Housing Vouchers Should Be a Major Component of Future Housing Policy for the Lowest Income Families

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Characteristics of Vouchers Are Well-Suited To Meet Needs of Lowest Income Families

The Nation's number-one housing problem is the lack of affordable housing for extremely low-income households, particularly families with children. Housing vouchers directly mitigate this affordability problem. The flexibility inherent in the voucher program helps avoid the concentration of poor families by providing voucher holders with a broad choice of housing units. Moreover, vouchers continue to meet the needs of low-income families even as those needs change. As family size changes or economic opportunities arise in different locations, the voucher can be used for a new housing unit. This flexibility appears to have positive effects on adult employment and welfare receipt as well as on children's health and educational outcomes.

Key Characteristics of Section 8 Housing Vouchers

A housing voucher is an income supplement earmarked to meet housing costs. Section 8 housing vouchers pay the difference between 30 percent of a household's income and a locally determined payment standard. In theory, the payment standard is set so that a family may choose from approximately 40 percent of the units available in a housing market area without paying more than 30 percent of its income. A family may choose housing that costs more than the payment standard and pay the difference, but it generally may not pay more than 40 percent of its income for housing costs.

Families of any type and size may receive housing vouchers. A household's characteristics—elderly, disabled, with or without children, working, or unemployed—do not affect eligibility for the housing voucher program. (Depending on local administering agencies' admissions preferences, personal characteristics may affect how long a household waits for assistance.) The subsidy amount varies with the number of bedrooms a family needs. The fundamental eligibility requirement for the voucher program is income. Only low-income families—those with incomes at or below 80 percent of the area median—are eligible to receive housing vouchers. Three-quarters of vouchers are reserved for extremely low-income families—those at or below 30 percent of area median income.

A voucher may be used in any type of housing: single-family, multifamily, manufactured home, or assisted living residence. Whereas most vouchers are used to rent housing of the tenant's choice—that is, they provide tenant-based rental assistance—vouchers also may be attached to particular buildings (project-based vouchers) or used to defray the costs of homeownership. These components of the voucher program are optional for the public housing authorities (PHAs) that administer the voucher program and are briefly discussed below. A family may use a voucher virtually anywhere in the United States. Federal law requires only that vouchers be used for housing that is of decent quality and reasonable cost.

Lack of Housing Affordability for Extremely Low-Income Households Is the Nation's Number-One Housing Problem

Severe housing problems are concentrated among extremely low-income households. Nearly three-fourths of low-income renter households with severe housing problems have incomes below 30 percent of area median.[1] Nationally, 30 percent of the U.S. Department of Housing and Urban Development (HUD)-estimated median family income is $13,554 for a family of three, which is nearly equivalent to the Federal poverty line of $13,702. This paper uses the terms *extremely low-income* and *poor* interchangeably unless the context indicates that a technical meaning is intended.

More than two-thirds of extremely low-income renters who do not have housing assistance have severe housing problems (U.S. Department of Housing and Urban Development, 2000b). For most of these households, the dominant housing problem is affordability: they pay too much of their income for rent. Of these approximately 4.2 million extremely low-income households (in 1997), more than 4 million paid more than one-half of their income for rent and utilities, while 300,000 lived in severely inadequate housing. Some households had both priority problems (Lubell et al., forthcoming).

Housing vouchers directly redress affordability problems. A family can stay in the same unit and reduce its housing costs to 30 to 40 percent of its income if its landlord agrees to participate in the voucher program, the rent is reasonable, and the unit passes a quality inspection. Alternatively, the family can move to a new unit of decent quality and reasonable cost.

Lack of Affordable Housing Particularly Affects Families With Children

Among extremely low-income renter households with severe housing problems and no housing assistance, those consisting of families with children are the most burdened by unaffordable housing. Some 90 percent of such families with children are shelter poor compared with 73 percent of childless households. (Households are shelter poor if, after paying for housing costs, they are unable to afford other necessities of life;) (Lubell et al., 2001).[2] Nearly twice as many extremely low-income renter families with minor children as elderly households have severe housing problems, as defined by HUD (U.S. Department of Housing and Urban Development, 2000b).

Vouchers Avoid Concentration of Poor Families More Effectively and Efficiently Than Other Housing Programs

An important goal of recent Federal housing policy is to avoid concentrating poor families with children in a single development, particularly if the development is located in a low-income neighborhood. By permitting a broad choice of housing units, vouchers should lead to dispersal rather than concentration of poor families. In fact, vouchers perform far better than public housing or privately owned project-based assisted housing at enabling families to live outside of areas of concentrated poverty (Newman and Schnare, 1997). The greater deconcentrating effect of vouchers is more pronounced when the analysis is limited to the effect of Federal housing programs on the neighborhoods in which subsidized families with children reside (Khadduri et al., forthcoming).

Vouchers are also more efficient than other existing Federal housing programs at avoiding the concentration of poor families. Such concentration can be avoided by reserving a majority of the units for households with relatively higher incomes. If the entire development is subsidized, however, the effect of such a mixed-income policy is that less needy families receive subsidy dollars. Such expenditure, if limited, may properly meet a need to increase the supply of rental housing while balancing the goals of avoiding poverty concentration and providing housing for families with the most severe housing problems. But if, in addition to up-front subsidies to offset construction costs, units housing relatively higher income families receive ongoing subsidies because the rents charged do not cover operating costs, then a policy of mixing incomes in a development will result in a misallocation of scarce housing resources.

Because Congress understood that vouchers inherently mix poor families with others, the Quality Housing and Work Responsibility Act of 1998 (QHWRA) requires that PHAs target at least 75 percent of newly issued vouchers each year to extremely low-income families. To attempt to remedy the perceived overconcentration of extremely low-income families in public housing and project-based Section 8 developments, however, QHWRA revised Federal housing policy to require that only 40 percent of units available each year in such developments be occupied by households with extremely low incomes. One effect of the new Federal targeting requirements is to divert scarce subsidy dollars and housing units away from families with the greatest need.

Rent policies, particularly in public housing, also have the effect of directing housing assistance to less needy families. Flat or ceiling rent policies that cap rents regardless of income are intended to encourage higher income families to remain in public housing as a means to deconcentrate poverty. (Project-based Section 8 developments generally must charge income-based rents up to the contract rent for the unit.) But if the flat or ceiling rent is set below the level of operating costs, an ongoing subsidy is required. In contrast, when housing subsidies are provided through vouchers, no additional subsidy is required to mix extremely low-income families and families with higher incomes.

Even if little or no ongoing subsidy is required to attract and retain higher income families in public housing or project-based Section 8 developments, deconcentrating poverty within a development reduces the number of subsidized units available to more needy families. Federal statutes now prohibit redirecting savings that accrue to the Federal treasury as a result of mixing incomes in developments under these programs to provide additional public housing or project-based Section 8 units to other households. As a result, every unit in a public housing or project-based Section 8 development occupied by a family above 30 percent of area median income is one fewer unit that is available to a family likely to be in greater need of an income-based housing subsidy.

Flexibility of Vouchers Meets Changing Family Needs

Housing units with an attached subsidy are fixed in size and location. The units have the number of bedrooms with which they were built, unless they are substantially renovated, and they remain in their original place. To continue to receive the benefit of the housing subsidy, a family generally must remain in the unit. Transfers may be permitted or required to units of the appropriate size, but a family may have to live in overcrowded conditions for years before such a transfer.

Vouchers, in contrast, adjust in value and move as a family's needs change. If the number of household members increases—due to marriage, birth, adoption, caring for an elderly parent, or other reasons—the amount of rent that the voucher covers increases if the family moves to a larger unit.[3] If a family wishes to move to be closer to a job or to other family members (to facilitate child or elder care arrangements or for another reason), or to live in a neighborhood that is safer or has better community services, it usually can retain the voucher subsidy and use it in the new location. Anecdotally, this ability of vouchers to adapt to changes in family structure and needs is a key reason many families with children prefer vouchers to other forms of housing assistance (Sard, 1994).

While elderly and disabled individuals may be less likely than families with children to need to change unit size or location, the flexibility of vouchers also can enable such individuals to move in and out of service-linked housing as their needs change without sacrificing housing affordability. Vouchers also may be the only means for elderly individuals or couples to retain their existing rental housing unit if the rent increases beyond what they can manage on a fixed income.

Mobility Feature of Vouchers May Help Achieve Other Social Goals

Various studies indicate that the mobility feature of vouchers, in addition to the guarantee of increased housing affordability, may result in a number of beneficial outcomes for both parents and children. Some studies have shown positive effects of vouchers for adult employment and welfare receipt as well as for children's educational and health outcomes and their relationship to the criminal justice system (Sard and Lubell, 2000). Well-located developments in which some units have project-based subsidies that are financially equivalent to vouchers may be able to achieve similar results, although they will not afford families the flexibility of vouchers. Obtaining local approval for construction of such developments, however, may be difficult. In contrast, vouchers are not subject to zoning board decisions.

Vouchers Help Increase Employment and Earnings and Reduce Welfare Receipt. Research increasingly suggests that vouchers (and other government housing subsidies) can promote work among long-term welfare recipients when combined with a well-designed welfare reform program. Of particular note is the recently released evaluation of the Minnesota Family Investment Program (MFIP) by the Manpower Demonstration Research Corporation (MDRC). Taken as a whole, the gains it found—including reductions in poverty as well as increases in employment, earnings, and even marriage—are among the strongest ever documented for a welfare reform undertaking in the United States. Most of the success of MFIP was due to the substantial increases in employment and earnings it generated among families receiving housing assistance, primarily Section 8 vouchers (Center on Budget and Policy Priorities, 2000; Miller et al., 2000).[4]

Similarly, a study of welfare recipients in four counties in California, conducted while the California JOBS program (known as GAIN) was under way, found that participation in the Section 8 tenant-based program had a substantial positive effect on the number of hours that welfare recipients worked (Ong, 1998). The Gautreaux program in Chicago also provides evidence of the employment benefits that may result from using housing vouchers to help families move to safer neighborhoods that offer better employment and educational opportunities. Otherwise comparable families who used vouchers to move to the suburbs had an employment rate of 64 percent, while city movers had an employment rate of only 51 percent (Rosenbaum, 1995; Rosenbaum and Popkin, 1991).

Two studies have found that rates of welfare receipt decrease when families use housing vouchers to move to census tracts with either relatively few poor households or relatively high education levels. A study of the first 3 years of the Moving to Opportunity (MTO) demonstration program in Baltimore found that families offered housing vouchers to move from public housing in very poor neighborhoods to low-poverty neighborhoods experienced a 15-percent decline in their rate of welfare receipt, compared with similar families not offered the opportunity to move out of public housing. The reduction in the rate of welfare receipt appeared to be due largely to increases in employment and earnings (Ludwig et al., 2000).[5] Further research on the families involved in the Gautreaux program has shown that families assigned to neighborhoods with more educated residents at the outset—whether in the suburbs or within the Chicago city boundaries—were much less likely to be on Aid to Families with Dependent Children (AFDC) at the end of the studied period (1989) than families with an equal incidence of AFDC receipt who were assigned to neighborhoods with less educated residents (Rosenbaum and DeLuca, 2000).

Vouchers Help Produce Positive Outcomes for Children. The results from both the Gautreaux program and the first few years of the MTO demonstration lead to the tentative conclusion that housing vouchers can improve the life chances of a large number of poor children living in neighborhoods of concentrated poverty (Duncan and Ludwig, 2000). This conclusion is consistent with the review of the literature about neighborhood effects on adolescent employment and likelihood of involvement in criminal and sexual activity by Ellen and Turner (1997).

The most notable results of the Gautreaux program probably were the effects on children’s education and employment. The children of suburban movers were less likely to drop out of high school (5 percent versus 20 percent), more likely to be enrolled in a college-track curriculum (40 percent versus 24 percent), and more likely to go to college (54 percent versus 21 percent). Among the Gautreaux youth not attending college, a significantly higher proportion of the suburban youth had full-time jobs than city youth (75 versus 41 percent) (Rosenbaum, 1995).

Early MTO results indicate positive effects on children’s behavior, criminal involvement, and health and safety. Several sites found markedly reduced rates of criminal or problem behavior among adolescent males in families who received vouchers compared with those that remained in high-poverty neighborhoods (Duncan and Ludwig, 2000). Children of families who received assistance in moving to low-poverty neighborhoods were also less likely to experience serious asthma attacks or to be victims of violent crime (Katz et al., 2000).

The benefits of housing subsidies for children also may have a positive effect on the ability of their parents to retain employment. Particularly in low-wage positions, the need to leave work to attend to a family emergency can lead to loss of employment. To the extent that housing subsidies reduce the number of disruptions attributable to child health and child criminal activity, they may further contribute to adults’ job retention.

Housing Vouchers Require Units in Which They Can Be Used

Although most families who receive vouchers use them successfully to obtain decent, affordable housing, housing vouchers have been criticized for being as worthless as food coupons when grocery store shelves are barren. Most recently, the Senate Appropriations Subcommittee responsible for the HUD budget characterized vouchers as “a piece of paper that is just a hope-to-find housing voucher” (Subcommittee on Veterans Administration et al., 2000).

It is true that a housing voucher does not confer any benefit on a family unless it can be used to obtain housing. The vast majority of families issued vouchers, however, succeed in using them. The most recent national study found that 87 percent of families issued vouchers were able to use them (Kennedy and Finkel, 1994). While reports from various housing authorities and advocacy groups indicate that vouchers have become more difficult to use as the rental market has tightened in recent years, a March 2000 survey of large PHAs found that on average 81 percent of families issued vouchers by these agencies used them, and 93 percent of available Section 8 budget authority was used (Subcommittee on Veterans Administration et al., 2000). Many well-managed PHAs use all their vouchers by reissuing them until enough families succeed (Sard, 2000; Maney and Crowley, 2000). Some 86 percent of the 1.7 million vouchers authorized by Congress are reported to be currently in use (U.S. Department of Housing and Urban Development, 2000a). A significant portion of the remaining vouchers is reserved to relocate households from public housing scheduled for demolition or for a similar tenant protection purpose.

Reasons Why Some Families Experience Difficulty in Using Vouchers

It is important to identify the major reasons some families are either unable to use vouchers at all or unable to use them to obtain housing in lower poverty neighborhoods, as the nature of each barrier may suggest different solutions.

Barriers to Access to the Existing Housing Supply. Abundant evidence suggests that in many areas, the major problem is not an insufficient number of units available for rent but an insufficient number of units actually available to voucher holders (Turner and Williams, 1998; Popkin and Cunningham, 2000). A recent survey by the Council of Large Public Housing Authorities of its member agencies found that the most frequently reported reason why vouchers go unused is that “not enough landlords are participating in the program” (Subcommittee on Veterans Administration et al., 2000). It is likely that tight markets, in which demand for rental housing substantially outpaces the supply, make it more difficult to use vouchers, but prior research does not support a firm causal link between market tightness and voucher success (Maney and Crowley, 2000).

There are five major reasons why vacant units may not be actually available to families with vouchers. The significance of each factor varies locally.

- **Owner refusal to rent to families with vouchers.** Numerous studies as well as anecdotal reports have indicated that a high proportion of rental property owners consider at least some of their units off-limits to voucher holders (Finkel and Kennedy, 1992; Kennedy and Finkel, 1994). Local studies in the Minneapolis/St. Paul area have shown that as the housing market has gotten tighter, an increasing proportion of owners of available housing at appropriate rents refuse to rent to voucher holders (Warner, 1999). Some of these decisions reflect business judgments, such as a desire to avoid the extra paperwork and time delays of the voucher program when other willing renters are plentiful or the perceived risk of antagonizing other tenants by renting to different families. But some reflect discrimination based on the actual or perceived characteristics of families with vouchers.
- **Lack of housing of adequate quality**. While a housing market survey may indicate that units of the right price are available in adequate numbers, the survey may inaccurately judge unit quality. Voucher program rules permit but do not require PHAs to give owners time to cure quality problems. An owner's willingness to fix minor defects is likely to depend on the cost of the repair and the owner's ability to rent the unit as is to tenants without voucher assistance.
- **Lack of housing at the right price.** By converting all Section 8 tenant-based subsidies to vouchers, QHWRA eliminated the strict rent ceiling under the certificate component of the program (approximately three-fourths of the subsidies were certificates, for which rents were capped at the HUD-determined fair market rent (FMR)). Although PHAs can now increase their payment standards to 110 percent of FMR or higher, a recent study found that only 34 percent have done so, despite the fact that approximately one-half of the PHAs reported increased difficulty in using vouchers (National Association of Housing and Redevelopment Officials, forthcoming).[6]
- **PHA administrative practices.** In addition to the way PHAs set their voucher payment standards and determine rent reasonableness, a range of other PHA practices may diminish families' success at using vouchers (Maney and Crowley, 2000). For example, PHAs may unnecessarily restrict the number of days that families have to locate housing. (HUD recently eliminated the longstanding Federal cap of 120 days on search time.) PHAs may discourage owners from

participating in the program by taking weeks to inspect units, applying housing quality standards in an overly stringent manner, or delaying subsidy payments. PHAs may fail to take affirmative steps to bring new owners into the program. Through a variety of practices, PHAs may discourage portability of vouchers from the issuing agency to an area where another PHA administers the voucher program (Feins et al., 1997; Tegeler et al., 1995). In addition, few PHAs provide families with any assistance in finding units, particularly units outside of families' current neighborhoods. (HUD rules require PHAs to provide search assistance only to disabled individuals.)

- **Family attributes**. This category encompasses a range of barriers. Applying vouchers to a family's current rental unit increases voucher success rates (Kennedy and Finkel, 1994; Popkin and Cunningham, 2000). Families who cannot use vouchers in their current units may prefer not to move. Others may not search hard enough to find another unit. Working families with time constraints, families that may lack motivation because the subsidy they would receive is relatively small, and families with disabled members have been found disproportionately to not use their vouchers (Kennedy and Finkel, 1994). In addition to the difficulties of the search process for disabled individuals, there may be a scarcity of units accessible to those needing special accommodations. Large families who are permitted to rent only units with three or more bedrooms are generally less successful than other voucher holders, but the available data raise questions about the extent to which this difficulty is caused by a lack of appropriately sized units. A substantial number of large families succeed in using vouchers: 36 percent of all vouchers are currently used to rent units of three or more bedrooms, and 6 percent are used to rent units with four or more bedrooms. The proportion of units with four or more bedrooms is the same as in the public housing program (U.S. Department of Housing and Urban Development, 2000). In Chicago, researchers found that despite large families' greater difficulty in using their vouchers, units with three or more bedrooms had a higher vacancy rate than other rental units (Popkin and Cunningham, 2000).

  Searching for housing may be expensive. In addition to the cost of transportation to see units and meet landlords, families may incur costs for credit checks, additional childcare, or lost income as a result of taking time from work. The inability or unwillingness of some families to bear these search costs, as well as the security and utility deposits required for new units, may deter them from using their vouchers.

  Some PHAs report that families with poor rental or credit histories are unable to find owners willing to rent to them, but it is unclear whether families with such histories experience greater difficulty than others. Families of different race or ethnicity from the majority of participants in the Section 8 program in the local area may face greater difficulty in finding an owner willing to accept a voucher (Finkel and Kennedy, 1992; Kennedy and Finkel, 1994). Finally, families generally will not move to an unfamiliar neighborhood unless efforts are made to increase their comfort with the new community, such as providing information about the new community and transportation to visit the area.

"Real" Supply Problems. Efforts to overcome most of these barriers to voucher use by expanding the supply of housing units are likely to be unnecessarily costly and inefficient. Whether a supply-side solution aims to build additional units or to rehabilitate existing housing or both, it is likely to require greater public expenditure over the long term than vouchers combined with strategies to make them more effective (Shroder and Rieger, 2001).

Nonetheless, there are areas where there is little housing of any size or price available to rent. Some of these areas have a substantial stock of rental housing, but changing demographics and local economies have resulted in a very low vacancy rate—few units come on the market, and those that do are rented immediately. Other areas, particularly rural or suburban areas with high rates of job growth, have little rental housing.

Vouchers alone cannot solve these failures of the housing market to supply the amount and type of housing needed to meet demand. But vouchers can be an important component of well-designed, supply-side remedies that benefit extremely low-income families as well as others.

Strategies To Enhance Voucher Success

Before focusing on the appropriate Federal role in enhancing voucher success, it is important to have an overview of the range of strategies needed to overcome the barriers to voucher use.

- **Increasing owner acceptance of vouchers** requires improved PHA administration of the program, persuasion through education and marketing efforts, and a combination of "carrots" and "sticks." Examples of potentially effective inducements include favored tax treatment of owners who accept a certain number of voucher holders, or permitting rentals to voucher holders to satisfy inclusionary zoning or linkage ordinances. Applicants for Community Development Block Grant (CDBG) or HOME funds for repairs to properties that include rental units could be given priority if they agree to rent to voucher holders. A similar selection preference could be incorporated into a State's plan for allocating low-income housing tax credits (LIHTCs). Alternatively, the obligation to accept voucher holders for a specific percentage of units (rather than simply an obligation not to discriminate) could be imposed on recipients of funds from any of these types of programs. Rigorous, public enforcement of current laws prohibiting discrimination against voucher holders or the types of households with vouchers may make a significant difference in owner behavior.

- **Increasing the number of units at the right price** requires many PHAs to make more effective use of their discretion to set voucher payment standards. Inducing PHAs to take such steps may involve training, so that PHA staff better understand the scope of their discretion and their ability to increase voucher payment standards without decreasing the number of families who receive voucher assistance (Sard, 2001). Better management assessment tools as well as publicity about and enforcement of HUD's recently adopted sanctions against PHAs that fail to use an adequate number of vouchers are also important to encourage desired PHA behavior (Lubell, 2000). For many PHAs, however, the current discretionary limits on the voucher payment standards are too low.

- **Increasing the number of units of adequate quality** may require better coordination of funding decisions in housing rehabilitation programs, such as CDBG and HOME, with management of the voucher program. Additional funds for this purpose may be required in some areas. Alternatively, some have suggested that local efforts to aggressively enforce existing housing codes could improve housing quality and eliminate a major owner disincentive to participate in the voucher program, as all rental units would be subject to similar inspection and compliance requirements (National Low Income Housing Coalition Institute, 2000).

- **Improving PHA administrative practices** is likely to require combining training, technical assistance, and best practices information with enhanced performance measures and sanctions. But there is substantial reason to think that such measures are likely to have limited success in light of the number of agencies that currently administer the Section 8 program (approximately 2,700), their size (approximately 1,700 agencies administer fewer than 250 vouchers), and their priorities (the approximately 1,000 agencies that also manage public housing tend to give disproportionate resources and attention to the public housing program). In addition, the limited service areas of many agencies and the proliferation of agencies within a particular metropolitan area diminish the likelihood that an effective solution to portability barriers will be found.

- **Overcoming barriers based on families' personal characteristics** requires a varied set of responses. For some, the key will be to provide more time and assistance in the search process. For others, strategies to bring more owners into the program and to overcome discrimination may be necessary. Such program improvements require local policy changes as well as additional resources.

- The supply-related problems of too few units with three or more bedrooms or handicapped accessibility call for a different range of solutions. Again, a combination of carrots and sticks may be effective. Housing plans (both HUD's required Consolidated Plan and the IRS' required Qualified Allocation Plan for LIHTC developments) should identify the needs of these special populations and ensure that existing housing construction and rehabilitation programs more adequately meet them. Laws that require new construction or substantial rehabilitation efforts to comply with handicapped accessibility requirements should be enforced. In addition, it may be possible to bring more of the existing supply of large units into the voucher program. For example, Chicago recently initiated a city-funded bonus program to reward owners who agreed to rent units with three or more bedrooms to families using vouchers to relocate from public housing.

- **"Real" supply problems** require the production of additional rental units, through measures that facilitate and subsidize new construction and substantial rehabilitation. It is important, however, to state what should be obvious but is often overlooked. To help families with vouchers benefit from the new supply, at least a portion of the units produced by supply programs must rent at or only slightly above PHAs' voucher payment standards and must be the right size for the families who need the units.

Much of the housing produced by the LIHTC program to date has been too small or too expensive to be rented by families with children who have vouchers.[7] Moreover, experience unfortunately has shown that even if units are of the right size and price, some owners of LIHTC units use a variety of techniques to avoid renting to voucher holders. Current prohibitions against discrimination have not been effective at preventing this (Roisman, 1998).

Consequently, to alleviate barriers to voucher use, production strategies must include enforceable obligations to accept a reasonable number of families with vouchers. In addition, a supply solution to the housing problems of families with children must focus on increasing the available supply of rental housing in areas of high job growth, or families will remain isolated from economic opportunities.

Potential of Homeownership and Project-Based Vouchers To Alleviate Use Problems. PHAs have two new options with significant potential to alleviate problems with voucher use as well as to accomplish other housing goals. First, any PHA may implement a homeownership component of any size as part of its voucher program. Second, PHAs will be able to contract with private owners to project-base up to 20 percent of their vouchers in particular buildings under new, streamlined rules that provide financial incentives to owners to participate in the program. The flexibility afforded by these major changes in Federal voucher policy, if implemented by PHAs, may increase families' success in using vouchers.

Whether a PHA should undertake a voucher homeownership program is outside the scope of this article. But it is important to note that in some areas a substantial number of homes or condominiums for sale are within the price range of the voucher program. (The Center on Budget and Policy Priorities will publish the data analysis supporting this conclusion.) The homeownership option may make it easier for qualified large families to find suitable, affordable housing with vouchers, because far more homes with three or more bedrooms are for sale than are available for rent. Homeownership can also lock in stable housing costs in an otherwise escalating market. In contrast, families who rent with vouchers, like other tenants, may be displaced by rent increases.

As part of the fiscal year (FY) 2001 appropriations act, Congress has substantially revised how vouchers may be project-based. These statutory changes streamline the procedures for PHAs to project-base vouchers in particular developments, and increase the proportion of an agency's vouchers that may be project-based from 15 percent to 20 percent. PHAs will no longer require HUD's approval to project-base their vouchers. PHAs will be able to enter into long-term contracts despite the annual nature of Section 8 funding. (The contracts will be subject to annual appropriations.) Based on their local market conditions, PHAs can decide whether to project-base vouchers in existing housing to increase the opportunities for families on waiting lists to obtain housing, or to link vouchers to rehabilitation and new construction projects. PHAs will be able to offer owners certain financial incentives to enter into multiyear contracts, particularly for units outside of low-income areas financed with LIHTCs.[8]

In addition to making the project-based option easier for PHAs to use, the statutory changes will overcome the typical drawbacks of project-based assistance discussed above. The revamped project-based voucher program will avoid concentrations of poor families and individuals without diluting the targeting of assistance to extremely low-income families. No more than 25 percent of the units in a development may receive project-based voucher assistance unless the development serves the elderly, persons with disabilities, or households receiving supportive services. In a very significant departure from previous Federal housing policy, families who accept units with project-based subsidies will be able to move with continued housing assistance. If a family chooses to move after a year or more in a unit with project-based assistance, the PHA must provide the family with the next available tenant-based voucher or an equivalent subsidy. To fill the vacated unit, the PHA will refer another family from its waiting list. As a result of this new resident choice requirement, families will retain the flexibility that voucher assistance ordinarily provides, while also benefiting from the improved access to housing that project-basing may confer.

Implications for Federal Policy

The central conclusion to be drawn from this analysis is that housing vouchers are the form of housing assistance best suited to ensure housing affordability for extremely low-income families while maintaining the flexibility to meet changing needs. In addition, vouchers work better than other forms of housing assistance to help families move from neighborhoods of concentrated poverty to areas where adults and children have improved employment, earnings, education, and health outcomes.

But vouchers can produce these positive results only if families can use them to obtain housing. While most families who receive vouchers are able to use them to rent decent-quality housing, a variety of strategies are needed to improve the effectiveness of the voucher program. Efforts by State and local governments, by individual PHAs, and by formal and informal PHA groups at the metropolitan, State, or national level could accomplish many of the needed changes. Advocacy groups and umbrella housing organizations also could encourage such efforts.[9] Realistically, however, such locally initiated responses are not likely to be widespread, and they would not be sufficient to remedy all of the identified problems.

More Vouchers Should Be Funded

The Federal Government should continue to expand the number of families and individuals receiving voucher assistance. Some 4.2 million extremely low-income renter households and 1.2 million renter households with incomes between 31 and 50 percent of area median lack housing assistance and have severe housing problems (U.S. Department of Housing and Urban Development, 2000b). For most of these households, vouchers are a necessary element of any solution to their housing problems. Expanding the size of the voucher program, however, is not sufficient. Vouchers that are not used to obtain housing do not provide housing assistance. When many families try to use a voucher before one family succeeds, or when vouchers provide affordability but not opportunity, the voucher program is failing to fulfill its potential. Such inadequate performance may undermine support for the program's expansion.

Federal Efforts Needed To Improve Voucher Program Performance

Four types of Federal response, as well as actions by State and local governments and by PHAs, are needed to improve voucher program performance. It is important to note that none of the suggested actions includes further devolution of decisionmaking to local or State agencies. A program intended in part to promote residential mobility and choice requires a high degree of uniformity across administering agencies. Indeed, a number of the policy changes recently made by HUD in the name of devolution have undermined the ability of families with vouchers to move to new areas.[10] Unlike many recent changes (Lubell, 2000), none of these recommendations is designed to make the voucher program more landlord friendly. Whether such recent changes had any effect on owner participation has not been studied. There is no evidence, however, that further changes in Federal program requirements are warranted to increase owners' willingness to accept vouchers.

Improve Local Administration of the Voucher Program

More effective management by the agencies that administer the voucher program directly is central to improved program performance. Maney and Crowley (2000) include a detailed description of administrative practices that may, based on anecdotal evidence, improve voucher holders' success in obtaining housing. Within the existing administrative structure, HUD could help PHAs improve the management of the voucher program by increasing the resources devoted to training and technical assistance and publicizing effective local practices. It is unclear whether such efforts require additional appropriations or could be accomplished by reprioritizing the use of existing HUD headquarters and field office resources.

To induce PHAs to improve program management, HUD should publicize and enforce the recent policies that award new units only if a PHA has used its existing vouchers and that permanently reduce the number of vouchers a PHA can administer if it fails to use its allocated supply of vouchers. HUD also should modify its measures of Section 8 program performance (SEMAP). Currently, PHAs that use 95 to 98 percent of their vouchers receive credit for effective lease-up, even if large numbers of families return their vouchers unused. SEMAP should reward PHAs that combine a high rate of use of voucher funds with a high rate of success by families issued vouchers in obtaining housing (Maney and Crowley, 2000). In addition, the relative importance of efforts to expand housing opportunities should be increased and all PHAs in metropolitan areas should be held accountable for their performance in reducing poverty concentration. (Some of these recommended performance measures will be imposed on PHAs that use the 50th percentile FMR to determine their payment standards, but this limited applicability is not sufficient.)

Fundamentally, achieving excellent and efficient administration of the Section 8 program requires a different delivery system at the local level. The proliferation of small agencies greatly multiplies the obstacles to effective HUD oversight or support. With an average of more than 50 administering agencies per State—Texas has more than 400—multiple administrators need to learn and understand complex program rules and policy interactions. In the absence of economies of scale, many rules are not followed, policies are not understood, and scarce funds are spent on duplicative and sometimes ineffective program administrators. In addition, the existence of numerous program administrators within a single metropolitan area in itself creates barriers to the neediest families obtaining vouchers or using them to move to better neighborhoods (Katz and Turner, 2001; Tegeler et al., 1995).

To remedy the problems inherent in 2,700 administering agencies, local programs need to be consolidated and reorganized. In 1998, Congress made a small step in this direction by authorizing consortia of agencies to administer the Section 8 voucher program. Such permissive steps, however, are sorely inadequate. Nor is a radical shift to State administration, as recommended by the HUD Blueprint in 1995, necessarily the right remedy. State administration of the voucher program would facilitate oversight, accountability, regional operation, and coordination with State-administered human services and housing construction programs. But experience has shown that State administration is no guarantee of good performance. The State agency in Virginia was recently found to have failed to issue nearly 4,000 of its contracted vouchers (Maney and Crowley, 2000). Further, States may favor residents of politically influential suburban areas for receipt of vouchers over more needy families in central cities—a more important factor today after the elimination of Federal admissions preferences than it was in 1995.[11]

HUD and Congress should undertake a series of measures to streamline program administration and promote regional operation:

- HUD should ensure that it does not make the current problem any worse. No new small voucher programs should be funded, with the possible exception of nonprofit agencies selected to administer special allocations of vouchers for persons with disabilities. HUD made a positive step by restricting FY 2000 applicants for fair share vouchers to PHAs that already administer a voucher program. However, HUD then took a step backward by permitting any PHA to apply for Family Unification vouchers.
- HUD's criteria for awarding funds for additional vouchers or other Section 8-related programs should encourage consolidation of Section 8 agencies.
- HUD should aggressively enforce the corrective action requirements and sanctions for inadequate performance established by SEMAP and the Section 8 renewal rule, and reallocate funds of underperforming agencies in a manner that promotes consolidation and regional administration.
- Renewal of HUD's Section 8 voucher contracts with PHAs should be subject to competition to select the best available program administrator in a metropolitan or large rural area. Nearly all Section 8 contracts now have a 1-year term. No law requires that renewal of the current administering agencies' contracts be a matter of right. In 1999 the Senate indicated its interest in competition as a method of improving voucher program administration.[12] HUD responded to the Senate's request for a report on the feasibility of competition by recommending that competition be limited to agencies with failing SEMAP scores. HUD's proposal, while too limited in scope to achieve regional consolidation, may more easily attract support for initiating competition of at least some Section 8 voucher contracts. The reallocation of Section 8 funds under the renewal rule because of inadequate use also should be determined through a competitive process. In addition, HUD should request that Congress appropriate funding for some new vouchers for a demonstration of the feasibility of metropolitan administration, as proposed by Bruce Katz of the Brookings Institution and Margery Austin Turner of the Urban Institute (Katz and Turner, 2001).

Modify Policies Concerning Approval and Acceptance of Vouchers

The following modest changes in current Federal policies are needed for effective implementation of a number of the strategies identified to improve voucher holders' access to housing.

First, HUD should take further steps to facilitate housing agencies setting their voucher payment standards at an adequate level. Effective December 1, 2000, PHAs with voucher success rates below 75 percent or in metropolitan areas with geographically limited housing opportunities will be permitted to increase their payment standards to 110 percent of the 50th percentile FMR (rather than the 40th percentile) without submitting rent data to HUD. This is an important change that should expand by approximately 25 percent the proportion of rental units in an area potentially available to voucher holders, but the permitted increases in voucher payment standards will be only approximately $30 to $70 (Sard, 2000). As a result, there still will be areas where payment standards above the new discretionary maximum level will be required in order to enable families to use vouchers successfully. To enable PHAs, where necessary, to set voucher payment standards at a more adequate level, HUD should:

- Ensure that its field staff and PHAs understand the procedures used to obtain HUD approval of exception payment standards without submitting additional rental housing survey data.[13] Field staff should identify PHAs with low rates of use of Section 8 funds, clarify what their payment standard options are, and determine if areas served by the PHA qualify for HUD approval of a further payment standard increase based on data available to HUD.
- Permit PHAs that continue to have low voucher success rates despite increasing their payment standard to 110 percent of the 50th percentile FMR to increase their payment standard further. Guidelines for the increase can be based on the new success rate policy, but PHAs also should be required to demonstrate that they have used all available administrative fees to improve the administration of their voucher program.
- Improve the accuracy of FMRs by making one or more of the following three changes: (1) eliminating from the survey data rents of units that do not meet voucher program quality standards; (2) using smaller areas; (3) using better data to anticipate rent changes through the midpoint of the upcoming year, including more frequent HUD-funded rent surveys.

Second, HUD (and, where necessary, Congress) should take steps necessary to ensure the increased acceptance of vouchers by recipients of funds from Federal housing supply programs—including HOME, LIHTC, CDBG, and any new Federal production program—and the use of these funds to produce large units as well as handicapped-accessible units in proportion to local needs. Measures to accomplish this goal could include improved State and local planning requirements, mandatory selection preferences, or a requirement to accept a minimum number of voucher holders. Measures to improve the effectiveness of current antidiscrimination requirements are discussed below.

Make Additional Funds Available To Help Voucher Holders Obtain Housing

To increase families' success at using vouchers to obtain housing, particularly in better neighborhoods, more landlords need to participate in the voucher program, and families need to search for housing more effectively. To make the housing search process more efficient, services are needed to help families locate available units. For particularly hard-to-house families with negative references, services may be provided to help correct any errors and to develop new references that attest to their likelihood of being good tenants. Some programs that have successfully helped homeless families and individuals obtain permanent housing with vouchers have found that the availability of followup services is critical to helping families obtain and keep their housing.

PHAs also may provide certain types of payments, such as holding fees (to compensate landlords for lost rent while the PHA determines if the unit complies with program quality standards) or loans for security deposits to put families with vouchers on a more equal footing with better-off families seeking the same units. Such services and payments may make a critical difference in whether vouchers enable families to succeed in their housing search.

Many PHAs report that despite using all of their administrative fees to manage their voucher programs, they have insufficient funds to provide these enhanced services or payments. To make more funds available to PHAs for this purpose, Congress or HUD should authorize PHAs that have unused Section 8 funds to use them to provide services that help families obtain housing with their vouchers. Such authorization will not, however, help those PHAs that manage to use all their voucher funds.

PHAs with low voucher success rates or concentrated housing opportunities, and that use all of their Section 8 funds, need additional funding to provide assistance to families who need housing. While Congress did not appropriate additional funds for this purpose in FY 2001, despite the Administration's request for a Voucher Success Fund, HUD has the authority to distribute additional administrative fees to agencies that need them, within the overall limits of appropriations for the Section 8 program. It should develop procedures to do so.

An additional or complementary strategy to provide housing search assistance to families with vouchers is to encourage PHAs to leverage such services from other agencies in the community. Temporary Assistance for Needy Families (TANF) funds, for example, can provide the types of fees and services to families with children that would make it easier for such families to locate housing. New Jersey has allocated $1 million of TANF funds for this purpose. In addition to the general strategies to improve local program administration, discussed above, that may encourage PHAs to undertake such partnerships on their own, HUD could facilitate such interagency partnerships through criteria for the award of new vouchers. HUD's 1999 criteria for the distribution of welfare-to-work vouchers included such leveraging.

Enforce Current Antidiscrimination Laws

A number of Federal housing programs prohibit discrimination against voucher holders, including the LIHTC and HOME programs (Sard et al., 2000). Unfortunately, few PHAs appear to be aware of these protections. Nor is there a system to enable PHAs or persons searching for housing with vouchers to know which developments in their area are subject to the obligation not to discriminate. Additional regulatory provisions may be required to add "teeth" to the statutory prohibitions and to enable their enforcement to be monitored. The Department of the Treasury (which supervises the LIHTC program) and HUD need to collaborate to enable relevant stakeholders—Section 8 administrators, covered owners, families with vouchers—to become aware of and enforce the current protections. The recent Memorandum of Understanding among HUD and the Justice and Treasury departments concerning LIHTC properties and the Fair Housing Act is an important first step.[14]

Similarly, the general protections against discrimination in the rental of housing afforded by the Federal Fair Housing Act apply to most voucher holders. (The Fair Housing Act protects, among others, members of racial and ethnic minority groups, elderly and disabled persons, and families with children.) If an owner's refusal to rent to voucher holders has a discriminatory effect on members of protected groups or is motivated by discriminatory intent, affected voucher holders may have rights under the Fair Housing Act to obtain the withheld units. Both HUD and the Justice Department are responsible for enforcing the Fair Housing Act, and they should develop an effective enforcement strategy for LIHTC and other properties.

HUD also should encourage its fair housing grantees to test owners' compliance with Federal, State, and local laws prohibiting discrimination against voucher holders and with the Fair Housing Act, and institute appropriate enforcement actions on behalf of voucher holders. Owners' discriminatory behavior is likely to change significantly only if owners come to believe that there is a palpable risk of getting caught if they unlawfully discriminate.

Conclusion

Housing vouchers provide flexible assistance that enables families to live in decent, affordable housing that may change in size and location as family needs change. Vouchers also appear to make a significant difference in the employment and educational opportunities for poor families. The program should be expanded to better serve the millions of extremely low-income families that have severe housing problems but lack housing assistance. Providing funds to increase the number of new vouchers, however, is not a sufficient solution. The current social and institutional barriers to successful voucher use must also be addressed. To overcome these barriers, local and State-level strategies are important, but certain Federal efforts are needed as well. The policy and administrative changes in the voucher program that HUD should undertake include the consolidation of administering agencies, increased flexibility to meet actual local rents, and the provision of services for locating housing. In addition, HUD should encourage improved local program administration through enhanced performance measures, better training and technical assistance, and dissemination of best practices. Finally, steps should be taken to reduce discrimination against voucher holders and to encourage owners receiving other housing funds to participate in the Section 8 program.

Endnotes

[1] In 1997 the American Housing Survey found that 5,756,000 renter households with incomes below 80 percent of the HUD-adjusted area median and without housing assistance paid more than half their incomes for rent or lived in severely inadequate housing. Of these households, 4,161,000 had incomes below 30 percent of the area median, 1,218,000 had incomes between 31 and 50 percent of the area median, and 377,000 had incomes between 51 and 80 percent of the area median (U.S. Department of Housing and Urban Development, 2000; tables A-1 and A-6). HUD adjusts the 30, 50 and 80 percent of area median income figures that are relevant to the Section 8 program based on a number of factors, including unusually high or low family incomes or housing costs.

[2] The conventional measure of severe rent burden—whether a household pays more than 50 percent of its income for rent and utilities—also indicates a greater problem

among families with children than other households, although not as much of a difference. The 1997 American Housing Survey indicated that among extremely low-income households with what HUD terms worst case housing needs, rent and utility costs exceed half of family income for 70 percent of families with children and for 66 percent of other households (Lubell et al., 2001).

[3] Each PHA's voucher payment standard, like HUD's Fair Market Rents, varies based on bedroom size. PHAs have some flexibility to determine the number of bedrooms that a family is authorized to occupy based on family composition but may not require that more than two persons occupy each bedroom (regardless of age).

[4] MDRC found that eligibility for full MFIP services boosted the employment rates of long-term welfare recipients receiving housing assistance (largely tenant-based Section 8) by 18 percentage points, a large increase. This was more than double the gain in employment rates that MDRC found under MFIP for long-term welfare recipients not living in public or Section 8 housing. MDRC also found that quarterly earnings increased an average of 25 percent among the families eligible for full MFIP services that received housing assistance. Earnings increased 2 percent, an amount that was not statistically significant, among families eligible for full MFIP services who did not live in public or Section 8 housing (Miller et al., 2000; Center on Budget and Policy Priorities, 2000).

[5] The 15-percent decline in welfare receipt found in the Baltimore MTO site was the effect on the intent-to-treat group—those offered vouchers to move to areas with less than 10-percent poverty regardless of whether they in fact moved. For this group, the reduction in the rate of welfare receipt compared to the control group appears to grow over time, nearly doubling by the third year. The effect on the families who actually moved to low-poverty neighborhoods was even greater: mover families had a welfare receipt rate nearly 25 percent lower than the control group in the first year after moving, increasing to one-third lower by the third year. It is important to note that no sustained reduction in welfare receipt was found for the families issued vouchers that were not restricted to use in low-poverty neighborhoods. The researchers' conclusion that the reduction in welfare receipt was due largely to increases in employment and earnings is based on welfare agency administrative data. Unemployment insurance (UI) data do not support the finding of increased employment or earnings. The researchers suggest that this apparent paradox in employment and earnings findings is probably due to errors in the UI data for both jobs and earnings (Ludwig et al., 2000).

[6] In spring 2000 the National Association of Housing and Redevelopment Officials surveyed a stratified random sample of PHAs. Four hundred and sixteen agencies, which together administer about 330,000 of the approximately 1.7 million Section 8

subsidies, returned the questionnaires. Of these agencies, 11 percent set their voucher payment standards at 90 percent of FMR, 55 percent at 100 percent of FMR, 31 percent at 110 percent of FMR, and 3 percent have obtained HUD approval to set their payment standards above 110 percent (National Association of Housing and Redevelopment Officials, 2001).

[7] Of the LIHTC units placed in service between 1992 and 1994, only about one-third housed three or more people; about 17 percent had three or more bedrooms (in contrast, about one-quarter of all rental units have three or more bedrooms); and only about one percent had four or more bedrooms (GAO, 1997). Based on a comparison of FY 2000 FMRs and maximum LIHTC rents (which vary with area median income), the Center on Budget and Policy Priorities has calculated that in 243 metropolitan areas, containing nearly 60 percent of the Nation's metropolitan population, maximum LIHTC rents exceed 110 percent of the FMR—the maximum level at which PHAs can generally set their payment standards without HUD approval.

[8] The financial incentives for owners to enter into a project-based voucher contract involve the rent level, vacancy payments, and the security of long-term contracts. Subject to the general rule that all rents under the voucher program must be reasonable, a PHA may agree to pay up to 110 percent of the FMR for a project-based unit, even if its payment standard for the neighborhood is lower. The rent may exceed this level if HUD has approved a higher exception payment standard for the area. For units that have received LIHTCs and are not located in qualified census tracts (that is, outside of areas where more than one-half of the households have incomes below 60 percent of the area median), the rent may be as high as the tax credit rent. See note 7 above. Annual rent increases may be approved by the PHA so long as the increased rents do not exceed these maximums. (Rents under the prior project-based certificate program were limited to the FMR and could only be increased by HUD's annual adjustment factors.) A PHA may agree to make vacancy payments under certain circumstances for up to 60 days. Under the regular voucher program, no vacancy payments are permitted. PHAs may enter into initial contracts with owners for up to 10 years, subject to annual appropriations. (Congress has never failed to renew voucher funding for occupied units.) Extension of the contract may be by agreement of the parties or at the unilateral decision of the PHA, depending on the parties' agreement. The extension may be for whatever period of time the PHA determines is appropriate to achieve long-term affordability or to expand housing opportunities. Under the previous law, the contract could only be for longer than 1 year if the PHA had multiyear voucher funding (which few agencies have), and owners were required to consent in advance to whatever extension of the initial term the PHA wanted.

[9] For example, the Citizens' Housing and Planning Association in Massachusetts, a broad-based organization that includes all affordable housing stakeholders, has

responded to the growing difficulties of using vouchers in Massachusetts by convening a Section 8 Utilization Committee that includes representatives of local and regional housing agencies, the State housing agency, fair housing groups, legal services advocates, disability groups, and organizations that provide housing search assistance to homeless individuals and other voucher holders. The committee has identified a number of local and State-level (as well as Federal) changes in voucher policies and practices that could improve voucher use, and is convening a conference on “Use ‘Em or Lose ‘Em: Best Practices for Increasing the Utilization of Section 8 Vouchers.”

[10] A family that receives a voucher from one PHA in theory may use it to move to an area where a different PHA administers the voucher program (assuming the family is aware of its right to move). This process is known as portability. The receiving PHA, however, has the discretion to raise many obstacles to a family leasing a unit in the new jurisdiction. For example, the receiving PHA may in certain cases rescreen the family for past housing and criminal history and even terminate the family’s voucher assistance for infractions that the initial PHA chose not to punish. The receiving PHA may require the family to reverify income and family composition, regardless of how recently the initial PHA determined these facts. Depending on the family’s composition, the receiving PHA may decide that the family is eligible for a smaller voucher (in terms of number of bedrooms) than the one issued by the initial PHA. Within the same FMR area, the receiving PHA may use a lower payment standard, resulting in the family being ineligible for certain units or paying a larger share of the rent than would have occurred in the initial jurisdiction. The barriers posed by these local discretionary policies would be alleviated for most families if a single agency administered the voucher program throughout a housing market area.

[11] To determine how likely such a risk is, it would be helpful for HUD to compare the admissions preferences adopted by State-administered and locally administered Section 8 programs, as well as to compare their efforts to involve Section 8 participants in the new PHA Plan process used to set discretionary program policies.

[12] The report accompanying the Senate VA-HUD Appropriations Committee’s FY 2000 appropriations bill stated: “The Committee believes that the Section 8 tenant-based program could be run more cost-effectively and efficiently if other public and public-private entities were allowed to compete in administering the program. . . . To improve the performance of the Section 8 contract administrative functions, the Committee directs HUD to provide a proposal no later than January 5, 2000 on competing the Section 8 tenant-based program upon contract expiration” (Senate, 1999).

[13] Since 1998 HUD has permitted PHAs to qualify for exception rents or payment standards without submitting new rental survey data, if the most recent census substantiates a discrepancy between rents in the proposed exception area and rents in the entire FMR area. This is called the median rent method. In PIH Notice 2000–46, issued September 28, 2000, HUD made clear that this option applies not only to a request for approval of an exception payment standard up to 120 percent of FMR, but also to requests for increases above 120 percent.

[14] The Memorandum of Understanding specifically recognizes the problems that Section 8 voucher holders have faced in gaining access to LIHTC developments. Paragraph 6 states: "In consultation with the State housing finance agencies, HUD, Justice, and the IRS will cooperate in identifying and removing unlawful barriers to occupancy of low-income housing tax credit properties by individuals holding section 8 vouchers" (U.S. Department of Housing and Urban Development, U.S. Department of Justice, and U.S. Department of the Treasury, 2000).

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