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Streamlining Federal Rental Assistance

Testimony of Will Fischer, Senior Policy Analyst, Before the House Financial Services Subcommittee on Housing and Insurance

Thank you for the opportunity to testify. I am Will Fischer, 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, particularly the Section 8 Housing Choice Voucher program.

It is commendable that the subcommittee is holding a hearing on streamlining and strengthening federal housing programs. This testimony focuses on the portions of the proposed Housing Opportunities through Modernization Act (HOTMA) affecting the Housing Choice Voucher, project-based rental assistance, and public housing programs.

The reforms in the bill would substantially reduce administrative burdens for state and local housing agencies and private owners while giving them added flexibility to further key goals such as reducing homelessness, improving access to higher-opportunity neighborhoods, and addressing repair needs in public housing. At the same time, the reforms would leave in place the core characteristics that have helped make federal rental assistance effective.

The bill would make particularly important improvements in three areas:

- **Simplifying rules for setting tenant rent payments**, while continuing to maintain key affordability protections.
- **Streamlining housing quality inspections in the voucher program** to encourage private owners to participate and enable families to occupy their homes more quickly.
- **Providing added flexibility to “project-base” vouchers** to support affordable housing development and preservation and enable more homeless families or individuals with disabilities to live in appropriate housing.

Congress has considered most of these provisions for much of the last decade as part of the Section 8 Voucher Reform Act (SEVRA) and the Affordable Housing and Self-Sufficiency Improvement Act (AHSSIA), which have received broad support from both parties and a wide

range of stakeholders. Congress should move promptly to advance HOTMA and refrain from adding controversial provisions that could delay or block the bill's enactment. In addition, Congress could extend the bill's positive impact by adding provisions in two other areas that SEVRA, AHSSIA, and other bipartisan bills have addressed:

- **Strengthening the Family Self-Sufficiency program**, which offers housing assistance recipients job counseling and incentives to work and save.
- **Making the rental assistance admissions process fairer** by limiting screening to criteria related to suitability as a tenant.

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 are senior citizens, people with disabilities, and working-poor families with children.

Rigorous research has shown that rental assistance can sharply and cost-effectively reduce the incidence of homelessness, housing instability, and overcrowding — problems that have been linked to harmful effects on children's health and development.¹ In addition, rental assistance reduces the number of families who pay very high shares of their income for housing and thus have less for food, clothing, health care, and transportation.² Children in low-income households that pay around 30 percent of their income for rent (as voucher holders typically do) score better on cognitive development tests than children in households with higher rent burdens; researchers suggest that this is partly because parents with affordable rent burdens can invest more in activities and materials that support their children's development.³

Housing assistance produces other positive effects. 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 than half, sharply reduce moves from one school to another, and cut rates of alcohol dependence, psychological distress, and domestic violence victimization among adults.⁴ 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. Also, particularly compelling evidence shows that providing affordable

¹ 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); Gubits *et al.*, *Family Options Study: Short-Term Impacts of Housing and Services Interventions for Homeless Families*, prepared for 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>.

² Joint Center for Housing Studies of Harvard University, "America's Rental Housing: Evolving Markets and Needs," December 2013, p. 32, http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs_americas_rental_housing_2013_1_0.pdf.

³ Sandra Newman and Scott Holupka, "Housing Affordability and Child Well-Being," *Housing Policy Debate*, Vol. 25, No. 1, pp. 116-151, 2015; Sandra J. Newman and C. Scott Holupka, "Housing Affordability and Investments in Children," *Journal of Housing Economics*, December 2013.

⁴ Gubits *et al.*, 2015.

housing and services to homeless individuals with chronic health problems generates savings in health care and other areas.⁵

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 far more likely to attend college and less likely to become single parents.⁶ Also, 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.⁷ 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, and diabetes — results that could reflect reduced stress due to lower crime as well as better access to public exercise space.⁸

These 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. Seventeen 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 HOTMA would prudently update and streamline federal rental assistance while retaining the key characteristics that have underpinned its success.

Simplifying Rules for Determining Tenants' Rent Payments

Tenants in HUD's housing assistance programs generally must pay 30 percent of their income for rent and utilities, after certain deductions are applied. HOTMA's rent-streamlining provisions maintain this basic principle while streamlining determination of tenants' incomes and deductions. As a result, the bill would reduce burdens on housing agencies, property owners, and tenants. The changes would also reduce the likelihood of errors in rent determinations.

Most significantly, the bill would:

- **Reduce the frequency of required income reviews.** Currently, agencies and owners must generally review tenants' income annually. HOTMA would allow them to limit reviews to once every three years for households that receive most or all of their income from fixed sources such as Social Security or Supplemental Security Income (SSI) and consequently are

⁵ Fischer, 2015.

⁶ 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.

⁷ Heather Schwartz, "Housing Policy is School Policy," The Century Foundation, 2010, <http://tcf.org/publications/pdfs/housing-policy-is-school-policy-pdf/Schwartz.pdf>.

⁸ Lisa Sanbonmatsu *et al.*, "Moving to Opportunity for Fair Housing Final Demonstration Program: Final Impacts Evaluation," prepared for U.S. Department of Housing and Urban Development, Office of Policy Development and Research, 2011, <http://www.huduser.org/portal/publications/pubasst/MTOFHD.html>.

unlikely to experience much income variation.⁹

Today agencies and owners also must adjust rents between annual reviews at the request of any tenant whose income drops. HOTMA would require adjustments only when a family's annual income drops by 10 percent or more, making such "interim" reviews less common but still providing adjustments when tenants would otherwise face serious hardship. The bills also would require interim adjustments for income increases exceeding 10 percent, except that adjustments for *earnings* increases would be delayed until the next annual review to strengthen work incentives.

Together, these changes would sharply reduce the number of income reviews that agencies and owners must conduct. This would substantially lower administrative costs, since income reviews are among the most labor-intensive aspects of housing assistance administration.

- **Simplify deductions for the elderly and people with disabilities.** Currently, if the household head (or spouse) is elderly or has a disability, housing agencies and owners must deduct medical expenses and certain disability assistance expenses above 3 percent of the household's income in determining the household's rent. Agencies and owners report 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 where the head or spouse is elderly or has a disability — is quite simple to administer.

HOTMA 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 expenses. At the same time, the bill would increase the easy-to-administer standard deduction for the elderly and people with disabilities to \$525 annually and index it for inflation.

In addition to reducing processing burdens for agencies, owners, elderly people, and people with disabilities, this change would likely reduce payment errors substantially. HUD studies have found that the medical and disability expense deduction is one of the most error-prone components of the rent determination process, while errors in the standard deduction are rare.

Some individual households would see higher or lower monthly rents, but the changes would generally be modest. HOTMA would require HUD to establish a hardship exemption policy, which would provide some protection for tenants who are adversely affected. Congress could provide added protection by delaying the effective date of the change to allow tenants to find other ways to cover out-of-pocket medical expenses, and by capping at 10 percent the amount of any annual rent increase due to the policy change.

The most recent draft of SEVRA (from December 2010) contained similar provisions but set

⁹ 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 HUD.

the standard deduction at \$675 instead of \$525. CBO estimates from 2012 suggest that raising the deduction to \$675 would come closer to offsetting the rent increases from scaling back medical expenses, on average across all tenants. A higher standard deduction would also reduce the largest rent increases for individual households. If data continue to indicate that the total rent increases from raising the medical and disability expense deduction threshold to 10 percent of income substantially exceed the rent reductions from raising the standard deduction to \$525, Congress should consider raising the standard deduction further.

- **Simplify deductions for families with children.** HOTMA would scale back an existing deduction for child care expenses — which evidence suggests is claimed inconsistently — by allowing deductions only of expenses above 5 percent of income (rather than all reasonable expenses). At the same time, it would increase from \$480 to \$525 a simple annual deduction that families receive for each child or other dependent, and index it for inflation. The dependent deduction recognizes the fact that larger families must devote a larger share of their income to non-shelter expenses.
- **Allow housing agencies to use income data gathered by other programs.** HOTMA would allow state and local housing agencies and owners to rely on income determinations carried out under SNAP (formerly food stamps) and other federal means-tested programs, without separate verification. Currently, they must determine and verify income independently, even though this duplicates work by other agencies. Allowing housing agencies to rely on income determinations made by SNAP agencies would ease their administrative burdens considerably, since a large portion of housing assistance recipients also receive SNAP.

HOTMA, however, does not include a provision from the December 2010 version of SEVRA requiring state SNAP agencies to make available to housing agencies income data for families participating in both programs. It is important that Congress include this requirement, since without it many SNAP agencies may not provide the needed data.

- **Base 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 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. HOTMA 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.

Streamlining Inspections to Encourage Voucher Participation by Private Owners

The Housing Choice Voucher (HCV) program requires that vouchers be used only in houses or apartments that meet federal quality standards. HOTMA would make important improvements to that requirement.

Most significantly, it would allow agencies to 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 payments to continue. This would encourage owners to participate in the program by minimizing any financial loss due to inspection delays. It also would enable voucher holders, who in some cases are homeless or experience other severe hardship, to move into the unit more quickly than under current rules.

Today, when an inspection of a unit occupied by a voucher holder finds a violation, the housing agency can “abate” — that is, suspend — subsidy payments if the owner fails to address the violation in a timely manner and ultimately terminate the subsidy if the defects are not adequately repaired. HOTMA would retain this authority. It would also establish requirements regarding the rights of tenants and other aspects of subsidy abatement and termination in order to protect tenants from becoming homeless or permanently losing a housing subsidy through no fault of their own.

The bill would also allow housing agencies to use abated subsidy payments to provide assistance to help tenants find a new unit and relocate if the subsidy to their unit is terminated because of an inspection violation. It would be preferable to make this assistance mandatory, as under SEVRA.

Facilitating Use of Project-Based Vouchers

HOTMA would make it easier for a housing agency to enter into agreements with owners to use a share of its vouchers at a particular housing development. Through such “project-basing,” agencies can, for example, partner with social service agencies to provide supportive housing to formerly homeless people or facilitate development of mixed-income housing in low-poverty neighborhoods with strong educational or employment opportunities.

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; the family moving out of the development receives a separate voucher.) This “resident choice” feature and other policies make the project-based voucher option significantly different from earlier programs that provided project-based assistance.

HOTMA increases the percentage of an agency’s voucher assistance that it can project-base from 20 percent to 30 percent, if the added 10 percent is used in areas where vouchers are difficult to use, to house homeless people or veterans, or to provide supportive housing to people with disabilities and the elderly.

In addition, the bill would permit housing agencies to commit to project-based voucher contracts with a term of 20 years (the term HUD permits for contracts under the separate Section 8 project-based rental assistance program), rather than today’s 15-year maximum. The bill would also permit owners to establish and maintain “site-based” waiting lists for particular buildings or projects, subject to civil rights and other requirements. In addition, it would modify the cap limiting the share of project-based vouchers in most types of projects to 25 percent of the units: under HOTMA, agencies could provide project-based vouchers in up to 25 percent of a project’s units or 25 *units* in a project, whichever is greater, and could provide project-based vouchers in up to 40 percent of the units in a project in areas where vouchers are difficult to use or the poverty rate is 20 percent or less. These policy changes would make the voucher program more effective in rural and suburban areas, where rentals are frequently scarce and properties tend to be small, and in low-poverty areas in all types of locations.

Flexible Use of Public Housing Funds

HOTMA contains two beneficial provisions that would give housing agencies greater flexibility to use their operating and capital funds more 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 funds. 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 already have unlimited flexibility to shift funds between the two accounts if they have fewer than 250 units and HUD has not placed them in “troubled” status due to severely deficient performance.)

Second, the bill would allow housing agencies to establish replacement reserves that would be exempt from capital fund obligation and expenditure deadlines. Such reserves, standard practice in unsubsidized housing and privately owned subsidized housing, would give agencies more flexibility to accumulate funds to meet repair and replacement needs that require multiple years of funding. Agencies could deposit capital funds in the reserves, including annual transfers of up to 20 percent of operating funds.¹⁰

Limiting Assistance for Highest-Income Public Housing Tenants

HOTMA would establish new rules covering public housing tenants who have incomes above 120 percent of the local area median income for two consecutive years. Housing agencies would be required to evict such tenants within six months or raise their rents to the sum of the applicable Fair Market Rent and the total public housing operating and capital subsidies used for their units.

Today, families must have income below 80 percent of median income when they enter public housing. If a family’s income later rises above this level, agencies are permitted but not required to evict them. Ongoing income limits involve tradeoffs. On the one hand, allowing families with somewhat higher incomes to remain in public housing reduces the number of units available to needier families. On the other hand, abruptly terminating assistance to families whose income rises could discourage families from increasing their earnings, displace families whose incomes rise temporarily and could still need assistance to afford housing, and increase concentrations of the poorest families in public housing developments. Moreover, displacing families with somewhat higher incomes will usually increase subsidy needs, since the lower-income families who replace them will require a higher subsidy to enable them to afford housing.

The HOTMA income limitation would only affect the highest-income tenants and only after they have raised their income on a sustained basis; it also would give agencies the option to let these families remain in their homes if they pay the required rents. As a result, the provision’s impact on

¹⁰ These provisions should be tightened to avoid any risk that they could be used to shift voucher funding into public housing replacement reserves. It would be beneficial to give housing agencies added flexibility to manage funds appropriated for public housing, but voucher funds must normally be used for direct rental assistance to needy families; allowing their transfer to other purposes could result in fewer total families receiving assistance. HOTMA includes a broadly worded provision allowing HUD to permit agencies to place “funds originating from additional sources” into replacement reserves. Recurring language in annual appropriations laws would prevent agencies from shifting voucher funds in this manner, but in case that language is omitted in a future appropriations law, Congress should specify that the authority in HOTMA does not cover voucher funds.

work incentives, housing stability, poverty concentration, and program costs would be limited. Just 3 percent of public housing tenants have incomes above 80 percent of median income, and only a small fraction of those households likely are above 120 percent of median income for two consecutive years, according to HUD data.

As currently drafted, the rent requirement could have very different results from one development to another. Fair Market Rents are usually set at the same level for entire metropolitan areas and the amount of subsidies used may be much lower in newer developments than in older ones with greater repair needs. The required rents could consequently be far above market rents in some developments but close to or even below market at newer developments in relatively high-rent neighborhoods. For the reasons discussed above, the number of families affected by these discrepancies would be small. Nonetheless, Congress could improve the requirement — while still ensuring that no net subsidies go to units occupied by over-income families — by giving HUD authority to adjust the rent requirement based on rents in smaller areas (as Congress recently allowed HUD to do with public housing “flat rents”) and setting the rent at the higher of (rather than the sum of) the Fair Market Rent and the operating and capital subsidies for the unit.

Bill’s Utility Allowance Provision Is Flawed

HOTMA contains a flawed provision limiting utility allowances for voucher holders and public housing residents. It is somewhat ambiguous but appears intended to prevent housing agencies from calculating tenant rents using utility allowances that exceed an individual family’s actual utility costs. Such a change may appear reasonable at first glance, but it would sharply raise administrative burdens and weaken incentives for families to conserve utilities.

Some rental assistance recipients (like some rental tenants generally) pay utilities as part of their rent, while others pay some or all utilities directly to utility companies. In both cases, tenants are required to pay a total of 30 percent of their income for rent *and* utilities. When tenants pay utilities directly, housing agencies calculate their rental payment by subtracting their estimated utility payments — referred to as a “utility allowance” — from 30 percent of their income. Current regulations direct housing agencies to calculate voucher utility allowances based on the “typical cost of utilities and services paid by energy-conservative households that occupy housing of similar size and type in the same locality.” All families that live in units that are in the same locality and of a similar size and type receive the same allowance, regardless of their actual utility costs.

This approach has two major advantages. First, it provides very strong incentives for families to conserve utilities, since if their utility bills exceed their utility allowance they bear the full cost (and they receive the full benefit if their bills fall below the allowance). Second, it spares agencies the burdensome and error-prone task of collecting and verifying each family’s expenses every month (and spares families the burden of submitting that information). Congress should retain the current policy rather than taking the unnecessary and disruptive step of prohibiting families from receiving credit for a utility allowance in excess of their expenses.

Congress Could Add Other Important Reforms to HOTMA

HOTMA would make important improvements to the rental assistance programs, and Congress should move promptly to enact them (with the modest changes recommended above). Congress could strengthen HOTMA further by adding other provisions with a history of bipartisan support.

- **Strengthening the Family Self-Sufficiency (FSS) Program.** FSS encourages work and saving among voucher holders and public housing residents through employment counseling and financial incentives. Senators Jack Reed (D-RI) and Roy Blunt (R-MO) introduced the Family Self-Sufficiency Act in 2013 making improvements to FSS, and AHSSIA and SEVRA included similar (though not identical) provisions.

Most importantly, Congress should establish a stable formula to allocate funds to cover administrative costs of FSS programs. This formula would replace a competitive process that has made funding unpredictable and disrupted administration of local FSS programs.

Congress should also make project-based Section 8 residents permanently eligible for FSS (which would build on a provision in the 2015 HUD Appropriations Act making them eligible on a temporary, one-year basis) and adopt other reforms included in previous bipartisan bills.

- **Protecting against arbitrary screening of housing assistance recipients.** Housing agencies and owners must screen housing assistance applicants based on several federally required criteria, and can opt to establish additional criteria. HOTMA omits provisions in AHSSIA and SEVRA making several improvements to the screening process for the HCV program, including limiting optional screening criteria to those directly related to the family's ability to meet the obligations of the lease and requiring housing agencies to consider mitigating factors before denying assistance. These important improvements would prevent, for example, denial of assistance to a family with a record of paying rent on time but (like many poor families) a weak credit history for other reasons. They also would make it easier to provide housing vouchers to homeless people and others with an urgent need for assistance who today might be denied help for arbitrary reasons.

HOTMA also leaves out a provision from both AHSSIA and SEVRA that adds an important protection for families shifted to vouchers from public housing or HUD multifamily programs due to the elimination of assistance through those programs for the property where they live. AHSSIA and SEVRA recognized that such families are not new to HUD assistance and should be considered continuing participants rather than new applicants subject to initial screening. This change would protect families and reduce agencies' administrative burdens.

Conclusion

HOTMA would build on the many strengths of federal rental assistance through measured, targeted improvements that, taken together, would deliver important benefits to housing agencies, private owners, and low-income families. A number of its provisions have received broad support for nearly a decade. The nation needs its housing assistance programs to be as efficient and effective as possible, and HOTMA would take major steps toward that goal. Congress should enact these reforms promptly.