-based vouchers in the future.

10. Reducing participation in the Family Self-Sufficiency (FSS) program. FSS is an initiative designed to encourage housing assistance recipients to move off welfare. When a family with a voucher raises its earnings, the amount of rent that the family pays normally increases. If a family is participating in FSS, however, the increase is placed in an escrow account that the family can later access if it meets all of the requirements contained in a self-sufficiency plan agreed to by the family and the housing agency.

Such escrow payments are effectively counted as part of the costs that the agency incurs for the family's voucher. Some housing agencies seeking to curb costs have stopped enrolling new families in the FSS program. As a result, fewer families will benefit from a program that HUD has described as its "primary tool" for helping voucher holders build assets and raise their incomes.