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Flexibility to Raise Rents Under House Bill Would Harm Needy Families and Lay Groundwork for Funding Cuts

By Will Fischer

A draft bill released in April by House Financial Services Housing and Insurance Subcommittee Vice Chair Dennis Ross (R-FL) would allow state and local housing agencies and the Department of Housing and Urban Development (HUD) to fundamentally alter the rules used to set rents for low-income households in the Housing Choice Voucher and public housing programs.[1] The flexibility the bill would provide to state and local agencies to choose their own rent rules may at first glance seem appealing, including to those agencies. Our analysis finds, however, that local variation in rules for setting tenant rents would have few benefits and could be expected to lead to sharp rent increases for many low-income people, lay the groundwork for funding cuts that could compel local agencies to raise rents even if they would prefer not to, and create a complex patchwork of local rent rules that would make rental assistance less effective and efficient.

Plan Would Result in Large Rent Increases on Low-Income Households

Today low-income people with rental assistance generally pay as rent 30 percent of their income, after adjusting for certain deductions. Research shows that rental assistance under these rules is highly effective at reducing homelessness and housing instability.[2] For rental assistance recipients who work — as most non-elderly, non-disabled participants in the public housing and voucher

[1] The draft bill is at https://financialservices.house.gov/UploadedFiles/BILLS-115_ROSSFL022_pih.pdf. In addition to public housing and vouchers, the Ross bill would allow changes to rent rules in units owned by a public housing agency that have been converted to Section 8 Project-Based Rental Assistance (PBRA) under the Rental Assistance Demonstration. It would not apply to other PBRA units or housing for the elderly or people with disabilities funded under the section 202 and 811 programs. For additional discussion of the bill, see Will Fischer, "HUD's Role in Rental Assistance: An Oversight and Review of Legislative Proposals on Rent Reform," testimony before House Financial Services Subcommittee on Housing and Insurance, Center on Budget and Policy Priorities, April 25, 2018, https://www.cbpp.org/housing/huds-role-in-rental-assistance-an-oversight-and-review-of-legislative-proposals-on-rent. For a detailed description of the bill's provisions, see Center on Budget and Policy Priorities, "Comparison of Trump and Ross Rent Proposals to Current Law," June 7, 2018, https://www.cbpp.org/research/housing/comparison-of-trump-and-ross-rent-proposals-to-current-law.

[2] Will Fischer, "Research Shows Housing Vouchers Reduce Hardship and Provide Platform for Long-Term Gains Among Children," Center on Budget and Policy Priorities, updated October 7, 2015, http://www.cbpp.org/research/housing/research-shows-housing-vouchers-reduce-hardship-and-provide-platform-for-long-term?fa=view&id=4098.

programs do[3] — income-based rents enable them to have sufficient resources left after paying rent to cover other basic needs as well as work expenses such as transportation, and ensure they can retain their homes if their work hours decline or they lose their jobs. The Ross bill, however, would allow major changes in these rules that could sharply raise rents and make rental assistance far less effective at enabling low-income people to keep a roof over their heads.

Some, but not all, of the changes in the bill would be options for state and local housing agencies. But the bill also would allow HUD to *require* housing agencies to raise rents for seniors and people with disabilities without limit, by eliminating all deductions and increasing the percentage of income that those households must pay to a percentage that HUD would select (without needing congressional approval). The Trump Administration would almost certainly use this authority to eliminate deductions for seniors and people with disabilities, since it proposed that very step in an April 2018 legislative proposal.[4] Eliminating deductions would raise rents for low-income seniors and people with disabilities in the voucher and public housing programs by over $400 million a year.[5] And while HUD isn't currently seeking to raise the percentage of income that the elderly and people with disabilities must pay in rent — which would result in even larger rent increases — it proposed in 2017 to increase rents from 30 percent of *adjusted* income (i.e., income after deductions) to 35 percent of *gross* income. If the Ross bill became law, HUD could subsequently revive that plan and implement it without needing congressional approval.

For non-elderly, non-disabled households, the Ross bill would allow state and local agencies to choose among the current rules and four alternatives or to design their own rules. Most of the alternative policies specified in the bill would allow or require large rent increases. One would be a "tiered rent option" that would allow agencies to set a single rent level for all families in a broad income bracket, which for most rental assistance recipients could be as great as 30 percent of the income of the highest-income family in the bracket. If implemented nationally, the tiered rent option would allow rent increases of as much as *$4.5 billion annually*. Combined with the elimination of deductions for seniors and people with disabilities, this would raise rents by a total of as much as $4.9 billion — or $1,740 annually, on average — for the 2.8 million low-income households affected.[6] These increases would force families to divert money from other basic needs and cause some to lose their homes.

Moreover, if agencies chose to design their own rules, there would apparently be *no* upper limit to the rent increases that could occur under the Ross bill. These agency-designed rent policies would

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[3] Alicia Mazzara and Barbara Sard, "Chartbook: Employment and Earnings for Households Receiving Federal Rental Assistance," Center on Budget and Policy Priorities, February 5, 2018, https://www.cbpp.org/research/housing/chart-book-employment-and-earnings-for-households-receiving-federal-rental.

[4] HUD's proposal would phase in the elimination of deductions over six years for most current elderly and disabled tenants, while eliminating them immediately for new elderly and disabled households.

[5] A small portion — about 4 percent — of this increase is already slated to occur when HUD implements provisions of the 2016 Housing Opportunity Through Modernization Act (HOTMA) that modify deductions.

[6] For state and local estimates of the bill's potential impact, see Alicia Mazzara, "State and Metro Area Estimates of Rent Increases for Households with Rental Assistance Permitted Under Rep. Ross Proposal," Center on Budget and Policy Priorities, June 7, 2018, https://www.cbpp.org/research/housing/state-and-metro-area-estimates-of-rent-increases-for-households-with-rental.

be subject to HUD approval, but the proposals would automatically be considered approved if HUD didn't reject them within 90 days. HUD could receive hundreds (or even thousands) of local proposals, so even if HUD wished to stop plans that raised rents to levels that it deemed unaffordable, it would likely struggle to provide meaningful oversight.

While the rent increases for non-elderly, non-disabled households under the Ross bill would be local agency options, some local agencies would likely elect to use those options.[7] And even agencies that do *not* want to raise rents might ultimately decide they had to do so because, as explained below, the bill lays the groundwork for deep cuts in rental assistance funding, which would place considerable pressure on agencies to raise rents. Moreover, as noted above, the bill also gives HUD the authority to raise rents nationally for seniors and people with disabilities and *require* all local agencies to adopt the rent increases.

Option to Raise Rents Would Make Funding Cuts More Likely

The broad flexibility the Ross bill would give housing agencies would allow them to impose rental increases that could result in increased rent charges of several billion dollars a year. As a result, if the bill is enacted, proponents of funding cuts will almost certainly argue that federal funding can be reduced — since local agencies could offset the cuts by raising rents.

Indeed, this risk is illustrated by what the Trump Administration has called for in its first two budgets, where it has proposed sharp increases in tenant rents and explicitly argued that those increases would allow program funding to be cut by billions of dollars. Similarly, the George W. Bush Administration proposed in its 2004 to 2006 budgets both to cut voucher funding sharply and to convert the voucher program to a block grant under which state and local agencies would have sweeping flexibility to reduce rental subsidies for families, with the Administration arguing at times that the new flexibility justified the proposed funding cuts.

The risk that the Ross bill would lead to inadequate funding would be heightened because the voucher and public housing programs require some increase in funding each year to support the vouchers in use and to maintain and operate public housing developments, since market rents rise from year to year, as do operating costs such as utilities and maintenance. In most years, policymakers have raised funding for voucher renewals and public housing operating subsidies to cover these costs (although in some years, funding has fallen short of meeting needs, particularly in public housing). It would be more difficult, however, for housing agencies and others to make the case for the needed funding increases if housing agencies have the option to cover increases in costs by raising rents on tenants.

If funding for rental assistance were cut or allowed to erode in value as costs rise, state and local housing agencies would have to raise rents to make up for inadequate federal funding or else cut housing expenditures in other ways (such as by reducing the number of families they assist through the voucher program or cutting spending on items such as maintenance and security in public housing). As a result, agencies could feel considerable pressure to raise rents, even if they would prefer not to because they recognize the harsh effects that rent increases would have on vulnerable low-income families.

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[7] The options in the Ross bill are based closely on a proposal put forward by an association of housing agencies in Florida. See Florida Association of Housing and Redevelopment Officials, "Rent Reform Proposal," 2017.

Patchwork of Local Rent Rules Would Undercut Effectiveness of Programs

Allowing state and local agencies broad flexibility to choose their own rent rules would also reduce the efficiency and effectiveness of federal rental assistance by creating a complicated patchwork of local rent rules. Nearly 3,800 agencies administer public housing or vouchers (or both).[8] The Ross bill would allow each agency to choose its own rent rules and even to set different rules for different programs or properties.

This fragmented system would make it difficult to ensure that rents are calculated correctly and taxpayer funds are not misspent. Public housing and vouchers are funded entirely by the federal government, and today HUD oversight plays a crucial role in ensuring that federal funds are used properly. For example, after a 2000 report identified relatively widespread errors in determining tenant rents and subsidy levels, HUD took steps to strengthen monitoring and provide technical assistance, which reduced errors by 67 percent.[9] Such quality control efforts would be far more challenging and expensive if rules varied from agency to agency, and virtually impossible if a large number of agencies designed their own rent rules. A recent Government Accountability Office report found that HUD already struggles to oversee local rent rules allowed under the Moving to Work demonstration, which currently includes just 39 agencies.[10]

Widespread variation in rent rules would also impede a key goal of rental assistance by making it more difficult for low-income families with vouchers to use the voucher program's portability option. That option allows families to move from the jurisdiction of one agency to the jurisdiction of another, including moves to high-opportunity neighborhoods with low poverty and strong schools. Research shows that children whose families move to low-poverty areas when they are young earn substantially more as adults, are more likely to attend college, and are less likely to become single parents.[11]

There has been strong bipartisan interest in strengthening portability and taking other measures to support voucher holders moving to high-opportunity neighborhoods. The "A Better Way" anti-poverty plan released by House Republicans in 2016 called for reform of the "fragmented national system" used to administer rental assistance, noting that it makes it more difficult for voucher holders to move and consequently "constrains individual choice and constrains economic mobility." On July 10, the House voted 368 to 19 to pass the Voucher Mobility Demonstration Act, which would support regional coordination to promote voucher mobility.

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[8] Barbara Sard and Deborah Thrope, "Consolidating Rental Assistance Administration Would Increase Efficiency and Expand Opportunity," Center on Budget and Policy Priorities, April 11, 2016, https://www.cbpp.org/research/housing/consolidating-rental-assistance-administration-would-increase-efficiency-and-expand.

[9] ICF International, "FY 2015 Final Report: Improper Payment for Quality Control for Rental Subsidy Determination Study," prepared for Department of Housing and Urban Development, August 31, 2016, https://www.huduser.gov/portal/publications/qualitycontrol-fy15.html.

[10] Government Accountability Office, "Improvements Needed to Better Monitor the Moving to Work Demonstration, Including Effects on Tenants," January 2018, https://www.gao.gov/products/GAO-18-150.

[11] Raj Chetty, Nathanial Hendren, and Lawrence Katz, "The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment," *American Economic Review* 106, no. 4 (2016): 855–902.

The Ross bill, however, would move in the opposite direction by making the rental assistance system even more fragmented. The large variation and complexity of the rent policies the bill would allow would create a major new barrier to voucher holders seeking to move from one community to another. Families may have difficulty understanding what their rent obligations would be under policies that different jurisdictions would adopt and may not be able to afford to move to areas that provide greater opportunities but use different rent policies.

Local Variation in Rent Rules Would Have Little, If Any, Benefit

While local flexibility to set rent rules would pose serious risks — including exposing low-income people to hardship, laying the groundwork for funding cuts, impeding efforts to ensure proper use of federal funds, and constraining housing choice for voucher holders — it would have little if any benefit.

To be sure, local discretion in some aspects of rental assistance administration is important and beneficial. For example, housing agencies today have substantial flexibility to set voucher payment standards (which cap the voucher rent payment to the owner for a unit), to determine how frequently to conduct housing quality inspections of units where vouchers are used, and to "project-base" some of their vouchers (that is, enter into long-term contracts for vouchers to be used in certain buildings).

Local flexibility in these areas is important because the appropriate policy decision depends heavily on local conditions. For example, the most effective payment standard in a particular area will depend on market rents and other local market conditions. Similarly, it would make sense for an agency serving an area with few housing quality problems and strong code enforcement by local governments to conduct quality inspections less frequently than an agency serving a community where substandard housing is widespread. By contrast, there would be little gain from allowing rules for determining tenant rent payments to vary across agencies, since the amount of rent that a family of a given income can afford will be relatively constant from one community to another (particularly since the cost of non-housing essentials such as groceries and clothing varies much less across different areas than rent does).[12]

Rent Options Could Do as Much to Discourage Work as Encourage It

Proponents of the Ross bill have said one of its main goals is to encourage low-income people to work. Most non-elderly, non-disabled rental assistance recipients already work, however; there is no reason to expect that allowing thousands of agencies to choose their own rent rules would cause low-income people to work more than they do under the current, national rules. Moreover, the alternative rent options included in the bill seem as likely to discourage work as to encourage it.

The current policy of setting rents based on 30 percent of adjusted income (i.e., income after allowable deductions) is designed to provide the poorest families with sufficient assistance to afford decent, stable housing while avoiding giving better-off families larger subsidies than they need. Critics argue that the rules discourage work because they raise a family's rent by 30 cents for each

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[12] Richard Florida, "Cost of Living Is Really All About Housing," City Lab, July 21, 2014, https://www.citylab.com/equity/2014/07/cost-of-living-is-really-all-about-housing/373128/.

added dollar in earnings, creating a marginal tax on their earnings. But there is no consistent evidence that the rent rules reduce employment on a sustained basis;[13] in fact, research suggests that marginal tax rates in benefit programs generally do relatively little to influence wages and work hours, partly because many low-wage workers have little control over their hours or ability to find higher-paying jobs and also have limited understanding of how benefits adjust as earnings change.[14] Moreover, because the current rent rules phase subsidies down gradually as income rises, they have the advantage of avoiding "cliffs" where subsidies drop sharply when a family's income exceeds a specified level — a feature more likely to increase work disincentives.

It isn't clear that any of the alternative policies allowed under the Ross bill would balance these policy considerations more effectively than do the rules in place today. For example, the bill's tiered rent option would hold rents constant when a family's income varies within a tier, but would also establish cliffs at tier boundaries that would typically raise rents by more than $200 when the family earns one dollar more than the boundary level. It is difficult to predict the overall effects of tiered rents on earnings, but because of the large earnings penalties created by cliffs, it's possible that if the policy had an effect on work, it might be, on net, to discourage more families from increasing their earnings.

To give another example, the bill would also allow agencies to adopt a "stepped rent" policy that would base rents entirely on how long a family had received assistance, regardless of the family's income. This would eliminate the marginal tax on earnings, but it would risk disrupting many families where an adult is *already working* and that count on rental assistance to help make ends meet. This is the case because families who have received rental assistance for an extended period are more likely than short-term rental assistance recipients to be working, yet longer-term recipients would pay the highest rents under the stepped-rent approach.

Careful, Evidence-Based Reforms Are a Better Way to Strengthen Rent Rules

While the current national rent rules have proven effective at reducing hardship and homelessness and helping working families make ends meet, federal policymakers should reassess them from time to time to determine whether they can be improved further. For example, the 2016 Housing Opportunity Through Modernization Act, which Congress enacted unanimously and HUD is in the process of implementing, maintains the basic approach of setting rents at 30 percent of adjusted income but makes substantial changes to streamline the process and strengthen work incentives. In addition, Congress has directed HUD to rigorously evaluate the alternative rent rules in use at some agencies participating in the Moving to Work demonstration, and policymakers will be able to use the results to assess whether further changes in rent rules are warranted.[15]

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[13] Fischer, "Research Shows Housing Vouchers Reduce Hardship and Provide Platform for Long-Term Gains Among Children."

[14] Laura Tach and Sarah Halpern-Meekin, "Tax Code Knowledge and Behavioral Responses among EITC Recipients: Policy Insights from Qualitative Data," *Journal of Policy Analysis and Management*, Vol. 33, No. 2 (Spring 2014), pp. 417 and 434; Jennifer L. Romich, "Difficult Calculations: Low-Income Workers and Marginal Tax Rates," *Social Service Review*, Vol. 80, No. 1 (March 2006), p. 57.

[15] HUD's Rent Reform Demonstration is testing alternative policies at four MTW agencies and is expected to be completed in 2020. HUD also plans to test other rent policies under an expansion of MTW that Congress authorized in 2015.

This careful, evidence-based approach is far more likely to strengthen rental assistance and to further key goals such as supporting work than allowing large number of local agencies to make sweeping, untested changes in the rent rules, as the Ross bill would do.