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Housing Bill Unanimously Passed by House Would Build on Effectiveness of Rental Assistance

By Will Fischer

By a unanimous vote of 427-0, the House on February 2, 2016 approved the Housing Opportunities Through Modernization Act (H.R. 3700), a bipartisan bill making targeted reforms to federal housing programs. The bill, which now goes to the Senate for consideration, includes rental assistance provisions that would deliver important benefits to low-income families, seniors, and people with disabilities. Those provisions would:

- **Enable state and local housing agencies to improve the access of low-income tenants to areas with low poverty and crime and well-performing schools,** by allowing them to use more "project-based" housing vouchers in such areas. (Unlike regular "tenant-based" vouchers, which families use to rent a unit they find in the private market and choose to rent, project-based vouchers are attached to specific units whose owner contracts with the local housing agency to rent the units to low-income families.) Research shows that using a rental voucher to move to a low-poverty neighborhood markedly improves children's rate of college attendance and their long-run earnings, as well as adults' health.
- **Help address homelessness** by 1) allowing local housing agencies to make greater use of project-based vouchers to assist the homeless (as well as veterans, the elderly, and people with disabilities); 2) revising the rules for inspecting units that families with tenant-based vouchers wish to rent in order to get vulnerable families into homes more quickly, while protecting them from eviction if subsidy payments to an owner are suspended because a unit has developed housing-quality violations; and 3) strengthening voucher assistance for former foster children, a group that faces a high risk of homelessness.
- **Reduce administrative burdens** for housing agencies and private owners of assisted units by streamlining rent determinations and voucher inspections. Lower administrative costs would allow both agencies and owners to target more resources on activities that directly benefit low-income households, such as supportive services and maintaining assisted developments.
- **Strengthen work incentives** by delaying rent increases for families with rental assistance when their earnings rise.
- **Help preserve public housing and improve residents' quality of life** by giving agencies greater flexibility to use public housing funds for pressing renovation needs.

Importantly, H.R. 3700 would make these improvements while leaving in place the core characteristics that have made federal rental assistance programs effective. It also would do so without raising costs; in fact, the Congressional Budget Office (CBO) estimated that H.R. 3700 would reduce program costs by $311 million over five years, with $195 million of that reduction stemming from the bill's rental assistance provisions. (These figures do not reflect amendments that the House approved, but those will likely have only a modest net impact on costs) These savings would not directly reduce housing program expenditures, which are determined by the funding levels in annual appropriations legislation, but they would allow Congress to maintain the current level of assistance at a lower cost or extend assistance to additional families without raising expenditures.

The bill also modifies certain other federal housing programs. It seeks to support homeownership among low- and moderate-income families through changes affecting rural housing loan guarantees administered by the U.S. Department of Agriculture and mortgage insurance administered by the Federal Housing Agency. The bill would also revise Housing Opportunities for Persons With AIDS (HOPWA), which provides housing assistance and services to people with HIV/AIDS, to better match funding for states and metropolitan areas to current levels of need.

H.R. 3700 has received enthusiastic support from members of both parties. House Financial Services Committee Chairman Jeb Hensarling (R-TX) described it as "an incredible bipartisan work that makes a number of modest, yet significant, improvements to how our housing assistance is granted,"[1] and the committee's ranking Democrat, Maxine Waters (D-CA), noted that it includes "much-needed improvements to our housing programs to make them work better for both public housing agencies and the tenants they serve."[2] Congress has considered many of the bill's provisions for as long as a decade as part of earlier bills that received broad support in Congress, as well as from stakeholders, but never became law.

Reforms Would Build on Strengths of Rental Assistance Programs

The nation's rental assistance programs help more than 5 million low-income households afford decent housing, the great majority of them senior citizens, people with disabilities, and working-poor families with children.[3] Most receive assistance through the three largest programs: Housing Choice Vouchers (HCV), Section 8 project-based rental assistance, and public housing.

Rigorous research has shown that rental assistance can sharply reduce homelessness, housing instability, and overcrowding — problems linked to harmful effects on children's health and development.[4] Vouchers provided to homeless families with children have been found to cut foster care placements (which are often triggered by parents' inability to afford suitable housing) by more

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[1] Statement during House Financial Services mark-up of H.R. 3700, December 8, 2015.

[2] Statement during House floor consideration of H.R. 3700, February 2, 2015.

[3] Center on Budget and Policy Priorities, "Policy Basics: Federal Rental Assistance," December 21, 2015, http://www.cbpp.org/research/housing/policy-basics-federal-rental-assistance.

[4] Michelle Wood, Jennifer Turnham, and Gregory Mills, "Housing Affordability and Well-Being: Results from the Housing Voucher Evaluation," *Housing Policy Debate,* 19:367-412 (2008); Daniel Gubits *et al.*, *Family Options Study: Short-Term Impacts of Housing and Services Interventions for Homeless Families,* prepared for the Department of Housing and Urban Development, July 2015, http://www.huduser.org/portal/sites/default/files/pdf/FamilyOptionsStudy_final.pdf; Will Fischer, "Research Shows Housing Vouchers Reduce Hardship and Provide Platform for Long-Term Gains Among Children," Center on Budget and Policy Priorities, October 7, 2015, http://www.cbpp.org/sites/default/files/atoms/files/3-10-14hous.pdf.

than half, substantially reduce moves from one school to another, and cut rates of alcohol dependence, psychological distress, and domestic violence victimization among adults.[5] Affordable housing combined with supportive services can help the elderly and people with disabilities remain independent and avoid or delay entering more costly institutional care facilities. In addition, compelling evidence shows that providing affordable housing and services to homeless individuals with chronic health problems generates savings in health care and other areas.[6]

Research has found additional benefits when housing assistance enables low-income families to live in lower-poverty neighborhoods. Children whose families move to low-poverty neighborhoods when they are young earn significantly more as adults and are much more likely to attend college and less likely to become single parents.[7] Where housing policies have allowed low-income children to attend high-performing, economically integrated schools over the long term, their math and reading test scores are significantly better than comparable children who attended higher-poverty schools.[8] In addition, adults who used a housing voucher to move to a less poor neighborhood are less likely to suffer from depression, psychological distress, extreme obesity, or diabetes — improvements that could reflect reduced stress due to lower crime as well as better access to public space for exercise.[9]

The strong benefits of rental assistance suggest that policymakers considering changes to these programs should exercise caution to avoid undermining the programs' effectiveness. As with any set of policies, however, adjustments are needed over time to reflect changed circumstances and lessons learned. Nearly 18 years have passed since the Quality Housing and Work Responsibility Act (QHWRA) of 1998, the last major authorizing legislation affecting the voucher and public housing programs. The reforms in H.R. 3700 would prudently update and streamline federal rental assistance while retaining the key characteristics that have underpinned its success.[10]

Facilitating Use of Project-Based Vouchers

An important set of provisions in H.R. 3700 would make it easier for housing agencies to enter agreements with owners to "project-base" a portion of their vouchers in particular developments. Most vouchers are "tenant-based," meaning that a family can use the voucher to rent a unit of its choice in the private market.

Agencies can use project-based vouchers to make housing available in areas where it's difficult to use tenant-based vouchers. While the voucher program is more effective than other forms of rental

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[5] Gubits *et al.,* 2015.

[6] Fischer, 2015.

[7] Raj Chetty, Nathaniel Hendren, and Lawrence F. Katz, "The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment," May 2015, http://scholar.harvard.edu/files/lkatz/files/mto_manuscript_may2015.pdf.

[8] Heather Schwartz, "Housing Policy is School Policy," The Century Foundation, 2010, http://tcf.org/publications/pdfs/housing-policy-is-school-policy-pdf/Schwartz.pdf.

[9] Lisa Sanbonmatsu *et al.,* "Moving to Opportunity for Fair Housing Final Demonstration Program: Final Impacts Evaluation," prepared for the Department of Housing and Urban Development, Office of Policy Development and Research, 2011, http://www.huduser.org/portal/publications/pubasst/MTOFHD.html.

[10] This analysis covers the most significant provisions in H.R. 3700 affecting federal rental assistance. For additional detail on the bill's rental assistance provisions, see Center on Budget and Policy Priorities, "Comparison Between Housing Opportunity Through Modernization Act (HOTMA) and Current Law," February 5, 2015, http://www.cbpp.org/sites/default/files/atoms/files/hr_3700-current_law_12-7-15.pdf.

assistance at enabling families to live in low-poverty areas, in 2014 only 13 percent of families with children participating in the voucher program lived in neighborhoods where fewer than 10 percent of residents were poor. Improvements to the tenant-based voucher program can expand access to high-opportunity neighborhoods, but placing project-based voucher developments in those neighborhoods is another important tool to advance this goal.[11] Project-based vouchers also can expand access to other areas where tenant-based vouchers are difficult to use, such as rural areas with little rental housing and gentrifying urban neighborhoods where low-income families risk displacement.

Housing agencies can also use project-based vouchers to partner with social service agencies to provide supportive housing (i.e., housing assistance combined with supportive services) to residents who are elderly or formerly homeless or have disabilities. Research has found that supportive housing can be very effective in reducing homelessness and can sharply reduce costs in other public programs, such as health care and corrections.[12]

Today, agencies may use no more than 20 percent of their voucher funds for project-based vouchers. In addition, the share of project-based vouchers in a particular development is limited to 25 percent of the units unless the development assists the elderly, people with disabilities, or residents receiving social services (or has fewer than five units).[13] These caps serve important purposes, ensuring that most vouchers remain available for families to use in neighborhoods of their choice and reducing the chances that project-based vouchers themselves will concentrate large numbers of poor families in a small area. But the caps have sometimes proven too restrictive, limiting housing agencies' ability to use project-based vouchers in ways that would produce important benefits.

H.R. 3700 would retain limits on project-basing at the agency and project levels but make the limits more flexible. Most importantly, it would raise the percentage of an agency's voucher assistance that the agency can project-base from 20 percent to 30 percent, if the agency uses the added 10 percent: (a) for developments in areas where vouchers are difficult to use; (b) to house homeless people or veterans; or (c) to provide supportive housing to people with disabilities and the elderly.[14]

In addition, H.R. 3700 would permit agencies to provide project-based vouchers in 25 percent of a development's units or 25 units in a development, whichever is greater, thereby allowing higher concentrations in small developments. The bill would also allow agencies to project-base vouchers in up to 40 percent of the units in a development in areas where vouchers are difficult to use or the poverty rate is 20 percent or less.

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[11] Barbara Sard and Douglas Rice, "Realizing the Housing Voucher Program's Potential to Enable Families to Move to Better Neighborhoods," Center on Budget and Policy Priorities, January 12, 2016, http://www.cbpp.org/research/housing/realizing-the-housing-voucher-programs-potential-to-enable-families-to-move-to.

[12] Michael Nardone, Richard Cho, and Kathy Moses, "Medicaid-Financed Services in Supportive Housing for High-Need Homeless Beneficiaries: The Business Case," Center for Health Care Strategies, Inc., June 2012, http://www.rwjf.org/en/library/research/2012/06/medicaid-financed-services-in-supportive-housing-for-high-need-h.html;

[13] Center on Budget and Policy Priorities, "Policy Basics: Project-Based Vouchers," December 7, 2015, http://www.cbpp.org/research/housing/policy-basics-project-based-vouchers.

[14] The bill would also change the current limit on project-basing from 20 percent of an agency's voucher *funds* to 20 percent of the *vouchers* that an agency is authorized to administer. This would tend to give agencies greater flexibility to project-base vouchers because most agencies receive funds for substantially fewer vouchers than they are authorized to administer.

The bill would make other changes to support project basing. These include allowing housing agencies to enter into project-based voucher contracts with a term of 20 years (the term that HUD — the Department of Housing and Urban Development — permits for contracts under the separate Section 8 project-based rental assistance program), rather than the current 15-year maximum. The bill would also permit owners to establish and maintain "site-based" waiting lists for particular buildings or developments, subject to civil rights and other requirements.

Streamlining Inspections to Encourage Voucher Participation by Private Owners

When a voucher holder rents a housing unit, the unit must pass an inspection showing that it meets federal housing quality standards before any subsidy payments can be made to the owner. This protects voucher holders from exposure to substandard housing conditions but can delay access to housing for families on waiting lists, including families facing homelessness, domestic violence, or other severe hardship. Inspections can also deter landlords from renting to voucher holders if — as is often the case in high-opportunity neighborhoods — the owner could rent more quickly to a family that doesn't have a voucher and isn't subject to an inspection requirement.

H.R. 3700 retains the inspection requirement for all units where vouchers are used but streamlines and improves the inspection process. It would allow agencies to make initial subsidy payments to owners even if the unit doesn't 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 payments to continue. It would also allow families to occupy units that have passed inspection under certain other federal programs (such as the HOME program, which funds housing development and rehabilitation), so long as the housing agency later inspects the unit under voucher program rules. Payments to the owner wouldn't start until the voucher inspection occurs but could be made retroactive to the date the family moved in.

These changes would speed access to housing for vulnerable families and encourage owners to participate in the voucher program. They also would reduce agencies' administrative costs by giving them more flexibility to schedule inspections when an inspector will be in the neighborhood (which could allow them to reduce both transportation and labor costs related to inspections).

In addition, H.R. 3700 would modify rules governing units where quality violations are identified after a voucher holder moves in and the unit has passed the initial inspection. When this occurs, the housing agency can "abate" (suspend) subsidy payments if the owner fails to address the violation in a timely manner and can ultimately terminate the subsidy if the defects aren't adequately repaired. H.R. 3700 would prohibit landlords from evicting tenants while subsidies are abated and guarantee such families the right to terminate their lease and move if they wish. It would also protect families from losing housing assistance if subsidies are terminated because of housing quality violations by giving them at least 90 days to rent a new unit with their voucher and the option to move into the agency's next available public housing unit. In addition, the bill would allow the housing agency to use the housing subsidies left unused because of the abatement to help tenants find a new unit and relocate.

Streamlining Rules for Determining Tenants' Rental Payments

Tenants in HUD's rental assistance programs generally pay 30 percent of their income (after certain deductions are applied) for rent and utilities; the housing subsidy is designed to cover the remaining rental cost of the unit. These rent rules, which ensure that even families with very little income can afford decent housing, likely play a central role in the effectiveness of rental assistance in reducing homelessness and housing instability. H.R. 3700 retains the principle that most rents are set at 30 percent of income but streamlines determination of tenants' incomes and deductions. The changes would apply to all of the major federal rental assistance programs.

This streamlining would substantially reduce administrative costs. This can benefit rental assistance recipients by freeing up resources that agencies and owners could opt to use for activities that benefit tenants more directly. These could include improving the maintenance of assisted units, providing supportive services (such as assistance to help residents who are elderly or have disabilities to live independently), or helping voucher holders rent units in higher-opportunity areas.

Simplifying Deductions for the Elderly and People with Disabilities

One set of changes in H.R. 3700 would simplify the income deductions used when determining tenants' rents. Currently, housing agencies and owners are required to make two deductions designed to help the elderly and people with disabilities:

- A standard deduction of $400 annually for each elderly or disabled household, defined as those where the head, co-head, or spouse is at least 62 or has a disability; and
- Unreimbursed medical expenses for elderly and disabled households and unreimbursed disability-related expenses for households with a member who has a disability, but only to the extent that those expenses exceed 3 percent of the household's income.

H.R. 3700 would raise the standard deduction for elderly and disabled households to $525 and index it to inflation. It would also index to inflation the $480 deduction provided for each dependent in any household with rental assistance. Indexing is an important step since these deductions have lost more than half of their value since they were first set at their current level over three decades ago.[15] In addition, the bill would limit the medical and disability expense deduction to expenses above 10 percent of household income.

The bill makes these changes because the standard deduction for elderly and disabled households has significant advantages over the itemized deduction for medical and disability expenses. The latter adds to administrative burdens for housing agencies and owners, who must gather and verify information on eligible expenditures. It also imposes compliance burdens on the elderly and people with disabilities, who must compile and submit receipts which may contain highly personal information. H.R. 3700 would reduce these burdens by lowering the number of families that receive medical deductions by 42 percent, according to CBPP analysis of HUD data.

[15] The version of H.R. 3700 approved by the House Financial Services Committee on December 9, 2015 would have increased the dependent deduction to $525 and scaled back a deduction for unreimbursed child care expenses. The House approved an amendment introduced by Ranking Democrat Maxine Waters removing these changes to address concerns that they would result in harmful rent increases for some families and discourage work.

By contrast, the standard deduction for elderly and disabled households is simple to administer, since it only requires agencies to determine household members' age and disability status. And expanding it would not add to administrative burdens, since it would merely require agencies and owners to subtract a different number from a family's income.

In addition, the standard deduction reaches virtually all households eligible for it. By contrast, fewer than 30 percent of elderly and disabled households receive the medical deduction. The remaining 70 percent includes some households without eligible medical expenses, but it also likely includes others who have eligible expenses but don't successfully claim the deduction.

The deduction changes in H.R. 3700 would raise rents for some families and lower them for others, depending on their income and the deductions they receive now:

- Elderly and disabled households that don't claim the medical expense deduction today would see small rent reductions of about $3 a month, since they would benefit from the expanded standard deduction but not be affected by the higher threshold for the medical deduction.
- Most households that do claim the medical expense deduction would see their rents rise, but the increases would be limited. They could still deduct medical expenses above 10 percent of their income, and the reduction in the amount of their medical deduction would be offset in part by the increase in the standard deduction.

As Table 1 shows, the provisions would reduce rents for what HUD terms "extremely low-income" (ELI) households — those with incomes below the federal poverty line or 30 percent of the local median income, whichever is higher — by $6 million a year and raise rents among relatively higher-income rental assistance recipients by $89 million.[16] This is significant, because after paying 30 percent of their income for rent, ELI households have less left over than other households with rental assistance for basic expenses such as food, health care, transportation, and clothes for school or work.

The number of ELI households with rent reductions would exceed those with rent increases by a margin of five to one and the rent increases or decreases would generally be small. Overall, 169,000 households would see their rents rise by $25 or more, but only 11,000 ELI households — 0.6 percent of all elderly and disabled ELI households — would see increases of $25 or more.

[16] The estimates of H.R. 3700's impact on rents in the text and Table 1 are based on CBPP analysis of HUD administrative data and reflect the impact if the provisions had been fully in effect in 2014, the year covered by the most recent available data. The estimates exclude public housing households paying a flat or ceiling rent rather than an income-based rent. They also exclude households assisted by the 39 agencies in the Moving to Work demonstration (which may set different rules for determining tenant rents with approval from HUD).

TABLE 1

Net Impact on Rents of H.R. 3700's Changes in Standard and Itemized Deductions for Elderly and Disabled Households

Income Category	Total Impact	Decrease	No Change	Increase	Increase of $25/mo. or more
Extremely Low-Income	-$6 million	1,474,000	40,000	284,000	11,000
Non Extremely Low-Income	+$89 million	211,000	2,000	323,000	158,000
Total	**+$83 million**	**1,686,000**	**42,000**	**606,000**	**169,000**

H.R. 3700 would require HUD to issue regulations providing hardship exemptions to families that, due to financial hardship, can't pay higher rents resulting from the medical deduction change. In addition, some elderly and disabled rental assistance recipients with high medical expenses may be eligible for federal health programs (such as the Medicare Part D Low-Income Subsidy and the Medicare Savings Program) that would reduce those expenses.[17] If HUD worked with the U.S. Department of Health and Human Services (HHS) and other partners to encourage participation in these health programs, this could potentially ease the impact of the deduction changes in H.R. 3700 for some households.

While H.R. 3700's deduction provisions are well designed to protect or benefit the lowest-income families and target rent increases on families better able to afford them, they would raise rents overall because the total rent increases exceed the total rent decreases. The bill uses part of the added rent revenues to offset cost increases from other provisions (such as the limitation on assistance to higher-income families described below), but CBO estimates indicate that the rent increases from the deduction changes exceed the amount needed for this purpose.[18]

Even though H.R. 3700's deduction provisions would raise rents and reduce rental assistance costs overall, the impact would vary from one housing agency to another based on incomes, demographics, and deduction use among that agency's caseload. Some individual agencies could see rents decline among the families they assist, raising the cost of assisting the same number of families. H.R. 3700 gives HUD authority to compensate agencies that lose revenue by giving them added public housing operating funds during the first year the bill's rent provisions are in place. Thereafter, the operating fund formula (which considers the rent revenues an agency has received in the past) would begin to compensate these agencies automatically. Congress could permit HUD to make similar adjustments to voucher funding through annual appropriations legislation, which each

[17] The Lewin Group, "Picture of Housing and Health: Medicare and Medicaid Use Among Older Adults in HUD Assisted Housing," March 2014, p. 15, https://aspe.hhs.gov/execsum/picture-housing-and-health-medicare-and-medicaid-use-among-older-adults-hud-assisted-housing.

[18] Neither the deduction changes nor the other rental assistance provisions in the bill directly affect federal spending, since rental assistance expenditures are determined by the funding levels that Congress appropriates each year. Nonetheless, some members of Congress have sought to avoid changes that taken together would raise program costs if Congress provided funds to cover the increases. As a result, it would be much more difficult to enact H.R. 3700 if it lacked cost reductions sufficient to offset its cost increases.

year gives HUD authority to adjust funding to reflect certain special circumstances.

Other Rent Streamlining

H.R. 3700 would streamline the process of determining tenant incomes in several other ways as well, two of which would also encourage work by delaying rent increases when family earnings rise.

- **Reducing the frequency of interim income reviews.** Reviewing tenants' incomes is among the most labor-intensive aspects of housing assistance administration. Current law requires housing agencies and owners to conduct these reviews annually, or every three years for households on fixed incomes.[19] Between these scheduled reviews, agencies and owners must conduct an "interim" review at the request of any tenant whose income drops by any amount, and they may choose to require reviews when a tenant's income rises by any amount. H.R. 3700 would require interim reviews only when a family's annual income drops by 10 percent or more, making such reviews less common but still providing adjustments when tenants would otherwise face serious hardship. It would also allow interim reviews only for increases in *unearned* income exceeding 10 percent. Adjustments for earnings increases would be delayed until the next annual review to strengthen work incentives.
- **Basing rents on a tenant's actual income in the previous year.** HUD's current regulations base rents on a tenant's anticipated income in the period that the rent determination will cover, usually the coming 12 months. HUD has taken administrative action to temporarily allow agencies and owners to base rents on actual income in the previous year and has proposed regulations making this option permanent. H.R. 3700 would require that rents be based on prior-year income except when a family first receives assistance. This would simplify administration by enabling all agencies and owners to use the same approach, allowing the use of tax forms and other year-end documentation to verify income and reducing the need for mid-year rent adjustments for tenants whose earnings change during the year. It would also give tenants an incentive to increase their earnings, since such an increase would not affect their rent for up to a year.
- **Allowing housing agencies to use income data gathered by other programs.** H.R. 3700 would allow housing agencies and owners to rely on income determinations carried out under SNAP (formerly food stamps) and other federal means-tested programs, without separate verifications. Currently, agencies must determine and verify income independently, even when this duplicates work by other agencies that administer means-tested programs. Allowing housing agencies to rely on income determinations made by SNAP agencies would particularly ease their administrative burdens, since a large portion of housing assistance recipients also receive SNAP.

Protecting Families from Volatility in Fair Market Rents

Vouchers generally cover the gap between 30 percent of a family's income and the family's rent and utility costs, up to a cap referred to as the "payment standard." Families are permitted to rent units with rents above the payment standard, but they must cover the excess cost themselves. Housing agencies must set the payment standard within 10 percent of a HUD-established "fair

[19] Congress enacted legislation in December 2015 reducing the frequency of income reviews from annually to every three years for families that receive 90 percent or more of their income from fixed sources, such as Social Security or Supplemental Security Income.

market rent" (FMR) unless the agency receives special approval from HUD for a payment standard outside that range. HUD sets FMRs annually to reflect typical rents for modest units of different sizes in each metropolitan area or rural county.

Each year some FMRs decline, either because market rents in an area fall or because HUD alters the data sources or methodology it uses to set the FMRs. In 2015, for example, FMRs for two-bedroom units fell by more than 10 percent in 53 counties around the country. When the FMR declines, agencies must reduce their payment standard if it's more than 10 percent above the new FMR (unless HUD has approved an exception). Under current regulations, the agency must then apply the new, lower standard to voucher holders that remain in the same unit within 12 to 24 months of this reduction. If a family's rent is above the new payment standard, its monthly out-of-pocket rental payment will rise; in the case of the largest FMR declines, the rent increases could be quite large and could even cause some families to be displaced from their homes. H.R. 3700 would allow agencies to protect families from rent increases by indefinitely delaying the application of payment standard reductions stemming from FMR declines to families that remain in the same unit.

Use of Vouchers in Manufactured Housing

Today, families can use vouchers to rent a manufactured home (often referred to as a mobile home) and the land it sits on. They can also use vouchers to help cover the full range of periodic costs related to *buying* a manufactured home, such as loan and insurance payments, if they also buy the land it sits on. But if a family buys a manufactured home and places it on a *rented* space — a common practice in some states — the voucher subsidy is capped at about 40 percent of the amount it could otherwise cover and can only help pay for renting the space, not for purchasing the home.

H.R. 3700 would allow families to use vouchers to help cover the periodic costs of buying a manufactured home, as well as to rent a space on which to place the home. The combined payments would be subject to the same subsidy limits that apply if the voucher were used for another type of unit. This would allow more effective use of vouchers in a segment of the housing market that in some areas is the most readily available source of affordable housing.

Improvements to Family Unification Program

Some housing vouchers are set aside for the "Family Unification Program" (FUP), which targets assistance on former foster children and families where the lack of affordable housing is the primary factor putting a child at risk of placement in the child welfare system or delaying the child's return to its family. Currently FUP voucher assistance for former foster children is limited to youth ages 18 to 21 and may last for no more than 18 months. H.R. 3700 would extend eligibility up to age 24 and allow assistance to last for up to 36 months. These changes would make FUP a more flexible and effective tool for assisting former foster children, a group that faces a high risk of homelessness. H.R 3700 would also require HUD, in consultation with other federal agencies, to issue guidance to improve coordination between housing and child welfare agencies in administering FUP.

Flexible Use of Public Housing Funds

Due to long-term underfunding, the nation's public housing developments have accumulated more than $26 billion in unmet renovation needs, according to a 2010 HUD study. These unmet needs expose low-income families to deteriorating living conditions and safety hazards. If developments continue to deteriorate, many housing agencies will ultimately be left with no choice but to demolish them or otherwise remove them from the stock, displacing residents and leaving fewer units available for vulnerable households on waiting lists for assistance. H.R. 3700 provides no added funds for public housing but would allow housing agencies to use their operating and capital funds more flexibly and efficiently to repair and revitalize public housing.

First, it would allow them to shift up to 20 percent of operating funds appropriated for 2016 or later years into their capital fund. Many agencies wouldn't be able to use this flexibility, since operating funds have also been seriously inadequate in recent years and agencies need most of them to cover the ongoing costs of managing and maintaining public housing. But for agencies with excess operating funds, the flexibility in H.R. 3700 would provide a valuable new source of funds to address renovation needs. Currently, large and mid-sized agencies may shift up to 20 percent of their *capital* funds to the *operating* fund but may not shift operating funds to the capital fund, except under certain special circumstances. (Agencies that administer fewer than 250 units and haven't been placed into "troubled" status by HUD due to severely deficient performance already have unlimited flexibility to shift funds between the accounts, but these small agencies manage less than a sixth of public housing units.)

Second, the bill would allow housing agencies to accumulate funds in "replacement reserves" to meet repair and replacement needs that require multiple years of funding. Such reserves are standard practice in unsubsidized housing and privately owned subsidized housing, but housing agencies haven't been able to establish them because they must obligate and spend capital funds according to strict timelines. Under H.R. 3700, agencies could deposit capital funds into the reserves (up to the amount needed to meet their anticipated renovation needs or a lower limit if HUD establishes one), which would then be exempt from the usual obligation and expenditure timelines.

Limiting Assistance for Highest-Income Public Housing Tenants

H.R. 3700 would establish new rules covering public housing tenants who have incomes above 120 percent of the local area median for two consecutive years.[20] Housing agencies would be required to act within six months, either to raise such tenants' rents to the applicable Fair Market Rent or to the sum of the public housing operating and capital subsidies used per month for the units, whichever is higher, or to evict such tenants.

Today, families must have income below 80 percent of the area median when they *enter* public housing, but if a family's income later rises above this level, agencies are permitted but not required to evict them. Income limits for families already in public housing involve tradeoffs. Allowing families with somewhat higher incomes to remain in public housing reduces the number of units available to needier families. But abruptly terminating assistance to families whose income rises could discourage families from raising their earnings, displace families whose incomes rise temporarily and may still need help affording housing, and increase concentrations of the poorest families in public housing developments. Moreover, displacing families with somewhat higher

[20] HUD would be permitted to set limits above or below 120 percent of median income if it determines this is "necessary because of prevailing levels of construction costs, or unusually high or low family incomes, vacancy rates or rental costs."

incomes will usually increase subsidy costs, since the lower-income families who replace them will require a higher subsidy to afford housing.

The H.R. 3700 income limitation would affect only the highest-income tenants and only after they have raised their income on a sustained basis. Only about 3,000 public housing households — 0.3 percent of the total — had incomes above 120 percent of the area median in both 2013 and 2014. And, as noted, the bill would allow agencies to let those families remain in their homes if they pay the required higher rents. As a result, the provision would have only a limited impact on work incentives, housing stability, poverty concentration, and program costs.

Conclusion

H.R. 3700 would build on the many strengths of federal rental assistance through measured, targeted improvements that, taken together, would deliver benefits to housing agencies, private owners, and low-income families. A number of its key provisions have received broad bipartisan support for nearly a decade, culminating in the recent unanimous House vote. The nation needs its housing assistance programs to be as efficient and effective as possible, and H.R. 3700 would take significant steps toward that goal.