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June 4, 2009

Testimony of Will Fischer
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House Financial Services Subcommittee on Housing and Community Opportunity

Thank you for the opportunity to testify. I am Will Fischer, a Senior Policy Analyst at the Center on Budget and Policy Priorities. The Center is an independent, nonprofit policy institute that conducts research and analysis on a range of federal and state policy issues affecting low- and moderate- income families. The Center's housing work focuses on improving the effectiveness of federal low-income housing programs, and particularly the Section 8 housing voucher program.

The Section 8 Voucher Reform Act (SEVRA) would take a series of important, timely steps to strengthen the voucher program, the nation's most widely-used low-income housing program. The bill would enable state and local housing agencies to use available funds to make housing affordable to more needy families, a crucial measure at a time when poverty and homelessness are rising. In addition, it would sharply reduce administrative burdens for housing agencies and private owners, strengthen work supports, and provide more flexible and effective assistance to low-income families.

The voucher program makes housing affordable to about two million low-income families, usually by helping them rent modest housing of their choice in the private market. Vouchers have been found to be highly effective in reducing homelessness and housing instability (both of which have been linked to a range of developmental problems among children) and to help families move to lower poverty neighborhoods with better schools and less exposure to crime.

SEVRA would build on this record of success by updating and strengthening certain aspects of the voucher program (and in some cases the separate public housing and project-based Section 8 programs) while retaining features that have proven effective. The current SEVRA discussion draft is largely similar to H.R. 1851, a version of SEVRA that the House passed by a bipartisan vote of 333-83 in July 2007, but makes several modest improvements to that bill. Some of the most important SEVRA provisions would:

- **Establish a stable, fair voucher funding system** that would allocate resources more efficiently and encourage housing agencies to serve as many families as they can with the funds they receive.

- **Simplify rules for setting tenant rent payments,** while continuing to cap rents at 30 percent of the tenant's income.

- **Streamline housing quality inspections** to encourage private owners to participate in the program.

- **Protect tenants of owners who face financial difficulties** by giving housing agencies new tools to ensure that buildings are kept in livable condition.

- **Help develop and preserve affordable housing** by facilitating use of "project-based" vouchers (which, unlike more widely used "tenant-based" vouchers, can be tied to a particular development).

- **Expand housing choice** by linking the "Fair Market Rent" that limits the value of a voucher more closely to local market rents, and making it easier for a family with a voucher to move beyond the local housing agency's jurisdiction.

- **Strengthen the Family Self-Sufficiency program** so that it will provide employment counseling and financial incentives to a greater number of families, establish a new earnings disregard, and take other measures to support work.[1]

The committee could further strengthen SEVRA by expanding it to allow **conversion of some public housing developments to project-based vouchers.** This would enable housing agencies to make use of the strengths of the voucher program to reduce the concentration of poor families in public housing and attract private investment to revitalize public housing developments.

The current SEVRA draft omits a potentially risky provision that was included in earlier versions of the legislation: an expansion of HUD's Moving-to-Work (MTW) demonstration. It will be important that Congress **impose strict limitations on any MTW expansion** that is added as the legislative process moves forward.

MTW seeks to promote housing policy experimentation by allowing agencies to operate their voucher and public housing programs without regard to many federal statutes and regulations. Some of the policies that MTW allows agencies to test, however, have the potential to harm vulnerable families. These include alternative rent schemes that require sharply higher payments from some tenants and time limits that cut off subsidies even for working-poor families who cannot remain in their homes without assistance.

Moreover, MTW has permitted housing agencies to divert large amounts of voucher funds — approximately $950 million from 2005 to 2008 — away from their intended purpose, causing tens of thousands of families to be left without housing assistance even though funds were available to help them. And because the demonstration has not been subject to rigorous evaluation, it has generated few concrete policy lessons.

If an MTW expansion is added to SEVRA, it should be of limited size and subject to strong tenant protections, rigorous evaluation requirements, and strict limits on diversion of voucher funds.

[1] A detailed side-by-side comparison between SEVRA's provisions and current law is available at http://www.cbpp.org/files/4-28-09hous-prac.pdf.

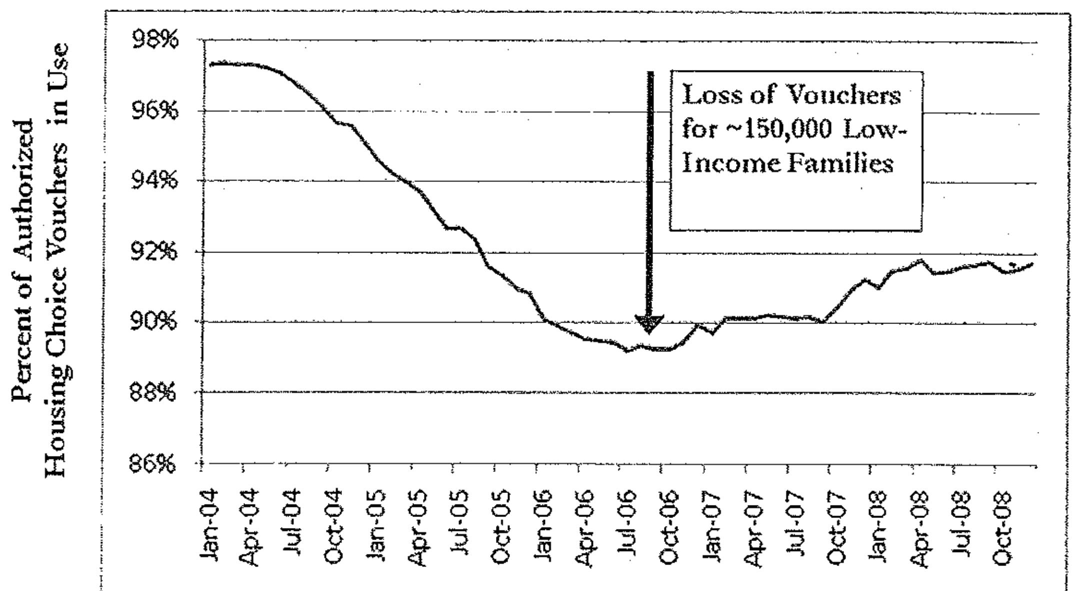
Establishing a Stable, Efficient Voucher Funding Policy

SEVRA's most important provisions would establish a stable, fair, efficient policy for distributing funds to renew voucher subsidies to the approximately 2,400 state and local agencies that administer the program, enabling those agencies to assist more families with the same amount of resources.

From 2003 to 2006, Congress and HUD repeatedly changed the voucher renewal funding formula. Largely due to the uncertainty this created, as well as to shortfalls in federal funding at a number of agencies during the last three years of that period, many agencies were hesitant to reissue vouchers to new families from their waiting lists after a voucher holder left the program. As shown in Figure 1, about 150,000 vouchers that agencies were authorized to administer were taken out of use in the ensuing period.

Since 2007, Congress has directed HUD to determine renewal funding for most agencies by multiplying the number of the agency's authorized vouchers in use in the prior year by the actual cost of those vouchers, and then adjusting for inflation and several other factors. Since this policy was adopted, about a third of the vouchers that were shelved during the period of funding instability have been put back to use — but voucher use rates still remain far below their peak.

Figure 1: About One-Third of the 150,000 Vouchers Lost from 2004 to 2006 Have Been Restored to Use



Source: CBPP analysis of HUD data Line graph includes data reported by all agencies administering voucher programs. Voucher loss figure excludes data from MTW agencies and Gulf Coast agencies impacted by Hurricane Katrina.

Assisting as Many Needy Families as Possible with the Available Resources

SEVRA would build on the progress made in recent years through a series of measures that encourage agencies to assist as many families as possible with the funds they receive. Taken together, these measures could be expected to put a substantial portion of the vouchers currently left idle to use helping needy families.

- **A permanent, stable funding policy.** SEVRA would establish, as part of the authorizing statute governing the voucher program, an ongoing policy that agencies' funding each year will be based on the cost of their vouchers used in the prior year. Annual appropriations bills in recent years enacted similar policies, but because SEVRA would make a permanent statutory change, it would provide agencies — as well as families with vouchers and private owners — with more confidence that renewal funding needs will be met in future years, even if agencies significantly increase the share of their vouchers that are in use.

- **Temporary advances for agencies that exhaust their voucher funds.** To encourage agencies to use all of their voucher funds, SEVRA would create an advance-funding mechanism that would work like overdraft protection. An agency that has insufficient funds in the last quarter of the calendar year to make all of the rent payments due to owners could borrow a small portion of its funding for the following year, which then would be subtracted from the funding allocated to the agency a few months later.

  This advance option is needed because voucher program costs are somewhat unpredictable. An agency cannot anticipate exactly how many of its vouchers will be in use at a given time, because it does not know what share of families issued vouchers will successfully lease housing or how many families will leave the program. And the average cost of a voucher can vary due to fluctuations in market rent and utility costs (within caps established by program rules on the amount a voucher can cover) and the incomes of low-income families (because tenant rent contributions are set at approximately 30 percent of a family's income).

  Without a back-up funding source like the advance option, many agencies would have to aim to spend less than 100 percent of their voucher funds, for fear that events beyond their control would temporarily push up their expenses and cause them to exceed their budgets.

- **A balanced policy toward unspent funds.** SEVRA would establish a permanent policy allowing agencies to accumulate 5 percent of their voucher funds as a reserve. But it would encourage them to put any excess unspent funds to use, by making clear that agencies would lose any funds beyond the permitted reserve amounts.

  This balance is important, since if there is no limit on reserves some agencies may accumulate large amounts of unspent funds (as many did during the recent period of funding instability) rather than using the funds to assist needy families. But a stable policy allowing prudent reserve levels can enable agencies to better manage their programs and cope with unexpected cost increases. (Reserves are not a substitute for the advance mechanism described above, since agencies that used all of their funds in previous years would not have accumulated reserves.)

- **Bonus funds for agencies with high utilization rates.** SEVRA would use the reallocation of excess unspent funds in part to reward the agencies that have been most effective in putting their voucher funds to use assisting families.[2]

[2] Housing agencies that need funds to cover costs stemming from (1) absorbing "portability" vouchers held by families moving from the jurisdiction of another agency or (2) financial incentives under the Family Self-Sufficiency program

- **Removing the cap on the number of families agencies can assist with available funds.** Recent appropriations acts have prohibited housing agencies from funding more vouchers than they are authorized to administer, even if an agency has funds available that could be used for this purpose. This policy has pushed agencies to use substantially *less* than their authorized number of families, since just as an agencies cannot aim to spend 100 percent of its voucher funds without a risk that costs will go above that level, it cannot put every one of its vouchers to use without taking a chance that it will exceed its authorized number.

  SEVRA would allow agencies to assist families beyond their authorized level if funds are available to do so, and would take the cost of those added vouchers into account in determining the agencies' funding for the following year. In addition to making it possible for agencies to aim to use 100 percent of their vouchers, this would encourage agencies to keep per-voucher costs low. Agencies would be assured that if they take steps to limit costs, they could use any savings to provide vouchers to more families, even if this pushes them above their authorized voucher cap.

- **More administrative funding for agencies that use more vouchers.** From 2004 to 2007, HUD distributed administrative fees without regard to how well an agency performed. SEVRA would require HUD to allocate these fees primarily based on the number of vouchers the agency put to use, thereby encouraging agencies to use as many vouchers as possible. (Congress restored this policy, which had been in place until 2004, in the 2008 and 2009 appropriations bills; SEVRA would make clear that Congress intends to maintain this policy in future years.) SEVRA also would allow HUD to add incentives for agencies to perform well in other areas of program administration and to update the administrative fee formula to provide funding levels more closely linked to the actual cost of administering vouchers in different parts of the country.

The measures in SEVRA to serve additional families would *not* weaken Congress's control over the cost of the program. Congress would still determine the amount of annual program funding, and if the funds appropriated in a given year were insufficient to fully fund the renewal formula, HUD would reduce each agency's funding by the same percentage so funds would still be allocated based on agencies' relative needs. SEVRA would simply ensure that, *for any given level of funding,* more families would receive the important benefits that vouchers have been shown to provide.

Simplifying Rules for Determining Tenants' Rent Payments

Tenants in HUD's housing assistance programs generally must pay 30 percent of their income for rent, after certain deductions are applied. SEVRA would maintain this rule, but would streamline the process for determining tenants' incomes and deductions. As a result, the bill would reduce the burdens that rent determinations place on housing agencies, property owners, and tenants. The changes would also reduce the likelihood of errors in rent determinations and strengthen incentives for tenants to work.

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would receive top priority for reallocated funds. The remaining reallocated funds would be distributed to other agencies based on their performance in using their voucher funds and the relative need of agencies for more funds.

Most significantly, SEVRA would:

- **Reduce the frequency of required income reviews.** Currently, agencies must conduct annual income reviews for *all* tenants, including those who receive most or all of their income from fixed income sources such as Social Security or SSI and consequently are unlikely to experience much income variation from one year to the next. SEVRA would allow agencies to review the incomes of tenants with fixed incomes every three years.[3]

  Currently, agencies also must make rent adjustments between annual reviews at the request of any tenant whose income drops. SEVRA would require adjustments only when a family's annual income drops by $1,200 or more, thereby reducing the number of such "interim recertifications" that an agency must make while enabling tenants to obtain adjustments when they would otherwise face serious hardship. Interim rent adjustments would be required for *increases* in annual unearned income exceeding $1,200 as well.[4]

- **Simplify deductions for the elderly and people with disabilities.** Currently, housing agencies and owners are required to deduct medical expenses and certain disability assistance expenses that exceed 3 percent of a household's income if the household head (or his or her spouse) is elderly or has a disability. Agencies frequently state that this deduction is difficult to administer, since they must collect and verify receipts for all medical expenses. It also imposes significant burdens on elderly people and people with disabilities, who must compile and submit receipts that may contain highly personal information. Largely for these reasons, many households eligible for the deduction do not receive it. By contrast, a second deduction targeted to the same groups — a $400 annual standard deduction for each household headed by an elderly person or a person with a disability — is quite simple to administer.

  SEVRA would increase the threshold for the medical and disability assistance deduction from 3 percent of annual income to 10 percent. This would reduce the number of people eligible for the deduction — and therefore the number of itemized deductions that would need to be determined and verified — while still providing some relief for tenants with extremely high medical or disability assistance bills. At the same time, SEVRA would substantially increase the easy-to-administer standard deduction for the elderly and people with disabilities to $725 and index it for inflation.

- **Replace complex work incentives with a simple, equitable earnings deduction.** SEVRA would eliminate a complex provision that deducts some or all of the earnings of certain voucher holders with disabilities and public housing residents who have recently begun working. In its place, SEVRA would create a simple provision deducting 10 percent from the first $9,000 in earnings for all working families, not just the limited groups covered by the current deduction.

[3] Many fixed-income benefits, such as Social Security and SSI, typically increase annually due to cost-of-living adjustments. To avoid a loss of revenue from this streamlined option, agencies would be required to assume that in the intervening two years these tenants' incomes rose by a rate of inflation specified by the HUD Secretary.

[4] The bill would not require families actually to lose (or gain) the full $1,200 threshold amount before they receive a rent adjustment. Instead, adjustments would be required for any income change "estimated to result in" an annual change at or above the $1,200. A family that experiences a loss of $100 in monthly income (which corresponds to a rent reduction of $30) that is expected to continue thus would be eligible for a rent adjustment immediately. In addition, the bill would allow housing agencies and owners to set thresholds lower than $1,200 for rent adjustments due to income reductions.

In addition, SEVRA would limit an existing deduction for all reasonable child care expenses (which evidence suggests is implemented inconsistently) by allowing deductions only for expenses above 10 percent of income.

- **Base rents on a tenant's actual income in the previous year.** Currently, rents are based on a tenant's anticipated income in the period that the rent will cover, usually the coming 12 months. Except when a family first begins receiving housing assistance, SEVRA would require agencies generally to base rents on actual income in the previous year. This would give tenants an incentive to increase their earnings, since such an increase would not affect their rent for as long as a year. It also would simplify administration, both by allowing agencies and owners to use tax forms and other year-end documentation to verify income and by reducing the need for mid-year rent adjustments for tenants whose earnings change during the year.

Provision Allowing Alternative Rent Systems Would Add Unnecessary Complexity

While SEVRA would generally simplify rent determinations, one provision would move in the opposite direction by unnecessarily making the process more complex for some tenants. The provision would allow agencies to establish alternative formulas for setting rents in public housing so long as no family pays more than it would pay under the existing formula.

The prohibition on raising rents above the level now permitted is important, since alternative rent systems could otherwise be used that would raise rents substantially on vulnerable families. However, alternative rent systems that only lower rent levels would reduce the revenues received by agencies administering public housing and increase the amount of federal subsidies for which those agencies are eligible. Under the terms of the public housing operating subsidy formula, if Congress does not provide sufficient added funding to pay for these extra subsidies, *all* agencies would face a pro rata funding reduction. As a result, part of the cost of alternative rent systems would fall on housing agencies that choose not to establish such systems. In addition, allowing alternative rents systems could result in a complicated patchwork of local rent rules that would be confusing for tenants and difficult for HUD to oversee.

Fortunately, because SEVRA only allows alternative rent systems in public housing, private landlords and the majority of housing assistance recipients would not be not be exposed to them. All parties would be better served, however, if SEVRA omitted the alternative rent provision entirely and stuck with the approach taken in the other SEVRA rent provisions, which maintain consistent national rules that set rents based on 30 percent of household income, while simplifying aspects of the current system that create unnecessary burdens. At a minimum, SEVRA should prohibit agencies that establish alternative rent systems from receiving additional funding as a result. This would prevent alternative systems from raising federal costs or forcing funding cuts for other agencies.

SEVRA's Impact on Rent Payments Would Generally Be Modest

No comprehensive analysis has been released on the impact of the current SEVRA discussion draft on tenant rent payments. A Congressional Budget Office (CBO) estimate released on September 5, 2007, however, indicates that the largely similar rent determination provisions in the

House SEVRA bill from that year would reduce total tenant rent payments by $205 million a year over five years. This means that, by CBO's estimate, that bill would have lowered rents on average for households currently receiving housing assistance.

CBO did not conclude, however, that the bill would have reduced the total rent revenues paid into the housing assistance programs. This is because another provision included in both the 2007 bill and the current discussion draft would target more vouchers and other assistance to households that have modestly higher incomes — and thus would pay higher rents.[5] Taken together, CBO estimates that the changes in the 2007 SEVRA bill would have increased the total amount of tenant rent payments by $10 million a year.

Some individual tenants would face higher or lower monthly rents under SEVRA, but the impact would generally be modest. For example, when the change in the medical deduction is offset by the increase in the standard deduction from $400 to $725, an elderly person or person with a disability with an annual income of $8,000 who currently receives a large deduction for medical expenses would face a maximum monthly rent increase of $5.88. The maximum rent reduction for a person who has few or no unreimbursed medical expenses (or has such expenses but does not currently receive the deduction to which he or she is entitled) would be $8.13 a month.

Streamlining Housing Inspection Rules to Encourage Participation by Private Owners

The voucher program requires that vouchers be used only in houses or apartments that meet federal quality standards. SEVRA would allow agencies to make modest changes in the inspection process used to ensure that units meet those standards. The changes would ease burdens on agencies and encourage landlords to rent apartments to voucher holders. Most significantly, SEVRA would allow agencies to inspect apartments every two years instead of annually.

In addition, to eliminate inspection-related delays, the bill would allow agencies to (1) rely on recent inspections performed for other federal housing programs, and (2) make initial subsidy payments to owners even if the unit does not pass the initial inspection, as long as the failure resulted from non-life-threatening conditions. Defects would have to be corrected within 30 days of initial occupancy for the payments to continue. These provisions would encourage owners to participate in the voucher program by minimizing any financial loss due to inspection delays. They also would enable homeless families to have a place to live more quickly than under current rules.

Protecting Tenants of Owners in Financial Difficulty

Owners who rent to voucher holders sometimes fail to maintain the units in decent condition or to pay utility bills for which they are responsible. Such situations occur from time to time under any circumstances, but are more frequent during the current economic downturn, as many owners struggle to make their mortgage payments while meeting other obligations.

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[5] Currently, 75 percent of vouchers and 40 percent of project-based Section 8 and public housing units must be allocated to households with incomes at or below 30 percent of the median income in the local area at the time they enter the program. SEVRA would adjust these criteria to require that those vouchers and units be allocated to households with incomes at or below 30 percent of local median income *or the poverty line,* whichever is higher. This change would address concerns, expressed by some housing agencies in areas with particularly low median incomes, that the current targeting criteria prevent them from assisting working-poor families. At the same time, it would maintain the emphasis on assistance for the poor.

Under current rules, if the owner does not make needed repairs or utility payments within a reasonable time, an agency has no choice but to terminate the subsidy payment, requiring the family to move. Such involuntary moves can disrupt children's schooling, force families to double up with others (or become homeless), and possibly lead to the loss of voucher assistance if families are not able to find a suitable new unit to rent.

SEVRA would encourage owners to bring their properties up to standards by stopping subsidy payments for a few months — or until the repairs are made — while families remain in their homes. In addition, the bill strengthens agencies' options when an owner fails to make needed repairs, by allowing agencies to use the subsidy payments to make or contract for repairs, or to cover the security deposit and moving expenses if a family is forced to move to another unit.

In addition, SEVRA would give agencies new authority to intervene when owners fail to make utility payments. Under current law, tenants in such cases would be forced to endure utility interruptions and to leave their homes if the units became uninhabitable. Under SEVRA, the agency would be permitted to divert subsidy funds that would normally be paid to an owner and use them for payments to utility companies that are needed to maintain service.

Expanding Housing Choice

One of the chief benefits of a voucher is that a family can use it to rent modest housing anywhere in the country where there is a voucher program. This mobility has important benefits for many groups of low-income people. For example, it can enable a family to move to a neighborhood with good schools and lower crime, a worker to relocate closer to a job or to take a new job in another community, an elderly person or person with a disability to move closer to family or a needed caregiver, or a domestic violence victim to flee an abuser.

In practice, however, many families face barriers to using a voucher to rent a unit in the location of their choice. SEVRA contains two important measures designed to address these barriers and expand the choices available to voucher holders.

- **Easing barriers to "portability."** Under current law, a family has the right to use a voucher to move from the jurisdiction of one housing agency to the jurisdiction of another. Many voucher holders who could benefit from this "portability" option do not, however, because current policies create disincentives for agencies to facilitate a family's relocation to another agency's jurisdiction.

  A major reason is that the agency that first issues a voucher to a family must continue to cover the cost of the voucher after the family moves, unless the agency in the destination community voluntarily "absorbs" the voucher. This arrangement is administratively cumbersome and can carry added costs for the issuing agency if the community to which the family moves has higher rents than the community the family left. For their part, destination agencies are often reluctant to absorb portability vouchers because that would divert scarce resources away from families on the agency's own waiting list.

  SEVRA would direct HUD to resolve this impasse by issuing regulations promptly after enactment that eliminate or minimize the extent to which one agency must bill another agency for the cost of a voucher for a family that has relocated, without preventing each agency from assisting families from its own waiting list. HUD could achieve this, for example, by requiring destination agencies to absorb the vouchers while making those agencies eligible for funding to cover the resulting costs. This solution treats both agencies equitably and ensures that the portability process is not unnecessarily cumbersome.

- **Linking "Fair Market Rent" levels that limit voucher payments more closely to the local market.** Housing agencies generally must set the maximum amount of rent a voucher can cover (the "payment standard") within 10 percent of the "Fair Market Rent" (FMR) that HUD has established. FMRs are intended to reflect the cost of renting modest housing in local areas. Under current law, HUD has broad discretion to set the boundaries of FMR areas, and in some cases the areas are quite small. In rural areas they generally consist of a single county, in some cases with very small numbers of rental housing units.

  In metropolitan areas, however, HUD often has established very large FMR areas, sometimes stretching across several counties with millions of inhabitants. These expansive FMR areas mean that HUD sets identical FMRs for sections of metro areas that in reality have very different housing markets. In the Washington area, for example, high-cost suburbs such as Fairfax County, Virginia or Montgomery County, Maryland are assigned the same FMR as the District of Columbia and low-cost, semi-rural counties on the metropolitan fringe.

  As a result, FMRs (and thus payment standards) in many communities are far above or below the cost of a typical modest rental unit. When payment standards in a portion of a metropolitan area are too low, many families can only use their vouchers in neighborhoods where rents are below average for the area. Such neighborhoods are more likely to have higher poverty rates and weak schools. On the other hand, voucher payment standards that are too high can undermine the program's cost effectiveness, by increasing the chances that vouchers will pay above-market rents for poorly located housing.

  SEVRA requires HUD to set FMRs using smaller geographic areas with more uniform rental costs. This change — which would make use of newly available data from the Census Bureau's American Community Survey that allow more frequent rent estimates for small areas — would result in voucher payments more closely calibrated to local rental costs. The changes would be phased in gradually to avoid the disruptions that can result from sharp increases or decreases in FMRs. As they became effective, they would increase access to housing in lower-poverty neighborhoods with greater employment and educational opportunities and strengthen the cost-effectiveness of the voucher program.

  The bill also includes other changes to encourage agencies to set payment standards at levels that balance the competing goals of containing per-voucher costs, ensuring affordable rents, and enabling voucher holders to live in a range of neighborhoods.

Strengthening the Family Self-Sufficiency Program

The Family Self-Sufficiency (FSS) program encourages work and savings among voucher holders and public-housing residents through employment counseling and financial incentives. A key component of this program is funding for agency staff to counsel participants and coordinate employment services with social services agencies and other service providers.

Unfortunately, this funding is distributed through annual competitions and HUD has changed the criteria for these competitions repeatedly in recent years, with the result that many agencies have experienced abrupt funding cutoffs and enrollment in the FSS program has declined.[6] To reverse this decline and encourage agencies to provide FSS services and asset-building opportunities to more families, SEVRA provides a stable formula to distribute funds for FSS staffing costs predictably to housing agencies. It would also establish a permanent mechanism to provide added subsidy funding to agencies facing higher costs due to FSS financial incentives.

Facilitating Use of Project-Based Vouchers

SEVRA would make it easier for a housing agency to enter into agreements with owners for a share of its vouchers to be used at particular housing developments. Through such "project-basing," agencies can partner with social service agencies to provide supportive housing to formerly homeless people or support development of mixed-income housing in low-poverty neighborhoods with strong educational or employment opportunities but tight rental markets. The bill would, for example, eliminate certain unnecessary procedural requirements, and increase the percentage of an agency's voucher funds that can be used for project-basing from 20 percent to 25 percent (or 30 percent under specified circumstances).

Residents of units with project-based voucher assistance have the right to move with a voucher after one year, using the next voucher that becomes available when another family leaves the program. (When this occurs, a voucher remains attached to the housing development and the family moving out of the development receives a separate voucher.) This "resident choice" feature and other policies make the project-based voucher option, which SEVRA would effectively expand, significantly different from earlier programs that provided project-based assistance.

SEVRA Should Be Expanded to Allow Use of Project-Based Vouchers to Revitalize Public Housing

SEVRA grants housing agencies greater flexibility to use project-based vouchers to preserve privately-owned subsidized housing,[7] but that flexibility does not cover public housing. Allowing agencies to use project-based vouchers more broadly in public housing would have several important benefits.

- **Supporting debt financing to address public housing capital needs.** Converting a public housing development to project-based vouchers would allow agencies to borrow more (or on better terms) than they could if a building remained in the public housing program. Lenders

[6] See American Association of Service Coordinators *et al.*, "Recommendations for Strengthening HUD's Family Self-Sufficiency Program," April 26, 2006, http://www.fsspartnerships.org/includes/Joint%20FSS%20 Recommendations.pdf. It is likely that changes in the voucher renewal funding policy, which created a financial disincentive to enroll families in FSS, also contributed to the decline in FSS participation.

[7] Section 20 of the SEVRA discussion draft authorizes use of project-based vouchers to keep developments affordable when private owners opt to end participation in other federal housing subsidy programs, and exempts these "preservation project-based vouchers" from certain requirements that normally apply to project-based vouchers.

would likely perceive the stream of subsidies from project-based vouchers as more reliable, because Congress has provided adequate funding more consistently for vouchers than for public housing. Moreover, even if voucher funding were inadequate in a particular year, agencies would likely respond by cutting back their *tenant-based* voucher programs temporarily through attrition (that is, by not reissuing vouchers that become available) to try to avoid breaking an agreement to provide *project-based* voucher funds to a development. Public housing developments have no such cushion, so they bear the full brunt of any shortfalls.

- **Facilitating income mixing.** Since agencies can attach project-based vouchers to developments other than existing public housing developments, these vouchers make it much easier for an agency to create mixed-income developments without loss of affordable units. For example, an agency could replace a development that is 100 percent public housing with two or more developments containing some project-based voucher units and some units targeted at tenants with higher incomes.

- **Giving families the option to move.** By providing families with an option to use a tenant-based voucher to move after one year, conversion to project-based vouchers would not only give public housing residents more choices about where to live, but would impose a measure of market discipline on development managers. If a development were so unsafe or badly maintained that many tenants moved out after brief stays, the agency would face higher costs (to prepare units for new tenants and process other paperwork related to turnover) and could also face lower rent revenues (since project-based voucher payments cannot be made for a unit that has been vacant for more than 60 days, and it may be difficult for the agency to fill units in that time).

Currently, project-based vouchers can be used in former public housing units, but there are significant constraints on an agency's ability to do so. Even with the expansion of project-basing that would be permitted under SEVRA, agencies would not be able to use more than 25 to 30 percent of their voucher funds for project-based vouchers. In addition, project-based vouchers may not make up more than 25 percent of the units in a given development unless the development meets certain exceptions. Finally, converting a public housing development to project-based vouchers today involves a complex two-step transaction, in which agencies must first obtain approval to remove the development from the public housing stock and obtain an allocation of replacement tenant-based vouchers, and then undertake a separate process to set-aside some units to be rented through project-based vouchers. As a result, agencies have used project-based vouchers to replace public housing subsidies in only a relatively small number of developments.

SEVRA could encourage wider use of project-based vouchers to replace public housing by addressing each of these constraints. First, it could exempt converted public housing developments from the cap on the number of units in a development that can be project-based. Second, it could allow as much as 50 percent of an agency's voucher assistance to go to project-based vouchers when converted public housing units are included. And third, it could allow most developments to be converted directly from public housing to project-based vouchers in a single step (although the existing "demolition/disposition" approval process should still be required in cases where a public housing development is demolished and replaced by project-based vouchers in a different building). Developments that are converted to project-based vouchers would often be mortgaged, so it also would be important that they be subject to special requirements that would prevent tenant displacement and preserve affordability in the event of foreclosure.

The number of project-based voucher conversions would be limited by the availability of funds for new vouchers (although the cost of the vouchers would be in substantial part offset by reduced public housing expenditures). It would make sense to target the initial conversions on (1) family developments in high-poverty areas, where tenant choice and income-mixing are particularly important, and (2) projects that meet important local needs, but require large capital investments and would struggle to obtain adequate resources without the expanded borrowing that project-based vouchers would allow in many markets.

Any Expansion of MTW Should Be Subject to Careful Limits and Address Flaws in the Current Demonstration

The current SEVRA draft omits a provision contained in earlier House versions of the legislation that would have expanded the number of agencies that can participate in HUD's Moving-to-Work demonstration and renamed the demonstration the "Housing Innovation Program" (HIP).

Established by legislation in 1996, MTW permits HUD to grant agencies broad waivers of the statutes and regulations governing the voucher and public housing programs, to allow them to experiment with a wide range of policies. Despite its name, MTW allows HUD to grant waivers that let agencies dispense with most federal rules and tenant protections — often with deregulation, rather than tenant self-sufficiency, as an end in itself. While some agencies have tested innovative, promising policies under MTW, the experience of MTW to date raises a number of serious concerns that should be taken into consideration in designing any expansion of the demonstration.

Agencies Have Exposed Tenants to Potentially Harmful Policies, but Few Useful Lessons Have Been Learned

MTW agencies are permitted to experiment with policies that potentially could harm low-income families. For example, some agencies have raised rents on the lowest income tenants substantially or established time limits on receipt of assistance. Since housing assistance in its current form has been found to reduce homelessness and severe housing instability — and those problems in turn have been linked to a variety of adverse effects on children's health and development — cutting off assistance or sharply raising rents poses a risk of serious harmful effects on vulnerable families.

Moreover, MTW has subjected tenants to these risks *without providing for careful evaluation of the policies with which agencies experimented.* As a result, while MTW was intended to test innovations in housing policy, is has generated a wealth of anecdotal reports but few firm, objective findings. Targeted, rigorously-evaluated, housing policy demonstrations (such as Moving-to-Opportunity, Jobs Plus, and the Welfare-to-Work Voucher program) have generated a far greater quantity of useful findings than the MTW demonstration, with much less disruption to tenants.

In addition, MTW does little to guarantee that housing agencies will be held accountable for the policies they adopt or be required to fully disclose to the public how they have used their flexibility under the demonstration. HUD's Office of the Inspector General has issued a series of sharply critical reports on MTW that have noted flaws such as ineffective oversight by HUD and poor use of funds by some local agencies.[8]

MTW Has Permitted Diversion of Nearly $1 Billion in Voucher Funds, Significantly Reducing the Number of Needy Families Assisted

MTW agencies are permitted not only to experiment with new policies, but also to shift funds between the voucher and public housing programs. In addition, MTW agencies generally have been permitted to accumulate unlimited amounts of unspent voucher funds as reserves, and have not been subject to limitations on reserves that have applied to other agencies.

Agencies have used this flexibility to divert large amounts of the funding they receive out of the voucher program or to leave voucher funds unspent. From 2005 to 2008, MTW agencies with transfer authority used $950 million in voucher funds for purposes other than voucher assistance, or accumulated the funds as reserves. In 2008 alone, the amount diverted was $310 million.[9] Agencies with transfer authority left more than 36,000 vouchers unused in 2008, at least 25,000 of which could have been used with the funding available to the agencies.

There is no comprehensive information about how MTW agencies used the funds they diverted from the voucher program. Based on a review of agency plans and reports, the most widespread use appears to be repairing or replacing public housing developments, with other funds going toward a variety of other purposes. In some cases these uses may have been worthwhile, but they generally do not appear to have increased the number of needy families served — or at least not by nearly enough to offset the reduction in assistance from leaving tens of thousands of vouchers unused.

As a result, MTW has had the effect of significantly reducing the number of families assisted with the federal funding agencies received, a result that runs directly counter to SEVRA's central goal of establishing incentives and requirements that encourage agencies to assist as many families as possible with available funds.

Any MTW Expansion Should Be of a Limited Scale and Subject to Strong New Limitations

It is possible for a modestly expanded MTW demonstration to live up to its purpose and potential as a testing ground for future housing policies, while minimizing the risk of unnecessary harm to low-income families or misuse of public funds. But this will only occur if Congress enacts careful limits to address the serious flaws of the current demonstration.

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[8] The Office of the Inspector General has conducted a general audit of MTW design and implementation, audits examining the Seattle and Pittsburgh MTW programs, an audit of HUD's oversight of the Philadelphia MTW program, as well as an audit of HUD's decision to admit the Housing Authority of Baltimore City to the MTW program. The reports are available at http://www.hud.gov/offices/oig.

[9] These estimates are based on HUD data reporting the amount of voucher renewal funds provided to MTW agencies and the amount they spent on voucher subsidies. Some MTW agencies receive voucher administrative funding (which for most agencies is provided through a separate budget account) and subsidy renewal funds together in a single funding stream. In these cases, we estimated the amount that was intended as administrative funding and deducted it from the agency's funding level before calculating the amount of funds left unspent.

- **Any expansion should be limited to the size needed to accomplish specified research goals.** SEVRA could place a fixed limit on the number of additional agencies that can participate. It is likely that the need for policy experimentation could be met with fewer than 50 MTW agencies (an increase of close to 20 above the current size). Alternatively SEVRA could permit HUD to add agencies to MTW only during a limited time period (perhaps one year after enactment), and only to the extent needed to test specified policy innovations.

- **Limit diversion of funds.** Few of the fund transfers between the voucher and public housing programs that the current MTW demonstration has permitted have been necessary to test innovative policies. Such transfers should be sharply limited under any expansion of the demonstration. This could include both limitations on the circumstances under which agencies are permitted to transfer funds and strict requirements that MTW agencies must continue to serve the same number of families as they did at the start of the demonstration (increased to reflect any new vouchers they receive). The current MTW demonstration requires agencies to serve "substantially the same" number of families. But HUD has interpreted this requirement to allow declines as great as 10 percent, and it is not clear that HUD has enforced even that loose requirement.

- **Require rigorous evaluation.** HUD should be required to rigorously evaluate all MTW activities, including controlled, random-assignment evaluations wherever feasible.

- **Strengthen transparency, accountability, and protections for tenants.** MTW agencies should be subject to new requirements to ensure that they use federal funds effectively and protect tenants from unnecessary harm. Agencies should have to consult with residents and the public concerning MTW plans and to issue periodic, publicly available reports on the activities carried out under the demonstration and their impact on families. These requirements should apply not only to agencies that are newly admitted to MTW, but also to agencies currently operating under MTW agreements.

Conclusion

SEVRA would build on the voucher program's many strengths through a series of measured, targeted improvements that, taken together, would deliver important benefits to housing agencies, private owners, and low-income families. Moreover, because several of the bill's provisions extend beyond the voucher program, it also would improve the public housing and project-based Section 8 programs.

There are three reasons why it is important that Congress not only act on SEVRA, but do so expeditiously. First, SEVRA is already long overdue. More than 10 years have passed since the last major authorizing legislation affecting the voucher program, the 1998 Quality Housing and Work Responsibility Act. As with any government program, there are substantial benefits to be reaped from updating the voucher program as circumstances change and lessons are learned.

Second, enacting the bill promptly would allow the new Administration to use it as a foundation for efforts to strengthen the voucher program and other housing assistance programs through administrative or regulatory action. If Congress delays action, HUD may undertake some administrative streamlining and other reforms, but such efforts would be limited by the constraints of the current statutory framework and likely would require revision once SEVRA is enacted. As a result, later enactment of SEVRA would increase administrative burdens on HUD and its partners.

Last and most important, SEVRA is urgently needed to help low-income families cope with the consequences of the economic downturn, including rising homelessness and poverty and widespread foreclosures. The bill's provisions enabling agencies to assist more families with available resources and protecting tenants of owners facing financial difficulty are particularly timely. The sooner SEVRA is enacted, the sooner it will begin helping families that are clinging to their homes or are already doubled up with friends or relatives, living in shelters, or on the streets.