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CENTER ON BUDGET AND POLICY PRIORITIES

September 21, 2000

New Administration Proposal Would Make Significant Improvements in the Section 8 Voucher Program But Congress Should Approve Use of Funds for Services to Help Families Obtain Housing

by Barbara Sard

On September 12, 2000, Secretary Andrew Cuomo announced that the Department of Housing and Urban Development intends to increase the maximum amount of rental assistance that housing agencies can provide to families with housing vouchers in certain difficult housing markets. The new policy is intended to make at least half of the rental units in an area — rather than 40 percent of the units — available to families with vouchers in areas where housing choices are too limited or where many families have been unable to use their vouchers. These changes in HUD's regulations will take effect December 1, 2000 and do not require Congressional approval.

To enhance the effectiveness of this new policy, however, additional efforts are needed to recruit landlords to participate in the voucher program and to enable families to access available housing. Such activities require funding. It is important that the final fiscal year 2001 VA-HUD appropriation bill explicitly authorize housing agencies to spend their unutilized funds to provide services to help families obtain housing, as the House bill does, and also appropriate new money for agencies that currently utilize their full budget so they, too, can offer such services. This can be accomplished by adopting a combination of the new appropriations requested for the Administration's Voucher Success Fund and the expanded authority the House bill contains for housing agencies to spend unutilized funds.

Background

The current economic expansion has caused rapid increases in rent levels and substantial declines in the number of housing units available for rent in some areas. As a result, it appears to have become increasingly difficult in such areas for families with vouchers to find landlords willing to accept them. In some other areas, the units that are available to families with vouchers are located primarily in neighborhoods with a high concentration of poor and minority families. Solving these problems requires both the increased rental payments HUD has proposed, as well as additional strategies at the local level to enable families with vouchers to be more competitive within constrained market conditions.

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Local strategies may include efforts by public housing agencies to persuade more landlords to participate in the Section 8 voucher program in order to increase the number of housing units available to families with vouchers. In addition, to enhance the efficiency of families' searches for housing, PHAs may provide services to help families locate available units. 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. 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.

Summary of Proposals and the Center's Recommendations

The fiscal year 2001 VA-HUD appropriations bill that the House passed, as well as the bill the Senate Appropriations Committee approved, would permit housing agencies that serve tight market areas to increase the amount of housing assistance provided to families with Section 8 vouchers. The House bill also permits such agencies to use available funds to provide services to help families obtain housing. (The Senate bill recognizes the importance of such services but does not clearly authorize the use of housing assistance funds to provide them.) These Congressional provisions focus on PHAs that have both a low voucher success rate — that is, where a significant proportion of families issued vouchers are unable to use them to rent housing — *and* that have a substantial amount of unutilized Section 8 funds. Housing agencies facing these circumstances would be authorized to use otherwise unutilized funds to increase voucher payments and, in the case of the House bill, to provide services to help families obtain housing with their vouchers. As a result, the provisions do not require additional appropriations in fiscal year 2001, although the House provision may require additional appropriations in subsequent years.

HUD's newly-announced policy on Fair Market Rents, like the Congressional provisions, also aims to increase voucher success rates by permitting certain PHAs to increase the amount of assistance provided by Section 8 vouchers. The HUD policy differs from the Congressional proposals, however, in several respects. In a nutshell, the HUD policy covers more PHAs but does not authorize affected PHAs to increase the amounts that can be paid for individual units to as substantial levels as the Congressional provisions would.

The HUD policy would provide relief to PHAs that have a low voucher success rate but manage to spend all of their allocated funds (and hence do not have substantial unutilized funds). In addition, unlike the Congressional provisions — which focus only on tight markets where many families issued vouchers cannot use them — the Administration's policy also addresses a different voucher utilization problem: the problem of areas where sufficient housing is available for families to use their vouchers, but only in limited parts of the metropolitan area that are concentrated in high-poverty neighborhoods that often are isolated from areas of significant job growth.

The HUD policy would cover more PHAs than the Congressional provisions because those provisions focus only on tight housing markets where a substantial proportion of families do not succeed in using their vouchers and PHAs are unable to utilize all of the housing assistance funds they receive. The HUD policy covers these areas but also applies to PHAs serving areas with geographically limited housing opportunities. In addition, under the HUD policy, PHAs' ability to increase voucher payments does not depend on whether they have unutilized funds. (PHAs' budgets would be increased to cover the additional costs of serving the approved number of families.)

As stated, the Congressional provisions would allow PHAs to increase voucher payments to a greater degree. Affected PHAs could increase payments up to 150 percent of the Fair Market Rate set at the 40th percentile rent, substantially beyond what the HUD policy would permit. As explained below, the HUD policy will permit certain PHAs to base their voucher payments on an FMR set at the 50th percentile rent. The maximum payment standard these PHAs could use without further approval from HUD would be 110 percent of the 50th percentile FMR. The Congressional limit would exceed the limit allowed under the HUD policy by a large amount, and potentially by more than necessary to achieve the policies' goals.

Cost Impacts

Despite applying to fewer PHAs than the HUD policy, the House provision may be more costly after the first year. Under the House bill, PHAs could initially increase their voucher payments using unutilized funds. In subsequent years, these PHAs would be virtually guaranteed increased funding from HUD to cover the additional cost of serving the approved number of families. The Senate provision would not require increased appropriations: it would effectively reduce the number of families that can be served by the Section 8 program to meet the additional per-family costs.

Rather than substantially increasing the overall costs of the Section 8 program or reducing the number of families receiving housing assistance, it seems to make sense to allow the effects of the new HUD's Fair Market Rent policy to be realized before determining whether further increases in the subsidy provided by housing vouchers are needed in some areas.

The Need for Services

The HUD policy is, however, not fully adequate by itself. It does not respond to the need for additional funds for services to help families obtain housing. Such services may make a critical difference in determining whether these enriched vouchers enable families to succeed in their housing search.

To fund these services, the Administration is seeking $50 million for a Housing Voucher Success Fund. These funds are requested in the Administration's fiscal year 2001 budget. Additional funding of this nature is needed to help surmount the problems of low voucher success rates or concentrated housing opportunities experienced by PHAs that use all of their Section 8 funds.

A provision of the House bill also warrants adoption. Many PHAs have unutilized funds that could be used to provide services to help families obtain housing with their vouchers, but PHAs can not use these funds to provide such services without explicit legislative authority.

As a result, the best approach for addressing issues related to services would be for the final VA-HUD appropriations bill to include both authority similar to that which the House bill contains to permit housing agencies to use available funds for services to help families obtain housing and a new appropriation for a Voucher Success Fund.

HUD's New Policy to Increase Voucher Payments

The new HUD policy will enable PHAs in certain areas to increase the amount of rent paid through housing vouchers.[1] The HUD initiative has two major components, which are designed to improve voucher "success rates" and to enable families to have access to housing opportunities throughout metropolitan areas.

- The proposal would authorize a PHA to use voucher payment standards based on the 50th rather than the 40th percentile rent (potentially allowing voucher-holders access to half of newly-available rental units in an area) if fewer than three-fourths of the families to which the PHA has issued vouchers succeed in using them to find housing over a six-month period.[2] This change, combined with PHAs' existing discretion to set their voucher payment standards between 90 percent and 110 percent of the HUD-determined Fair Market Rent, would enable PHAs with low voucher success rates to increase somewhat the dollar level of their payment standards. (HUD would allow PHAs that have set their payment standards at 110 percent of the FMR for at least six months and still have a low success rate to increase their voucher payment standards to reflect an FMR set at the 50th percentile rent, without submitting new rent studies to HUD.) No data are currently available that indicate how many PHAs will be eligible to increase their payment standards under this component of the policy.

- In addition, HUD would increase FMRs to the 50th percentile in large metropolitan areas where there is *both* concentration among voucher-holders *and* evidence suggesting that this problem may be due to the distribution of affordable

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[1] The Administration intends to publish revised interim regulations to implement the policy by October 1, 2000. The rule changes will take effect on December 1, 2000. The public may comment on the new rules, and HUD may revise the rules in light of public comments.

[2] The voucher payment standard is the maximum amount that a PHA will pay for a unit leased by a family with a Section 8 voucher. The family must contribute at least 30 percent of its income and pay any rent or utility costs in excess of the PHA's payment standard. Since 1995, HUD has set its Fair Market Rates, which serve as the basis for these payment standards, based on the 40th percentile of rents paid by recent movers.

rental units in the area. To qualify under this component of the new policy, areas must meet the following three criteria:

— At least 25 percent of the voucher holders in the metropolitan FMR area must reside in the five percent of census tracts with the greatest number of voucher program participants.

— No more than 70 percent of the census tracts in the metropolitan FMR area must be "accessible" to voucher-holders. (HUD would consider a census tract "accessible" if 30 percent or more of two-bedroom rental units in the tract fell below the 40th percentile FMR in 1990.)

— The metropolitan area must have more than 100 census tracts. (Census tracts usually have between 2,500 and 8,000 persons.)

For the fiscal year beginning October 1, 2000, HUD has determined that 39 metropolitan areas, containing approximately 450 cities and towns, meet these criteria. A list of the 39 metro areas is included in the appendix.

The permissible increase in the maximum subsidy a housing voucher may provide would be the same under both of these components of HUD's new policy. The amount of the increase would vary based on the distribution of rents in an area and is likely to range from about $30 to about $70 per month, according to HUD data.

For example, in the Washington, D.C. area, the rent for a two-bedroom apartment at the 40th percentile is $863, while rent for the same-size apartment at the 50th percentile is $907. The difference is only $44 because rents tend to "clump" fairly close to the middle of the range. A PHA in the Washington metropolitan area now can set its voucher payment standard for two-bedroom units as high as $949 per month by using its authority to set the payment standard at 110 percent of the FMR ($949 equals 110 percent of $863). Under the new HUD policy that enables qualifying PHAs to base the voucher payment standard on 110 percent of the 50th percentile rent, the PHA would be able to set the payment standard up to $998, or $49 higher than currently is permissible.

The new policy allows qualifying PHAs to increase their voucher payment standards in this manner without HUD approval of the specific change in their standards. If, despite this increase, too many families still are unsuccessful in using their vouchers or finding available housing outside of areas of high poverty, a PHA may seek HUD approval to increase its voucher payment standard above 110 percent of the FMR. To obtain approval for such further increases, a PHA must demonstrate to HUD that actual rents in all or a part of its area exceed the HUD rent data for the metropolitan area as a whole.

Because the difference between the 40th and 50th percentile rents is generally not great — the 50th percentile rent is about 6.3 - 8.8 percent higher than the 40th percentile rent in the areas for which HUD has provided these data — HUD's new policy will not result in a dramatic dollar increase in voucher payments. But it should result in approximately a 25 percent increase in the number of rental units in an area that are available to voucher holders. (By definition, including units below the 50th percentile rather than units below the 40th percentile increases the number of available units by 10/40, or 25 percent.) In the Washington metropolitan area, for example, HUD calculates that more than 70,000 additional units would potentially be available to families with vouchers as a result of increasing the FMR to the 50th percentile rent. HUD has estimated that the new policy will increase annual voucher costs by about $100 million per year beginning in fiscal year 2001.

The Administration's Proposal for a $50 Million Housing Voucher Success Fund

In announcing this new policy to increase voucher payments in difficult housing markets, the Administration recognized that "helping families pay for the cost of transportation and other housing search services they need to access a wider range of available units" would enhance the effectiveness of the policy.[3] To fund such services, the Administration is seeking Congressional approval of a $50 million "Voucher Success Fund" included in its fiscal year 2001 budget. The Administration has proposed to use the fund for:

- contracting with technical assistance providers to help state and local housing agencies better understand the many changes in Section 8 voucher program rules over the past two years that give agencies new tools to improve the success of the voucher program;[4]

- assistance for families in using vouchers, including mobility counseling, assistance with security deposits, transportation, and other activities intended to increase the likelihood that families will succeed in leasing units or leasing them outside areas of concentrated poverty; and

- further outreach to landlords and community groups to encourage participation in the voucher program.

The proposed Voucher Success Fund is a promising means to achieve improved voucher program performance at a modest cost. Neither the House nor the Senate VA-HUD appropriations bills include funding for this purpose. As discussed below, the House bill would permit some housing agencies to use unutilized funds for the same types of assistance to families

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[3] Statement by the President, September 12, 2000.

[4] For a brief description of some of the ways that housing agencies could improve the administration the tenant-based Section 8 program under existing rules, see Barbara Sard and Jeff Lubell, "Section 8 Utilization and the Proposed Housing Voucher Success Fund," Center on Budget and Policy Priorities, March 22, 2000. This paper is on the internet at <http://www.cpbb.org/3-22-00hous2.htm>.

and for landlord recruitment efforts.

Section 206 of the FY 2001 House VA-HUD Appropriations Bill

The House-passed fiscal year 2001 VA-HUD appropriations bill includes a general provision to enable more families in tight rental markets to locate rental units for which they can use Section 8 vouchers. Section 206 of H.R. 4635 would amend the Section 8 statute to allow a PHA that serves a "difficult utilization area" to use the funds it receives from HUD for the tenant-based Section 8 program in two ways not permitted under current law:

- PHAs would be permitted to increase the amount of housing assistance provided on behalf of individual families to 150 percent of the HUD-established Fair Market Rent.

- PHAs could use some of their Section 8 funds to provide additional housing-related payments or services to help families locate housing with their Section 8 vouchers. The cost of such one-time payments or services for an individual family may not exceed six months' worth of housing assistance.[5] PHAs could determine what types of payments or services to provide in light of local market conditions. Currently, PHAs may use their Section 8 administrative fees but not their housing assistance funds to provide such payments and services.

HUD would establish the specific criteria used to determine what is a "difficult utilization area." The House provision indicates that three factors are of particular importance: a low vacancy rate in the area's rental housing; a high rate of inflation in rental costs; and the inability of 30 percent or more of the families issued vouchers to use them to rent housing despite the voucher payment standard being set at 110 percent of the FMR. (The House bill was passed prior to HUD's announcement of its new policy on FMRs and payment standards.)

The new uses of funds that would be permitted by this provision of the House bill do not require increased appropriations in the first year. Rather than returning Section 8 funds unused at the end of the year to HUD, PHAs could use some of the funds they already are contracted to receive both to provide one-time services or payments to help families use Section 8 vouchers they have been issued and to increase subsidies to landlords. If, however, a PHA increases the amount of subsidy it pays to landlords, its average cost for each family assisted may increase in subsequent years. To avoid reducing the number of families that a PHA with increased costs is authorized to serve, it likely will be necessary eventually to increase the individual PHA's annual

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[5] The limitation of the cost of benefits or services to a particular family to six months' worth of housing assistance means that such payments would effectively be capped at about $3,000 per family assisted. Recent experience has shown that services to help families use vouchers to relocate to low-poverty areas cost approximately $3,000 per family that makes such a move. Successful services to help families lease units regardless of neighborhood characteristics can cost $600 - $1,000 per family. See Margery Austin Turner and Kale Williams, *Housing Mobility: Realizing the Promise*, The Urban Institute, 1998.

Section 8 contract with HUD.

How much Section 206 would increase the total budget authority required in future years for Section 8 renewals to maintain the number of families served nationally is uncertain. Only a portion of PHAs will be eligible to use the flexibility that Section 206 would provide. In addition, some eligible PHAs may choose to raise subsidy payments by less than the maximum amount that section 206 would allow. The Office of Management and Budget estimates that Section 206 eventually could increase Section 8 costs by up to $500 million annually.

Unlike an increase in the voucher payment standard, the provision of one-time services or payments to assist families with vouchers in obtaining housing does not need to increase the future cost of maintaining the number of families on the program. (To prevent cost increases in future years, it may be necessary for Congress to specify that housing assistance funds spent for such services or benefits are not considered part of Section 8 program expenditures in calculating the cost of renewing voucher assistance for an agency's authorized number of participating families.) PHAs serving areas in which a relatively low percentage of families succeed in leasing housing with their vouchers will be left with funds they are unable to use for housing assistance. If Congress permits them to use available housing assistance funds to provide services and payments to enhance families' leasing possibilities, a higher rate of voucher utilization is likely to be achieved without additional appropriations. More families will benefit from affordable housing, and more are likely to be able to live in better neighborhoods.

The Senate Appropriations Committee's Proposed Section 8 Voucher Success Demonstration

On September 13, 2000, the Senate Appropriations Committee approved a VA-HUD appropriations bill that contains authorization for what the bill calls a "Section 8 Voucher Success Demonstration."[6] The proposed program bares similarities to Section 206 of the House bill in certain respects but also differs in important ways. Like the House bill, the Senate provision is aimed at helping PHAs operating in tight rental markets to increase voucher utilization by expanding their authority to increase voucher payment standards, and would assist only those PHAs that have unutilized Section 8 funds. Like the House bill, the Senate proposal permits qualifying PHAs to increase their voucher payment standard to 150 percent of the FMR.[7] HUD would appear to have a greater role under the Senate bill than under the House bill in

[6] The Senate's demonstration proposal is contained in Title II of the "Housing Needs Act of 2000," introduced by Senator Bond on September 12, 2000 and incorporated in the Senate fiscal year 2001 VA-HUD appropriations bill at the Appropriations Committee mark-up on September 13. Although it is not made a part of the voucher statute, the demonstration is proposed as an ongoing program, with no ending date and no limit on the number of PHAs eligible to participate.

[7] This appears to be the intent of the provision. As drafted, the provision would authorize PHAs to increase their payment standard to 150 percent of 110 percent of the FMR.

deciding which PHAs would be eligible to increase their voucher payment standards, as well as in determining the level of the increase permitted, based on reviews of PHAs' proposed plans to increase voucher success rates.[8]

There are two drawbacks to the Senate approach as compared to the House provision.

- The Senate bill does not explicitly authorize PHAs to use housing assistance funds to provide services and benefits to assist families to lease housing with their vouchers. While the bill would require PHAs to describe the actions they will take to assist families "to identify and obtain suitable and available affordable housing that is close to transportation, employment opportunities, quality schools and appropriate services," it does not state that PHAs can use Section 8 funds for this purpose in addition to regular administrative fees. This result may be due to a drafting oversight and may not have been the intended policy. Without explicit legislative authorization for Section 8 Housing Assistance funds to be used in this way, however, services to obtain housing can not be provided with housing assistance funds, and families will have less ability to utilize their housing vouchers.

- The Senate bill would freeze that the funding of any PHA that participates in the demonstration at its October 1, 2000 allocation unless the PHA is awarded incremental vouchers. In other words, PHAs that use the new flexibility to increase the amount of housing assistance provided to some families would have to reduce the total number of families they can assist.

The funding freeze that the Senate bill would impose on these PHAs is contrary to current voucher program policy that assures that areas with rising housing costs can continue to assist the number of families intended when new vouchers were initially awarded. Otherwise, families in the greatest need of affordable housing may suffer the burdens of both increased housing costs and longer waits for voucher assistance compared with families in areas of the country where housing prices have remained stable or decreased.

Comparing the HUD Proposal and the House and Senate Provisions: What are the Best Routes to Follow?

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[8] A PHA's voucher success plan must be designed to "ensure that not less than 97 percent of families with vouchers will be able to obtain suitable housing in [the PHA's] market area within 120 days." While a laudable goal, this may be a nearly impossible standard to meet in any market, as some families decide not to move and others may not search sufficiently. The Senate may have intended to require that not less than 97 percent of *all* of a PHA's vouchers — rather than of newly-issued vouchers — be used to make rental assistance payments to owners.

HUD's new FMR policy gives a larger number of PHAs the flexibility to increase their voucher payment standards than the Congressional provisions would do. As a result of its broader scope, it has the potential to improve voucher program performance in more areas than would occur under the Congressional provisions. At the same time, its broader scope is tempered by a lower increase in payments, ensuring a lower overall eventual cost than the House provision.

The House bill takes the important step of adding explicit legislative authority for PHAs to use their unutilized funds to provide services to families seeking to obtain housing. These services often are critical to families' successful utilization of their housing vouchers. In addition to this authority, new funding also is needed to enable PHAs with low voucher success rates or limited housing opportunities — and without unutilized funds — to provide assistance to families to obtain housing.

Three differences between the new HUD policy and the Congressional provisions account for the difference in the number of PHAs they will affect.

- The provisions in the House and Senate appropriations bills focus on PHAs that face tight market conditions where many families do not succeed in using their vouchers because vacancy rates are low and rents are increasing rapidly. The HUD policy responds to the problem of low voucher success rates but also increases voucher payments in metropolitan areas where housing choices are unduly restricted. Many of the PHAs that serve areas covered by this component of the HUD policy — where housing market conditions may be causing the concentration of voucher-holders in relatively few neighborhoods within the metropolitan area — would not be permitted to increase their payment standards under the House provision, because the proportion of voucher holders failing to lease units with their vouchers does not equal or exceed 30 percent. It is unclear whether PHAs in these metropolitan areas with restricted housing choices would be eligible to increase their payment standards under the Senate demonstration because the Senate bill does not specify what voucher success rate a PHA must have to qualify for the demonstration. The Senate bill delegates the establishment of specific eligibility criteria to HUD.

- Fewer PHAs would be considered to have low voucher success rates under the House bill than under the HUD policy. The HUD policy applies to PHAs where 25 percent or more of the families that receive vouchers fail to use them to rent housing. This component of the HUD policy considers only a PHA's voucher success rate — a PHA with a low success rate need not demonstrate that the problem is due to the tightness of the housing market. The House bill requires that 30 percent or more of the families issued vouchers must have failed to use them *and* that the area meet objective criteria of market tightness. The more lenient threshold chosen by HUD — a failure rate of 25 percent rather than 30 percent — is preferable because it gives more PHAs the ability to increase their payment standards.[9]

- Under the Congressional provisions, many PHAs that satisfy the criteria to increase their payment standards or provide additional assistance to help families obtain housing will not be able to take these steps. PHAs will only be able to increase the cost of serving individual families if they have unutilized funds available. This requirement will exclude PHAs that have managed to use all of their Section 8 funds, but by having families concentrate in lower-cost, higher-poverty neighborhoods. The HUD policy recognizes these PHAs also need more flexibility in setting their payment standards to prevent the undesirable consequences of limited housing opportunities.

  The Congressional provisions also would exclude PHAs that have low voucher success rates but have managed to use all of their Section 8 funds by issuing vouchers to as many families as required to lease all of their allocated number of subsidies. For example, the Oakland, California Housing Authority reported in March 2000 that it was utilizing 100 percent of the funds it received from HUD for the Section 8 program, despite 43 percent of families turning their vouchers back unused. Similarly, Los Angeles reported a turnback or failure rate of 26 percent but also used 100 percent of its allocated section 8 funds.[10] There is legitimate concern to avoid disappointing families that may have waited years for a Section 8 subsidy and then are unable to use it. When many families experience a Section 8 voucher as a useless piece of paper, the program loses community and political support.

Those PHAs that would covered by the Congressional provisions would be able to increase their voucher payment standards without HUD approval to a greater degree under the provisions than under the new HUD policy. Using the Washington, D.C. example, if the FMR is set at the 40th percentile rent, or $863 for a two-bedroom apartment, the Congressional provisions would permit a PHA to increase its voucher payment standard to $1,295, or 150 percent of the FMR. By comparison, the PHA would be able to increase its voucher payment standard to $998 under the HUD policy. The magnitude of the payment standard increase permitted by the

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9 Regardless of the success-rate threshold selected, however, it would be best to give added flexibility to increase voucher payment standards only to PHAs where low voucher success rates are due to market conditions and not to poor program management. The House provision and the HUD policy share this objective, although they use different means to achieve it. The House bill adds tight market criteria to the success rate measure, while the HUD policy does not apply to PHAs that have been found to be deficient in managing their Section 8 programs. Without better data than currently exist, it is not possible to determine whether the HUD policy and the House provision are functionally equivalent in this regard.

10 Subcommittee on VA, HUD, and Independent Agencies, "Empty Promises---Subcomittee Staff Report on HUD's Failing Grade on The Utilization of Section 8 Vouchers," Sept. 12, 2000 (Appendix: Results of CLPHA Membership Survey Section 8 Tenant-based Voucher Utilization).

Congressional provision may be larger than is needed to improve voucher utilization significantly.

Some may argue that the HUD policy does not increase payment standards sufficiently. No national data exist either to support or refute such an argument. It is important to understand that PHAs' payment standards are not limited to the modest increase the HUD policy would permit. PHAs that can demonstrate, based on local rent and other data, that a payment standard based on 110 percent of the 50^{th} percentile rent is insufficient to utilize available voucher funds, or to permit families to live in a broad range of neighborhoods throughout the metropolitan area, could receive HUD approval to use a higher payment standard.

Given the lack of data on this matter, there is not a sound basis for concluding at this point that the HUD policy will be insufficient to address the problem of inadequate voucher payment standards in most areas. PHAs that can document that the newly-permitted increase is insufficient in light of actual rent costs may obtain approval from HUD to increase their payment standards further. The HUD policy appears to be significantly less costly on an annual basis than the House provision would be beginning in 2002, when the budgets of PHAs that initially paid for higher voucher payment standards with unutilized funds would need to be increased, based on the increased cost of serving individual families. Most significantly, the Administration's policy does not require that the number of families receiving Section 8 assistance be reduced (assuming Congress adequately funds Section 8 renewals), while the Senate provision eventually funds the payment standard increase by reducing the number of families that can be served in the affected areas. The prudent course would be to let HUD's policy take effect and review its results next year, rather than enacting the payment standard component of the Congressional provisions as part of the fiscal year 2001 appropriations act.

To enhance the effectiveness of increased voucher payments in difficult markets, however, families need assistance in obtaining suitable housing. Many PHAs have found that relatively small expenditures for such services increase their voucher success rate substantially. Congressional action is needed to make it more feasible for PHAs to provide such services. PHAs that already spend all of their administrative fees to implement the Section 8 program need access to other funds for this purpose. PHAs with unutilized housing assistance funds cannot use them to provide such services unless Congress permits them to do so; HUD does not have the authority to make this policy change. In addition, as explained above, some PHAs with low voucher success rates or limited housing opportunities — where families are most in need of such services — do not have unutilized housing assistance funds available.

Providing funds for the Voucher Success Fund, as requested by the Administration, would meet the need for additional service monies and also could enable HUD to provide PHAs with much-needed technical assistance. In addition, whether or not Congress makes additional appropriations available for this purpose in conference, Congress should adopt a provision similar to the services component of Section 206 of the House bill, authorizing certain PHAs to use unutilized housing assistance funds to provide services to help families lease suitable housing. Any funds spent in this manner can be excluded from the calculation of future Section 8 renewal costs.

In light of HUD's new policy, it would be most sensible to grant this flexibility to all PHAs that meet HUD's new criteria for increased voucher payment standards. Some may be concerned that PHAs would abuse this flexibility and reduce the number of families receiving housing assistance in order to increase the number of staff providing administrative services, but such a concern may be unwarranted. There is no financial incentive for PHAs to reduce the number of families served to increase their administrative budgets, since PHAs lose administrative fees if fewer families use vouchers. [11] Moreover, the concern could be met by incorporating the Senate's concept that PHAs that seek to be part of the demonstration be required to prepare a voucher success plan and submit it to HUD for approval.

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[11] PHAs' administrative fees are tied to the number of families leasing housing with Section 8 subsidies rather than to the amount of Section 8 funds they use. If a PHA can succeed in expending all of its Section 8 funds each year without using some of the funds to provide services, it will have more families participating in the program and receive more administrative fees. As a result, a PHA is likely to provide additional services with Section 8 funds only if it concludes that such strategies will result in an increase rather than a decrease in the number of families using vouchers.

Appendix

39 Metropolitan Areas Where HUD Is Increasing the Fair Market Rent to the 50th Percentile to Expand Housing Opportunities

Albuquerque, NM MSA
Atlanta, GA MSA
Austin-San Marcos, TX MSA
Baton Rouge, LA MSA
Bergen-Passaic, NJ PMSA
Buffalo-Niagara Falls, NY MSA
Chicago, IL PMSA
Cleveland-Lorain-Elyria, OH PMSA
Dallas, TX PMSA
Denver, CO PMSA
Detroit, MI PMSA
Fort Lauderdale, FL PMSA
Fort Worth-Arlington, TX PMSA
Grand Rapids-Muskegon-Holland, MI MSA
Houston, TX PMSA
Kansas City, MO-KS MSA
Las Vegas, NV-AZ MSA
Miami, FL PMSA
Minneapolis-St. Paul, MN-WI MSA
Newark, NJ PMSA
Norfolk-Virginia Beach-Newport News, VA-NC MSA
Oakland, CA PMSA
Oklahoma City, OK MSA
Orange County, CA PMSA
Philadelphia, PA-NJ PMSA
Phoenix-Mesa, AZ MSA
Richmond-Petersburg, VA MSA
Sacramento, CA PMSA
Salt Lake City-Ogden, UT MSA
San Antonio, TX MSA
San Diego, CA MSA
San Jose, CA PMSA
St. Louis, MO-IL MSA
Tampa-St. Petersburg-Clearwater, FL MSA
Tulsa, OK MSA
Ventura, CA PMSA
Washington, DC-MD-VA-WV PMSA
West Palm Beach-Boca Raton, FL MSA
Wichita, KS MSA

HUD Will Raise Rent Subsidies

Hike in 'Section 8' Aimed at Tight Housing Markets in Big Cities

By John F. Harris
and Ann O'Hanlon
Washington Post Staff Writers

The Clinton administration will move today to increase the financial aid it gives to low-income renters under one of the federal government's largest housing programs, senior administration officials said yesterday.

The proposed increase in the value of vouchers awarded to renters under the "Section 8" rental program is aimed at addressing a national problem that is especially acute in Washington and other large metropolitan areas: The booming economy has severely tightened the rental market, putting apartments out of reach even for many people who receive the federal subsidy.

Housing and Urban Development Secretary Andrew M. Cuomo, who will announce the payment increase today, said higher rents are a "cruel irony" of the robust economy. "This will make the program work better and increase units available in places where they are tight," he said.

The action, which HUD officials said will cost about $100 million annually, will increase voucher sizes in about half the nation's metropolitan areas. Under the most optimistic scenario, HUD said, this could increase the pool of apartments affordable to Section 8 recipients by more than 1.4 million apartments—though housing advocates said other problems with the program make such a dramatic improvement unlikely.

A recipient currently receives a Section 8 voucher equal to the cost of an apartment whose rent is in the 40th percentile in a particular market. In other words, the subsidy given to Section 8 beneficiaries is enough to pay the rent in the least expensive 40 percent of apartments in that area, but not enough to pay for the remaining 60 percent.

In at least the tightest 39 rental markets, including Washington and its suburbs, the administration now plans to increase the subsidy to the 50th percentile of apartments. In the Washington area, according to HUD officials, the rent for a two-bedroom apartment at the 40th percentile is $863, while rent for the same apartment in the 50th percentile is $907.

The administration is acting under its executive authority, rather than requesting legislative approval for the change. HUD officials said the higher costs of Section 8 vouchers can be covered by shifting money in the reserve funds of existing housing programs. But they said they are also seeking money in next year's housing appropriations bill.

The Section 8 program costs $14 billion and serves 3 million households nationwide.

Some housing advocates across the Washington area lauded the news. Still, they said, it wasn't clear how much the new policy would ease the lives of the working poor.

"That's tremendous news," said Zachary Smith, spokesman for Montgomery County's Housing Opportunities Commission. "Our vacancy rate is under 3 percent and this'll provide a great deal of relief for hundreds of people looking for affordable housing."

Under the Section 8 program, a qualifying family pays a portion of the rent themselves, usually up to 30 percent of its income. The government pays the rest. But since landlords must fill out paperwork to participate in the program, many of them balk during good economic times when they can fill their apartments without accepting subsidized tenants.

Pam Michell, who runs New Hope Housing in Fairfax County, said this makes the administration's announcement of an increase in the value of vouchers all but meaningless.

"The reason for people not getting Section 8 housing is not the amount of the certificate," she said. "It's the landlords just not wanting to deal with the whole Section 8 deal."

HUD Secretary Andrew M. Cuomo: More aid will "increase units available in places where they are tight."

Steve Green, special assistant to District Mayor Anthony A. Williams for planning and economic development, said the move "will have very little effect on the landlords who don't want to deal with the paperwork, but it'll have a very large effect on the landlords who are on the fence. It will also hugely affect those landlords who were looking to opt out of Section 8."

Other local housing officials called the move a step in the right direction, but only that.

"It's something a lot of national housing organizations have advocated for," said John Callaghan, director of housing management with Fairfax's Housing Department. "It's very fair."

In Alexandria, a housing official applauded the change but said it's not enough. Mary Ish, director of housing operations with the city's housing authority, said the federal government must eliminate the rule that limits the percentage of income that can be put toward housing. The idea is to keep a family from being house-poor, and leave money for food, clothing and other needs.

"When these families can't keep a roof over their heads, all those other arguments fall to the wayside," she said.

Spacewalkers Finish Up Work Outside Station

Associated Press

CAPE CANAVERAL, Sept. 11—Spacewalkers sped through six hours of work outside the international space station early today, connecting cables, installing a navigation tool and dislodging a jammed piece of equipment.

The astronauts and cosmonauts next turned their attention to the inside of the space station.

"Basically, it's a cabin we have that we're trying to get some furniture into and get it ready to move into," said mission operations director Milt Heflin.

The crew of shuttle Atlantis planned to enter the space station late tonight. It was expected to take a few hours for the seven men to make their way through the 140-foot-long complex and all 12 hatches.

The space station is almost double the size it was the last time astronauts visited in May. Zvezda, the Russian-made control module, was added in late July.

With only four days inside the station before Atlantis undocks this weekend, the astronauts and cosmonauts had to work fast. One of their first chores was to unload 1,300 pounds of gear from a Russian cargo ship that arrived in August.

Atlantis contains an additional 4,800 pounds of supplies for the three men who will move in at the beginning of November for a four-month stay.

About 20 spacewalks are planned outside the station over the next 18 months. This morning's outing was only the 50th in almost 20 years of shuttle flight.

During their spacewalk, astronaut Edward Lu and cosmonaut Yuri Malenchenko had to avoid protruding antennas and docking targets as they clambered 110 feet up the station. They moved Zvezda's magnetometer onto the end of a 6½-foot pole so it can better serve as a three-dimensional compass for the station, and ran nine power, data and TV cables between modules.

The two were back inside Atlantis 16 minutes early. Then the shuttle gave the space station a three-mile boost in orbit.

The Washington Post
Tuesday, September 12, 2000

Anna Richter
09/12/2000 10:20:29 AM

Record Type: Record

To: Margy Waller/OPD/EOP@EOP, Andrea Kane/OPD/EOP@EOP

cc:
Subject: STATEMENT BY THE PRESIDENT: Fair Market Rent Level

HUD Should have it all now and is making copies for their press packets as we speak.
---------------------- Forwarded by Anna Richter/OPD/EOP on 09/12/2000 10:20 AM ---------------------------

Alexander N. Gertsen
09/12/2000 10:16:49 AM

Record Type: Record

To:

cc:
Subject: STATEMENT BY THE PRESIDENT: Fair Market Rent Level

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release **September 12, 2000**

STATEMENT BY THE PRESIDENT

I am pleased that, today, Secretary of the Department of Housing and Urban Development Andrew Cuomo is announcing a plan to increase payment levels for Section 8 Housing Choice vouchers. Raising the fair market rent level in certain difficult housing markets across the country will increase the pool of apartments affordable to low-income renters by more than 1.4 million units nationwide. This important initiative builds on the significant progress the Vice President and I have made on affordable housing - boosting homeownership to record levels, transforming public housing, stemming the losses of privately-assisted housing, expanding the role of secondary markets, and enlarging the supply of housing vouchers for hard pressed working families.

This decision to change rent guidelines to reflect a changing market complements the 110,000 new housing vouchers secured through the efforts of my Administration working with

Congress in the past two years. These housing vouchers subsidize the rents of low-income Americans, enabling them to move closer to job opportunities – many of which are being created far from where these families live. The new rent rule will give voucher holders more choice and mobility than they have under current regulations.

I urge Congress to again join us in making make more housing available to hard-pressed working families, including those moving from welfare to work, by funding my FY 2001 budget request for 120,000 new housing vouchers. In addition, our proposal for an innovative $50 million Housing Voucher Success Fund would enhance the effect of this fair market rent increase by helping families pay for the cost of transportation and other housing search services they need to access a wider range of available units. These budget proposals would expand the supply of affordable housing for the 5.4 million very-low income families who pay more than half their incomes for housing or live in severely inadequate units, including a growing number of families working full time.

More than fifty years ago, the nation committed itself to the goal of a "decent home and a suitable living environment for every American family." Today's action brings us a step closer toward that goal.

30-30-30

Margy Waller
09/11/2000 09:11:05 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:

Subject: Draft FMR Release and Homeownership Release

FYI. Two HUD releases effectively went to the press today.

First, Sec'y Cuomo included the new final rule authorizing Public Housing Authorities (PHAs) to create local programs allowing the use of Section 8 vouchers for homeownership in a speech at Columbia this evening. The press release announcing the rule is attached. (Unfortunately, HUD finalized the rule without sharing more than one draft with us. While we were able to make some important changes in that draft - in particular about the Administration history of work on this program - I did not get to comment on the homeownership release before it was finalized, and after substantial changes were made.)

The second announcement is the change in federal rent subsidies in targeted communities with difficult housing markets. This "fair market rent" (FMR) rule is an interim final rule and should be cleared today or tomorrow. Because it is a major rule, it will then go to Congress before being published in the federal register on or about October 1.

Note that the FMR release lists the cities that are likely to benefit from the change (contrary to our best advice). I have also attached background info that HUD will provide to the press - and the POTUS Statement.

HUD posted an advisory about the press event on it's web site today and the announcement was leaked to the Post - so we can probably expect some press on it in the morning.

Homeownership press release:

- Homevouchers-3.doc

FMR background paper:

- RevisedTechnical Description.doc

- Frequently Asked Questions.doc

- Fmr 1 pager v3.doc

FMR press release:

- FMR #9.doc

POTUS FMR statement:

POTUS STATEMENT - Fair Markets

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hud NEWS

Department of Housing and Urban Development – Andrew Cuomo, Secretary
Office of Public Affairs, Washington, DC 20410

HUD No. 00-223
(202) 708-0685
http://www.hud.gov/news.html

FOR RELEASE
Tuesday
Sept. 12, 2000

Clinton Administration Helps Close Economic Gap

CUOMO EXPANDS RENTAL OPPORTUNITY FOR HUNDREDS OF THOUSANDS OF LOW INCOME FAMILIES

WASHINGTON - Housing and Urban Development Secretary Andrew Cuomo today announced a new policy designed to help hundreds of thousands of low-income families keep pace with America's booming economy. The new policy will increase the pool of apartments affordable to families receiving federal housing vouchers by 25% or more than 1.4 million units nationwide.

"In some places, rents are rising twice as fast as inflation making it nearly impossible for our poorest neighbors to find a decent place to live," said Secretary Cuomo. "We can – and will – do more to close the economic gap that is leaving far too many families behind."

Over the past three years, rents have risen more than one-and-a-half times faster than inflation and twice as fast in some markets. According to HUD's *State of the Cities 2000* report, "rather than benefiting from the surging economy, low-income renters are left to compete for a dwindling supply of affordable rental housing on the private market." Some recipients are being forced to return their vouchers because they can't find an apartment that qualifies under HUD's current rent guidelines.

While the nation is experiencing unprecedented economic prosperity, a record 5.4 million very low-income families either pay more than half of their income for housing or live in severely substandard conditions, including a growing number of families working full-time. In certain rental hot spots, HUD will increase rental subsidies to voucher-holders by increasing the so-called Fair Market Rent. By increasing the Fair Market Rent in these communities, more than 1.4 million additional apartments will become affordable to families receiving Section 8 rental assistance.

The change will affect areas where the rental climate has been particularly challenging for low-income voucher-holders. Some of these communities contain concentrated pockets of poverty whose residents find it difficult to locate landlords outside their neighborhoods who will accept their

-more-

vouchers. As a result of HUD's new policy, more families will be able to use their rental vouchers in neighborhoods of their choice and to move closer to areas of job opportunities.

New Jersey Senator Frank Lautenberg said, "While much of America has enjoyed boom times, over 5 million low income families are having a rough time paying rent, often for inadequate housing. This action by HUD will help thousands of families in New Jersey and across the country, afford a decent and safe place to live."

California Senator Dianne Feinstein said, "Until today some families in Sacramento and San Diego waited up to eight or 10 years for a Section 8 certificate only to find they were unable to use it because there were no vacant apartments available in the allowable price range. This boost in Fair Market Rents will ensure that few, if any, certificates will go unused in these cities and other high cost areas."

The following is an initial list of metropolitan areas, containing more than 450 communities, that meet the new criteria for raising the Fair Market Rent.

Albuquerque, NM
Atlanta, GA
Austin-San Marcos, TX
Baton Rouge, LA
Bergen-Passaic, NJ
Buffalo-Niagra Falls, NY
Chicago, IL
Cleveland-Lorain-Elyria, OH
Dallas, TX
Denver, CO
Detroit, MI
Fort Lauderdale, FL
Fort Worth-Arlington, TX
Grand Rapids-Muskegon-Holland, MI
Houston, TX
Kansas City, MO
Las Vegas, NV
Miami, FL
Minneapolis-St. Paul, MN-WI
Newark, NJ
Norfolk-Virginia Beach-Newport News, VA
Oakland, CA
Oklahoma City, OK
Orange County, CA
Philadelphia, PA
Phoenix-Mesa, AZ
Richmond-Petersburg, VA
Sacramento, CA
Salt Lake City, UT
San Antonio, TX
San Diego, CA
San Jose, CA
St. Louis, MO
Tampa-St. Petersburg-Clearwater, FL
Tulsa, OK
Ventura, CA
Washington, DC-MD-VA-WV
West Palm Beach-Boca Raton, FL
Wichita, KS

The following are additional communities that have reported problems with voucher usage and would qualify for higher subsidy levels should their problems persist: Baltimore, MD; Birmingham, AL; Boston, MA; Burlington, VT; Charlotte, NC; Malden, MA; Marin Co., CA; Milwaukee Co.,WI; Raleigh, NC; and Santa Monica, CA.

-more-

Any housing agency in the country that can document difficulties with voucher usage will be eligible to use the higher subsidy levels. Specifically, communities will qualify for the increased subsidy standard where: (1) during a six-month period, more than a quarter of the families issued vouchers cannot find housing; or (2) voucher-holders are concentrated in a limited number of neighborhoods and affordable housing is not widely available throughout the metropolitan area.

"In communities where people are struggling to use their vouchers, we will step in and make it easier for renters to use the assistance we provide to find a place for their families to call home," said Cuomo. "It's now up to the Congress to fully fund HUD's budget request to provide the rental assistance so many families desperately need."

HUD's proposed FY 2001 budget request includes an additional 120,000 new vouchers to help address the nation's worst-case housing needs. In addition, to ensure voucher-holders receive help locating suitable rental units, HUD's proposed FY2001 budget currently before Congress includes an innovative $50 million Housing Voucher Success Fund that will provide assistance for familiesto search for a wider variety of available housing.

Fair Market Rents are used to calculate the maximum subsidy HUD provides families with Section 8 vouchers, also known as Housing Choice Vouchers. For the past five years, this subsidy standard was set at a level allowing voucher-holders access to 40% of newly-available rental units. In certain high-rent markets, HUD will now raise Fair Market Rents to the 50^{th} percentile, allowing voucher-holders access to half of newly-available rental units. As a result, HUD estimates more than 1.4 million additional rental units would become affordable for families living in these communities – a 25% increase.

The Section 8 Housing Choice voucher program is the largest of HUD's three programs that assist low-income families with affordable rental housing. More than 1.4 million families receive Section 8 vouchers which they can use to find housing in the private market. Under Section 8, most Housing Choice voucher-holders pay no more than 30 percent of their income toward rent, with the federal government paying the balance. Section 8 vouchers can now also be used to help qualifying families purchase their first home.

XXX

Background on Interim Section 8 Rule

- HUD will issue an interim rule that will increase the available pool of rental units accessible to low-income renters in difficult housing markets dramatically - by as much as 25%.

- Nationwide, despite the booming economy and our investment in expanding the supply of affordable housing, there are a record number of families with worst case housing needs -- 5.4 million unassisted very-low income families who pay more than half their incomes for housing or live in severely inadequate units, including a growing number of families working full time.

- The strong economy is actually pushing up rents: over the past three years, rents have risen overall more than one-and-a-half times faster than inflation – and twice as fast in some markets. According to HUD's *State of the Cities 2000* report, "rather than benefiting from the surging economy, low-income renters are left to compete for a dwindling supply of affordable rental housing on the private market."

- The Section 8 program is the largest of HUD's three programs that assist low-income families with affordable rental housing. More than 1.4 million families receive Section 8 Housing Choice vouchers which they can use to find housing in the private market. Under Section 8, most voucher holders pay no more than 30 percent of their income towards rent, with the federal government paying the balance.

- As the economy has grown stronger, it has become more difficult in some markets for voucher holders to find affordable housing. In many communities, Section 8 Housing Choice voucher holders are literally being priced out of the market. Some recipients are being forced to return the vouchers because they can't find an apartment that qualifies under HUD's rent guidelines.

- HUD's solution is to change the rent guidelines to reflect the changing market. HUD's new policy will increase Section 8 rent levels where necessary to ensure more effective use of housing vouchers. The interim rule provides for targeted increases in the "Fair Market Rents" that are used to determine the level of subsidy under Section 8. Until 1995, these were set at the 45th percentile of recent movers. In 1995 that was lowered to the 40th percentile. HUD now proposes to raise it to the 50th percentile in housing markets where voucher holders are experiencing difficulty.

- This is a fiscally prudent proposal. It does not apply everywhere – only to those communities where there is clear evidence that renters are having difficulty finding housing that qualifies for Section 8.

- Specifically, the interim rule will be targeted to those communities where: (1) more than a quarter of the families issued Section 8 Housing Choice vouchers over a six month period cannot find housing; or (2) Section 8 Housing Choice voucher-holders are concentrated in a limited number of neighborhoods and affordable housing is not widely available throughout the metropolitan area.

- The effect of the new policy will be to boost the available pool of rental units accessible to families with Section 8 vouchers in difficult markets by as much as 25 percent.

HUD's New Fair Market Rent Policy: Frequently-Asked Questions

What is the Section 8 Housing Choice Voucher Program?

The Section 8 Housing Choice Voucher Program is a federal program administered by the U.S. Department of Housing and Urban Development (HUD) that helps more than 1.4 million low-income households, including families with children and elderly and disabled households, to afford decent-quality rental housing. Families with Housing Choice Vouchers locate rental units of their choice in the private market. Provided the units meet applicable cost and quality standards, the federal government provides subsidies to help the voucher-holders afford their rental costs.

Families with vouchers generally pay 30 percent of their adjusted income for rent and utilities, with the federal government subsidizing the balance up to a locally-determined "voucher payment standard." Families may choose to contribute an additional ten percent of their adjusted income to rent higher-quality apartments.

The state and local public housing agencies (PHAs) that administer the Housing Choice Voucher program have discretion to set voucher payment standards anywhere between 90 and 110 percent of the Fair Market Rent (FMR), set by HUD. In addition, PHAs may request HUD's approval to set voucher payment standards above 110 percent of the FMR.

What are "Fair Market Rents"?

Fair Market Rents (FMRs) are estimates of rental housing costs in local housing markets that HUD prepares using rent survey data to serve as the basis for determining the maximum subsidy levels in the Housing Choice Voucher program. In general, FMRs are set at the 40th percentile rent -- i.e., the dollar amount which allows voucher-holders access to 40 percent of standard quality rental units. Adjustments are made to exclude public housing units, newly built units and substandard units.

What is HUD's New FMR Policy?

HUD's new Fair Market Rent (FMR) policy provides targeted relief to areas where market conditions are preventing families from successfully using Housing Choice Vouchers. Where it is necessary to ensure the effective operation of the housing voucher program, HUD will raise Fair Market Rents from the 40th to the 50th percentile of recent movers. This will ensure that families with vouchers have access to at least half of all standard quality rental units in those areas.

The new policy is designed to achieve two fundamental program objectives:

- *Ensuring that voucher-holders can find suitable housing.* In most areas, the current Fair Market Rents -- based on the 40th percentile of recent movers -- are adequate to allow families with Section 8 vouchers to rent suitable housing. In some areas, however, difficult market conditions are preventing families from finding affordable units. The new policy authorizes Public Housing Agencies to use voucher payment standards based on the 50th percentile rent when fewer than three-fourths of the families issued vouchers succeed in using them to find housing.

- *Ensuring that voucher-holders have access to a broad range of housing opportunities throughout the metropolitan area.* One of the goals of the Section 8 program is to ensure that voucher-holders are free to move to neighborhoods of their choice throughout the metropolitan area. To advance this objective, HUD will increase FMRs to the 50th percentile in metropolitan areas where there is *both* concentration of voucher-holders *and* evidence suggesting this problem may be due to the distribution of affordable rental units in the area.

What areas will benefit from the new FMR policy?

The new FMR policy will apply wherever families are experiencing problems using housing vouchers. Any area in the United States that meets the applicable criteria on or after the effective date of the new policy will be eligible to use the 50th percentile rent.

The new policy is expected to become effective in early December. Because circumstances may change between now and then, it is impossible to identify with certainty all of the areas that will benefit from the higher subsidy levels. HUD has, however, conducted a preliminary analysis to identify some of the areas that could receive the benefit of the higher FMRs, in the event that circumstances do not change.

For example, among the housing agencies that have reported problems using vouchers despite raising payment standards to 110 percent of the FMR are agencies in the following cities: Baltimore, MD; Birmingham, AL; Boston, MA; Burlington, VT; Charlotte, NC; Malden, MA; Marin County, CA; Milwaukee County, WI; Raleigh, NC; Santa Monica, CA. Should these agencies continue to experience problems with voucher usage, and provide data documenting these difficulties, per the requirements of the new rule, these agencies would be eligible to use the 50th percentile rent.

In addition, HUD plans to raise FMRs to the 50th percentile where necessary to ensure that voucher-holders have access to a broad range of housing opportunities throughout the metropolitan area. Although new areas could be added each year, the following metropolitan areas would qualify initially for 50th percentile FMRs under this aspect of the policy:

Albuquerque, NM MSA
Atlanta, GA MSA
Austin-San Marcos, TX MSA
Baton Rouge, LA MSA
Bergen-Passaic, NJ PMSA
Buffalo-Niagara Falls, NY MSA

Chicago, IL PMSA
Cleveland-Lorain-Elyria, OH PMSA
Dallas, TX PMSA
Denver, CO PMSA
Detroit, MI PMSA
Fort Lauderdale, FL PMSA
Fort Worth-Arlington, TX PMSA
Grand Rapids-Muskegon-Holland, MI MSA
Houston, TX PMSA
Kansas City, MO-KS MSA
Las Vegas, NV-AZ MSA
Miami, FL PMSA
Minneapolis-St. Paul, MN-WI MSA
Newark, NJ PMSA
Norfolk-Virginia Beach-Newport News, VA-NC MSA
Oakland, CA PMSA
Oklahoma City, OK MSA
Orange County, CA PMSA
Philadelphia, PA-NJ PMSA
Phoenix-Mesa, AZ MSA
Richmond-Petersburg, VA MSA
Sacramento, CA PMSA
Salt Lake City-Ogden, UT MSA
San Antonio, TX MSA
San Diego, CA MSA
San Jose, CA PMSA
St. Louis, MO-IL MSA
Tampa-St. Petersburg-Clearwater, FL MSA
Tulsa, OK MSA
Ventura, CA PMSA
Washington, DC-MD-VA-WV PMSA
West Palm Beach-Boca Raton, FL MSA
Wichita, KS MSA

As noted above, this is not a comprehensive list of all areas that could qualify for the 50th percentile rent under the new FMR policy. Any area that satisfies the applicable criteria will be eligible for an increase.

How will the new FMR policy impact areas that have exception payment standards?

A number of metropolitan areas around the country -- such as Los Angeles, San Francisco, Rochester, NY; and Portland, ME -- have already received approval from HUD to use voucher payment standards that exceed 110 percent of the FMR in parts of their metropolitan areas with particularly high housing costs. The new FMR policy does not limit the ability of these areas to continue to use these exception payment standards.

Description of HUD's New Policy on Fair Market Rents

September 12, 2000

Overview

HUD's new Fair Market Rent (FMR) policy provides targeted relief to areas where market conditions are preventing families from successfully using Section 8 Housing Choice vouchers. Where it is necessary to ensure the effective operation of the housing voucher program, HUD will raise Fair Market Rents from the 40th to the 50th percentile of recent movers. This will ensure that families with vouchers have access to at least half of all standard quality rental units in those areas.

Section 8 Housing Choice vouchers increase affordable housing choices for very-low income households by allowing families with children and disabled and elderly households to choose privately-owned rental housing. The Housing Choice voucher program combines Section 8 vouchers and certificates into a single program that today helps more than 1.4 million households across the United States.

The new policy is designed to achieve two fundamental program objectives:

1. *Ensuring that voucher-holders can find suitable housing.* In most areas, the current Fair Market Rents -- based on the 40th percentile of recent movers -- are adequate to allow families with Section 8 vouchers to rent suitable housing. In some areas, however, difficult market conditions are preventing families from finding affordable units. The new policy authorizes public housing agencies -- who administer the voucher program -- to use voucher payment standards based on the 50th percentile rent where fewer than three-fourths of the families issued vouchers succeed in using them to find housing.

2. *Ensuring that voucher-holders have access to a broad range of housing opportunities throughout the metropolitan area.* One of the goals of the Section 8 program is to ensure that voucher-holders are free to move to neighborhoods of their choice throughout the metropolitan area. To advance this objective, HUD will increase FMRs to the 50th percentile in metropolitan areas where there is *both* concentration among voucher-holders *and* evidence suggesting that this problem may be due to the distribution of affordable rental units in the area.

This new policy is innovative in at least three respects:

- Where appropriate, it increases FMRs all the way to the 50th percentile, rather than simply back to the 45th percentile standard used prior to 1995. The 45th percentile provides only modest relief that will often be insufficient to remedy the problems that have been identified. The Department elected to utilize the 50th percentile to provide more substantial relief to areas experiencing problems.

- It saves the taxpayers money by increasing FMRs only where necessary to remedy specific problems. An across-the-board increase would have raised FMRs everywhere, even in those areas where they were already adequate to permit the successful use of vouchers. The new policy efficiently targets increases only in those areas experiencing problems.

- In keeping with sound management principles, housing agencies that choose to utilize the higher 50th percentile FMR will be held accountable for results through the use of new performance measurements. The measures will help to ensure that the higher FMRs achieve the intended results of improving mobility and the rates of success of voucher recipients.

Targeted Increases in Fair Market Rents to Ensure that Voucher-Holders Can Find Suitable Housing

Unlike the old housing certificate program, in which maximum subsidy levels were governed by the FMR, maximum subsidies under the Housing Choice Voucher Program enacted by Congress in 1998 are governed by a "payment standard." This gives public housing agencies greater flexibility to adapt the program to local market conditions. Rather than being required to set subsidy levels at the FMR that applies to the entire metropolitan area – which may be too low or too high for the particular communities they serve – PHAs already have discretion to set the voucher payment standard amounts anywhere between 90 and 110 percent of the FMR.

Most public housing agencies can run a successful voucher program within this normal 90 to 110 percent range of the current 40th percentile FMR. In some cases, however, even the maximum 110 percent of the FMR is too low to enable families to find suitable housing with a voucher. The new policy solves this problem. Where a PHA has raised its voucher payment standard to 110 percent of the FMR, but still finds that less than 75 percent of all families that receive a voucher over the course of six months cannot find housing with their vouchers, it will be eligible to set its payment standard based on a 50th percentile rent .

Housing agencies that qualify for the higher payment standards will still retain the flexibility to vary their payment standard by area. The range of payment standards available to them will simply be 90 to 110 percent of a 50th percentile rent, rather than of a 40th percentile rent.

Targeted Increases in Fair Market Rents to Ensure that Voucher Holders Have Access to a Broad Range of Housing Opportunities Throughout the Metropolitan Area

One of the goals of the Section 8 voucher program is to provide participating families with access to a broad range of housing opportunities. Families should not be restricted by low subsidy levels to a narrow range of neighborhoods, and should especially not be restricted to areas of high poverty concentration. Moreover, to advance welfare-to-work objectives, families with vouchers should have access to housing in areas of job growth or with good transportation access to job centers.

To advance these important program objectives, HUD will raise FMRs to the 50th percentile in those metropolitan areas where there is both: concentration among voucher-holders and evidence suggesting that this problem may be due to the distribution of affordable rental units in the area.

This two-part test ensures that scarce resources are properly targeted on the areas most in need of assistance. As a first step in identifying the areas in need of assistance, there obviously needs to be evidence of concentration among voucher holders. Because this concentration may be due to low FMRs or to other factors that are unrelated to FMRs, such as family choice, HUD has added a second test to identify those areas where affordable rental housing is not well-distributed throughout the metropolitan area.

Specifically, HUD will increase FMRs to the 50th percentile for areas meeting both of the following criteria:

- 25 percent or more of all voucher holders in the metropolitan FMR area reside in the five percent of census tracts with the greater number of program participants; and

- 70 percent or fewer census tracts within a metropolitan FMR area are "accessible" to voucher-holders at the current FMR. For the purposes of this analysis, census tracts have been defined as "accessible" to voucher-holders where 30 percent or more of two-bedroom rental units in the tract fell below the 40th percentile FMR in the last decennial census.

Because mobility is an issue primarily for large metropolitan areas, this policy targets FMR increases only on metropolitan areas with more than 100 census tracts.

Performance Measurement

HUD is committed to ensuring that its money is spent in a manner that achieves the desired outcomes. To this end, housing agencies that choose to adopt a 50th percentile rent will be held to performance standards designed to measure whether they have achieved concrete results. The specific standards are as follows:

- Housing agencies that receive authority to base payment standards on a 50th percentile rent because fewer than 75 percent of voucher-holders are able to find housing will be given more than a year to raise their success rates to 75 percent, with the aid of the higher FMR. They will also be expected to show that they are utilizing at least 95 percent of their allocated funds. If they fail to achieve these objectives within that time-frame, they will lose five points on their Section 8 Management Assessment Program (SEMAP) score. Subject to the availability of funds through the Housing Voucher Success Fund (proposed in HUD's FY 2001 budget), HUD will provide funding for housing search assistance to help housing agencies meet this goal.

- Housing agencies that elect to take advantage of the higher FMRs granted to promote mobility and deconcentration will be expected to show progress in achieving these goals. For such PHAs, the current "bonus" measure of deconcentration outcomes in SEMAP will become a part of their regular SEMAP score.

Margy Waller
09/07/2000 06:21:00 PM

Record Type: Record

To: Francis S. Redburn/OMB/EOP@EOP

cc: Michael Deich/OMB/EOP, Andrea Kane/OPD/EOP
Subject: Sard proposal

Steve: Thanks for the thoughtful analysis of the Sard "project-basing" proposal.

Michael and I would like to invite you and anyone else you think should join in (Jim, Lauren, and Joe?) to come to a brown-bag lunch (don't pick up anyone else's coffee if you go to Starbuck's) in Michael's office at **1 PM on Monday** to discuss the proposal, your comments and recommendations. We thought it would be good to have a perspective and maybe a proposal in hand as events unfold over the next couple weeks. Does this time work for you guys?

After we have an EOP consensus about this and/or if we have questions - we may want to follow up with Barbara.

Margy Waller
09/07/2000 05:25:23 PM

Record Type: Record

To: Andrea Kane/OPD/EOP

cc:
Subject: Barbara Sard's "Project Basing" Legislative Proposal

FYI - I'm following up...

---------------------- Forwarded by Margy Waller/OPD/EOP on 09/07/2000 05:25 PM ---------------------------

Francis S. Redburn 09/07/2000 03:11:21 PM

Record Type: Record

To: Michael Deich/OMB/EOP@EOP

cc: See the distribution list at the bottom of this message
Subject: Barbara Sard's "Project Basing" Legislative Proposal

You asked for reactions to the latest version of Barbara's proposal. Jim, Lauren Bloomquist, and I have looked at it and offer the following comments:

If enacted, it would make PHAs' existing discretion to project-base up to 15 percent of their housing vouchers (up to 250,000 units nationally) more flexible and easier to use, especially to foster rehabilitation and new construction. It also would authorize a new category of "housing production vouchers" (HPVs) for extremely low-income families, plus a one-time grant to the developer, to be used for up to 25 percent of units constructed with support of the Low-income Housing Tax Credit or FHA's "risk-sharing" mortgage insurance program. The latter is similar to the 2001 Budget proposal for 10,000 vouchers to be used in Tax Credit and certain FHA-insured projects.

In both cases, voucher holders moving into project-based units would have the option to reject the unit without losing their place in line for voucher assistance and could move elsewhere with the voucher after the one-year initial lease period. The project owner would be guaranteed a replacement voucher holder for the term of the contract -- up to ten years initially for the regular program and up to 15 years for HPVs.

Likely Effects

We believe that, by making it more attractive and easier for PHAs to project-base vouchers and by giving landlords incentives to sign long-term (10 or 15 year) assistance contracts (subject to annual appropriations and willingness of voucher holders to live there), the proposal will result in project-basing many vouchers. Incentives include the ability to set a higher payment standard than for other vouchers and to pay owners for up to 60 days for vacancies when they occur.

In locations where landlord participation in the voucher program has been a problem, the long-term commitment to accept voucher holders could increase landlord participation and help sustain success rates when markets are tight and rents rise. Rents would be capped by a maximum payment standard just as they are for other voucher holders, but may differ from (exceed) the payment standard that a PHA applies to its other vouchers.

The proposal also could serve as an inducement for development of additional affordable housing. This is clearly the case for the HPV component. However, a PHA could also offer a developer a commitment to project-base vouchers for up to 100 percent of the units (up to 50 percent in a high-poverty neighborhood) in a new or rehabbed property initially for up to 10 years but with the commitment *extendible at the PHA's option,* thereby increasing supply. We therefore expect some PHAs to use project-basing of their existing vouchers (as opposed to HPV vouchers if available) to induce the construction or rehabilitation of new subsidized housing.

Our Concerns

We believe that the proposal as drafted preserves voucher holder choice, which is critical both to maximizing the benefits of the voucher to the recipient and to providing an incentive for good operation of a project. However, to the extent that PHAs use this option, it results in voucher holders having to reside in a project for one year before they are eligible to move. Thus, there is some reduction in voucher benefits resulting from mobility and choice.

We note that project-basing of units is likely to concentrate voucher holders in fewer properties, but this effect is minimized as long as project-basing in each PHA remains capped at 15 percent of the vouchers. We note that the incentive for good operation is considerably weakened by the commitment to replace departing voucher holders and by the payments for vacant units. The latter also works against the goal of increasing voucher utilization and reduces the number of voucher holders aided at a given level of appropriations.

Our *greatest* concern is that PHAs will use project-basing to create new 100 percent subsidized projects at rents that are not based on the market and are higher than those set for other voucher holders. We see in this at least the potential for collusive arrangements between PHAs and developers that would conflict with the interests of tenants and ultimately damage the program's reputation through a subsequent scandal.

We also are concerned that Barbara's carefully crafted proposal could be readily modified on the Hill, either initially or over time, to favor the interests of developers over those of program recipients. If PHAs and development interests find project-basing attractive, they may try over time to raise the percentage cap; and, if they find the voucher holder's option to move creates cash flow problems for these properties, they may attempt to restrict their option to leave a bad property.

At a minimum, we would recommend the following changes to the proposal, in priority order:

1. Restrict the term of assistance contracts with owners to the existing five years rather than the proposed 10 years (with renewal at PHA option) or 15 years (for HPVs). If the goal is to address a cyclical problem of tight market conditions, then five years is sufficient. We also think that owners of more and better properties, in a greater range of locations, would be more interested if they are not locked in for such a long period. In fact, we wonder about the motives of owners/developers who would enter into such a long-term deal with a one-sided renewal option. For the Government, a shorter contract period reduces the risks associated with long-term entanglements with particular properties and owners.
2. Cap the percentage of units in any one property that can be covered by a project-basing contract to 25 percent of the units in all cases, not just for the HPV component. This reduces the risk of concentration and of creating projects that are developed primarily because the PHA has ensured continued cash flow to the project from subsidy holders and not because the developer thinks the property can be supported over a long period by the market.
3. Restrict rents to the local payment standard for other vouchers and consider applying the

project-based comparability test now in statute for other project-based Section 8 subsidies or another market test to limit rents. This reduces the risk of subsidizing properties in excess of their market value and of non-competitive, above-market deals between PHAs and developers.

4. Restrict the payment for vacant units to 30 days, with an option for the PHA to extend for another 30 days only if it has failed to deliver an accceptable numbe of voucher holders in that time period. This minimizes the reduction in voucher utilization and encourages quick replacement of departing voucher holders.

Message Copied To:

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Margy Waller
08/30/2000 05:53:11 PM

Record Type: Record

To: Michael Deich/OMB/EOP, Francis S. Redburn/OMB/EOP@EOP

cc: Andrea Kane/OPD/EOP
Subject:

Attached is the proposal from Barbara Sard for how to link vouchers to subsidized projects. This proposal could of course apply to both the current EITC voucher proposal in the FY 2001 budget and the FHA proposal (do we still have one?)

I'm out until September 5. Let's talk about this when I get back.

- vacancy redraft 8-29-00.wpd

- 00-8-29 cover for revised 8(o)(13).wpd

- bill language 8-29-00.wpd

(G) VACATED UNITS. — Notwithstanding paragraph (9) of this subsection, a public housing agency's housing assistance payment contract with an owner under this paragraph may authorize the agency in its discretion to pay the rent of a vacated unit from funds available under the agency's annual contributions contract with the Secretary for a reasonable period not to exceed 60 days where the vacancy is not due to any fault of the owner. The contract must obligate both the public housing agency and the owner to take every reasonable step to minimize the likelihood and extent of any such vacancy. *A public housing agency's housing assistance payment contract with an owner under this paragraph may provide that if no eligible family has agreed to rent a vacated unit within 120 days after the owner has notified the public housing agency of the vacancy despite the reasonable efforts of the agency and the owner to refer eligible families and rent the unit, the public housing agency may reduce its contract with the owner by the amount equivalent to the remaining months of subsidy for the vacated unit. Funds deobligated pursuant to such a provision shall be made available by the agency to provide assistance under this subsection. Eligible applicants for assistance under this subsection may enforce the provisions of this subparagraph.*

MEMORANDUM

To: Persons interested in the "project-basing" of Section 8 housing vouchers

From: Barbara Sard

Re: Proposed amendment to Section 8(o)(13) of the U.S. Housing Act

Date: August 29, 2000

Attached is a proposed revision of the project-based voucher provision of the U.S. Housing Act, Section 8(o)(13) (42 U.S.C. § 1437f(o)(13). This revision would accomplish three primary goals:

1) It would make the option to project-base vouchers more flexible for public housing agencies (PHAs) to use in order to enhance voucher utilization as well as to foster rehabilitation or new construction, depending on the needs of their local housing markets.

2) It would authorize PHAs, at their discretion, to offer families with project-based vouchers a "Continued Assistance Option" — a new program variant that would allow families to move and retain federal housing assistance. Under the Continued Assistance Option, a PHA would agree to link a specified number of subsidies to a particular development for up to ten years. The initial families would be selected by the manager of the development from among families referred by the PHA. Unlike the current project-based certificate program, however, families with the Continued Assistance Option would have the right to move (after one year) and retain federal housing assistance. Families that wished to move would receive the next available "turnover" voucher from the PHA's portfolio. Families that moved from a subsidized unit would be replaced by families referred from the PHA's waiting list, ensuring that the specified number of subsidies continue to be utilized at the development throughout the term of the PHA's contract with the owner. About 10 percent of existing housing vouchers become available for reissuance each year as families leave the program, making

this option feasible for all but the smallest PHAs.

3) It would authorize a modified version of the Housing Production Voucher (HPV) program contained in Section 217 of the Administration's FY 2001 budget request. If funded, the modified HPV program would provide vouchers to interested state housing tax credit agencies that would be used to help make a modest portion of low-income housing tax credit developments (and so-called "risk sharing" developments) affordable to families with incomes below 30 percent of the area median income. All families that received project-based vouchers through the modified HPV program would be entitled to the Continued Assistance Option.

Below is a brief list of the changes this proposal would make to existing statutory law and the Administration's Section 217 proposal, in the order in which they appear in the attached text.

- PHAs would be permitted to project-base up to 15 percent of their voucher funding without any requirement that owners invest additional funding in the units. (Currently, construction or rehabilitation costs of at least $1,000 per unit are required before a unit may receive a project-based voucher.) This change would allow PHAs to decide whether to link project-basing to new construction or rehab or simply to use project-basing as a tool to promote voucher utilization and expand housing opportunities.

- To promote consistency with the PHA plan process, a PHA's decision to project-base vouchers would have to be consistent with the housing needs and strategies identified in the PHA plan. In addition, except when units in a development are intended to house elderly and disabled families, a PHA's decision to project-base vouchers would have to be consistent with the goal of deconcentrating poverty and expanding housing opportunity. This objective may be met by attaching assistance to a dwelling unit located in a low-poverty area or in an area in which employment opportunities are expanding or by attaching assistance to fewer than half of the dwelling units in a development that is not in a low-poverty or job growth area.

- PHAs would be authorized to provide a Continued Assistance Option to families with project-based vouchers. A description of the Continued Assistance Option is provided on the first page, above. (Again, to promote consistency with the PHA Plan, PHAs would have to state in their annual Plan whether they will use this option.)

- PHAs would have discretion to determine the initial contract term up to a maximum of ten years. (HUD's project-based certificate [PBC] regulations now set the maximum term at 5 years.) All contracts would be subject to the availability of adequate annual appropriations.

- Project-based voucher contracts would be subject to the same annual inspection requirements as regular vouchers, except that a PHA would be permitted to develop a streamlined inspection system for the development rather than inspecting each unit each year.

- Currently, owners that take project-based certificates are required to accept any extensions of the initial contract term offered by a PHA. This requirement would be eliminated, but PHAs would be permitted to enter into contracts that contained such a provision with consenting owners. In addition, the requirement that HUD must approve a PHA decision to extend a contract with an owner would be eliminated.

- In the project-based contract with the owner, a PHA sets the rent for each assisted unit. Under this proposal, rents for units with project-based vouchers may differ from the payment standard[s] established by the PHA, but are subject to the same "rent reasonableness" test that applies in the regular voucher program. The maximum rent would be same as the maximum voucher payment standard: i.e., 110% of the HUD-determined fair market rent (FMR), or any higher exception payment standard approved by HUD.

  To ensure that the vouchers could be used in tax credit units, special rules would apply if the vouchers were project-based in tax credit developments; in this case, the maximum contract rent would be the rent charged for comparable units in the development with tax credit subsidies but without additional rental assistance. Rent adjustments during the course of the contract would be permitted, but would be subject to the same maximum limits described above. The proposal does not change the current statutory requirement that families with project-based vouchers would pay 30 percent of their adjusted income for rent (subject to the usual exceptions).

- PHAs would be authorized to use special preferences or criteria for selecting families to receive project-based assistance (e.g., to be consistent with a supportive housing program). Tenant-based voucher eligibility and targeting rules would apply. Owners would be responsible for selecting tenants for units assisted with project-based vouchers from among the families referred by the PHA from the PHA's tenant-based waiting list. No family would be required to accept project-based assistance; families that reject an offer of project-based assistance would retain their place on the waiting list. A PHA would be permitted to use a separate waiting list for a project-based voucher program if all applicants for project-based units are also listed on the PHA's regular tenant-based voucher waiting list, and if all families on the regular list that meet any special criteria for admission to the project-based units are given the option to have their names placed on both lists. (The use of a single waiting list or separate lists with required cross-listing maximizes the choices of families and minimizes the need to prepare multiple applications. It also makes it substantially less likely that families will use project-based waiting lists as an end-run around the tenant-based waiting list.)

- In their discretion, PHAs could decide, as an incentive for owners to enter into project-based contracts, to offer vacancy payments to owners for up to 60 days. However, PHAs and owners must seek to reduce the need for vacancy payments and such payments may not be made if the vacancy is the fault of the owner (e.g., the unit does not pass reinspection or a PHA refers a reasonable number of families to the owner, but the owner refuses to select any of them.) Any such vacancy payments would be made out of regular voucher funding (rather than administrative fees). A PHA also would have discretion to reduce the number of units under a project-based voucher contract if no family accepted a unit within 120 days of the notice of vacancy, and reissue the subsidy as a tenant-based voucher.

- Subparagraph (H) authorizes a revised version of the Housing Production Voucher (HPV) program and the one-time grants as proposed by the Administration in Section 217 of the FY 2001 HUD budget. If funded, this program would provide vouchers to interested state housing credit agencies that would be used to help make a modest portion of low-income housing tax credit developments (and "risk sharing" developments) affordable to families with incomes below 30 percent of the area median income. The state agencies would be free to choose which developments would receive the vouchers, so long as the number of vouchers assigned to any particular development did not exceed 25 percent of the total number of units.

  Under the Administration's original proposal, families that received the vouchers would have the option of leaving after one year and taking their vouchers with them. In the revised version authorized in the attached proposal, by contrast, the vouchers would be project-based, ensuring owners a secure subsidy stream. To ensure maximum tenant mobility, however, assisted families would have a Continued Assistance Option. This would allow families to move and keep their assistance if, for example, they needed to move to be closer to a new job.

  Other changes from the Administration's proposal are as follows:

  - To simplify administration, the HPV vouchers would work the same way as ordinary project-based vouchers. The primary difference would be the manner of initial distribution of the vouchers. (In addition, as noted above, all families with HPV vouchers would have a Continued Assistance Option.)

  - Vouchers would be allocated to states under the usual fair share formula used for voucher assistance rather than under the tax credit formula. This would better target scarce resources to areas with greater need for affordable housing by very low- income renters. Any vouchers the state tax credit agency did not designate for use would be reallocated to other states.

- A standard is included to guide states' selection of PHAs to administer the vouchers. Under this standard, states should select the PHA with jurisdiction over the area in which the development will be located that is most effectively administering its current tenant-based program and seeking to affirmatively further fair housing. The Administration's proposal did not provide any guidance on this issue.

- The Administration's proposal would have authorized use of the vouchers as regular tenant-based assistance in the interim before the new units are ready for occupancy. The revised HPV proposal neither authorizes nor restricts the use of the vouchers in this manner, leaving the issue to be resolved in annual appropriations bills.

- The provision that the vouchers could not be considered in financing decisions is deleted. (Since the vouchers now confer a steady subsidy stream to owners, they may be relevant to the financing decisions of lenders and state housing finance agencies.)

- Project-based vouchers under the HPV program would not count in assessing PHA compliance with the limitation that no more than 15 percent of the PHA's vouchers may be project-based.

- To be consistent with the tax credit program, a project-based contract under the HPV program could have a maximum initial term of 15 years, as determined by the PHA. (Under the Administration's proposal, by contrast, there was no contract to project-base the assistance and thus no contract term. Although the Administration's proposal would have required an owner to allow a family with an HPV voucher to remain in a unit for up to 15 years, it would have allowed the family to move and take its voucher after one year.)

- A project-based contract under the HPV program for tax credit-assisted units could have a maximum rent up to the tax credit rent charged for comparable units in the development that do not have additional rental assistance. For the non-tax credit units insured under the risk-sharing program, the rent rules discussed above for the regular project-based voucher program would apply.

- The regular definition of "extremely low-income family" under the 1937 Housing Act would apply to the HPV program. (The Administration's proposal had made some modifications to this definition.)

All of the changes made by this amendment would be effective upon enactment; there would be no need to wait for HUD's promulgation of regulations. Making the statutory changes self-executing is important to enable PHAs to use their authority to project-base assistance when they receive the FY 2000 "fair share" increments, as well as for turnover voucher funding. Few PHAs are able to project-base vouchers under the current regulations because they require that PHAs have existing contract authority to support the duration of any project-based contract. They are also unduly cumbersome.

Proposed Amendment to the Project-based Voucher Provision of the U. S. Housing Act

(a) Paragraph 13 of Section 8(o) of the United States Housing Act of 1937 (42 U.S.C. 1437f(o)) is amended to read as follows:

"(13) PHA PROJECT-BASED ASSISTANCE.—

(A) IN GENERAL.—If the Secretary enters into an annual contributions contract under this subsection with a public housing agency pursuant to which the public housing agency will enter into a housing assistance payment contract with respect to an existing structure under this subsection—
(i) the public housing agency may approve a housing assistance payment contract for such structures (which may include newly constructed or rehabilitated structures as well as existing structures) for not more than 15 percent of the funding available for tenant-based assistance administered by the public housing agency under this section if the approval is consistent with the housing needs and means to address those needs stated in the agency's annual plan pursuant to section 5A (d); and
(ii) the public housing agency may provide any eligible family occupying a unit with project-based assistance pursuant to this paragraph with a Continued Assistance Option. Families with a Continued Assistance Option have priority to receive a tenant-based voucher from the agency upon reasonable notice of the family's desire to move from the structure after an initial year in occupancy, notwithstanding the agency's waiting list or any system of local preferences established by the agency pursuant to paragraph (6). The agency's annual plan pursuant to section 5A (d) shall specify whether the agency will provide project-based assistance in this manner. The transfer of a family from project-based to tenant-based voucher assistance pursuant to this provision shall be considered a continuation of assistance, and is subject to the Secretary's regulations concerning the termination of voucher assistance.
(iii) Except when units assisted under this paragraph are intended to be occupied primarily by elderly or disabled families, the approval of a housing assistance payment contract under this paragraph must be consistent with the goal of deconcentrating poverty and expanding housing and economic opportunities. This objective may be met by attaching assistance to a dwelling unit located in a low-poverty area or in an area of high job growth or by attaching assistance to fewer than half of the dwelling units in a development that is not in a low-poverty or high job growth area. The Secretary may by regulation define what constitutes a "low-poverty" and a " high job growth" area.

(B) CONTRACT TERM. — In the case of a housing assistance payment contract that applies to a structure under this paragraph, a public housing agency may enter into a contract with an owner for a term of up to ten years, subject to the availability of sufficient appropriated funds for the purpose of renewing expiring contracts for assistance payments, as provided in appropriations Acts and in the agency's annual contributions contract with the Secretary and to annual compliance with the inspection requirements of paragraph (8), except that the agency need not make annual inspection of each assisted unit in a development. The public housing agency may enter into a contract that specifies additional conditions for the continuation of any contract under this paragraph. If the units are owned by the public housing agency, the term of the contract shall be agreed upon by the public housing agency and the unit of general local government or other entity approved by the Secretary in the manner provided by paragraph (11).

(C) EXTENSION OF CONTRACT TERM.—In the case of a housing assistance payment contract that applies to a structure under this paragraph, a public housing agency may enter into a contract with the owner, contingent upon the future availability of appropriated funds for the pur-pose of renewing expiring contracts for assistance payments, as provided in appropriations Acts, to extend the term of the underlying housing assistance payment contract for such period as the public housing agency determines to be appropriate to achieve long-term affordability of the housing or to expand housing opportunities. The contract may obligate the owner to have such extensions of the underlying housing assistance payment contract accepted by the owner and the successors in interest of the owner.

(D) RENT CALCULATION.—For project-based assistance under this paragraph, housing assistance payment contracts shall establish rents for each assisted unit up to 110 percent of the applicable fair market rental (or any exception payment standard approved by the Secretary pursuant to paragraph (1)(D) of this subsection), except that if a contract is for a unit that has been allocated low-income housing tax credits pursuant to 26 U.S.C. 42 (other than a contract pursuant to subparagraph (H) below) and is not located in a qualified census tract, the rent for that unit may be set at any level that does not exceed the rent charged for comparable units in the building that also receive low-income housing tax credits but do not have additional rental assistance. The rents established by housing assistance payment contracts attached to a structure may vary from the payment standard[s] established by the public housing agency pursuant to paragraph (1)(B) and are subject to paragraph (10)(A) of this subsection.

(E) ADJUSTED RENTS.—With respect to rents adjusted under this paragraph—
(i) the adjusted rent for any unit shall be reasonable in comparison with rents charged for comparable dwelling units in the private, unassisted, local market and may not exceed the maximum rent permissible under (D) above; and (ii) the provisions of subsection (c)(2)(C) shall not apply.

(F) TENANT SELECTION. — A public housing agency shall select families to receive project-based assistance pursuant to this paragraph from its waiting list for assistance under subsection (o). The eligibility of families for initial receipt of assistance under this paragraph is subject to paragraph (4) of this subsection and section 16(b). The agency may establish preferences or criteria for selection for a unit assisted under this paragraph that are consistent with the needs identified in the agency's annual plan. Any family that rejects an offer of project-based assistance under this paragraph, or that is rejected for admission by the owner or manager of a structure with project-based assistance under this paragraph, retains its place on the waiting list as if the offer had not been made. Owners or managers of structures with

project-based assistance under this paragraph shall not admit any family to a unit subject to a housing assistance payment contract under this paragraph other than a family referred by the public housing agency from its waiting list. Consistent with its waiting list policies and selection preferences, the public housing agency may place families referred by the structure's owner or manager on its waiting list and may maintain a separate waiting list for assistance under this paragraph, provided that–
(i) all families on the waiting list for assistance under subsection (o) are permitted to place their names on the separate list; and (ii) all families on the separate list are included on the waiting list for assistance under subsection (o).

(G) VACATED UNITS. — Notwithstanding paragraph (9) of this subsection, a public housing agency's housing assistance payment contract with an owner under this paragraph may authorize the agency in its discretion to pay the rent of a vacated unit from funds available under the agency's annual contributions contract with the Secretary for a reasonable period not to exceed 60 days where the vacancy is not due to any fault of the owner. The contract must obligate both the public housing agency and the owner to take every reasonable step to minimize the likelihood and extent of any such vacancy. A public housing agency's housing assistance payment contract with an owner under this paragraph may provide that if no eligible family has agreed to rent a vacated unit within 120 days after the owner has notified the public housing agency of the vacancy despite the reasonable efforts of the agency and the owner to refer eligible families and rent the unit, the public housing agency may reduce its contract with the owner by the amount equivalent to the remaining months of subsidy for the vacated unit. Funds deobligated pursuant to such a provision shall be made available by the agency to provide assistance under this subsection. Eligible applicants for assistance under this subsection may enforce the provisions of this subparagraph.

(H) HOUSING PRODUCTION ASSISTANCE. — (i) There is authorized to be appropriated, in addition to assistance otherwise available under section 8 of the United States Housing Act of 1937, such amounts as may be provided in appropriations acts to provide additional housing vouchers pursuant to this provision under such terms and conditions as the Secretary determines and to provide one-time grants to developers who produce housing units that satisfy such unmet needs as the Secretary may identify, such as a need for an increase in units to house large families. Such vouchers shall be for extremely low-income families.
(ii) HUD ALLOCATION OF VOUCHERS.— The Secretary shall allocate the vouchers described in subparagraph (i) to States pursuant to the formula established under section 213(d) of the Housing and Community Development Act of 1974 except that subsection 213(d)(1)(C) shall not apply to such allocation. The Secretary may reallocate any vouchers that a State housing credit agency does not designate for use at a particular building within the twelve months subsequent to the Secretary's initial allocation pursuant to subparagraph (iii) in the same manner as low-income housing tax credits pursuant to 26 U.S.C. 42 are reallocated.
(iii) DISTRIBUTION OF VOUCHERS.
(I)The housing credit agency shall select the buildings or housing at which the vouchers made

available for each State under subparagraph (ii) shall be used. Such buildings or housing may include—

(A) new buildings with a mortgage insured under section 221(d)(4) of the National Housing Act which is allocated a housing credit dollar amount pursuant to 26 U.S.C. 42 and is not located in a qualified census tract; and

(B) new multifamily housing with a mortgage insured under section 542(c) of the Housing and Community Development Act of 1992 which may or may not be allocated a housing credit dollar amount pursuant to 26 U.S.C. 42 and is not located in a qualified census tract.

(II) The housing credit agency shall determine the number of vouchers the Secretary shall distribute for use at the buildings or housing selected under paragraph (1), but in no case shall such number be more than 25 percent of the total number of units in the building or housing.

(III) The housing credit agency shall select a public housing agency to administer these vouchers, subject to paragraph (IV). The housing credit agency shall select the public housing agency with jurisdiction over the area in which the building or multifamily housing is located that administers tenant-based assistance under section 8 of the United States Housing Act of 1937 most effectively and in a manner best designed to affirmatively further fair housing. The Secretary may promulgate standards that the housing credit agency shall follow in making its selection.

(IV) The Secretary shall decline to make the requested vouchers available to any public housing agency that—

(A)(i) the Secretary determines is not administering tenant-based assistance under section 8 of the United States Housing Act of 1937 in a satisfactory manner; and

(ii) has not proposed an alternative administrator of vouchers under this section satisfactory to the Secretary;

(B) does not comply with title VI of the Civil Rights Act of 1964, the Fair Housing Act, section 504 of the Rehabilitation Act of 1973, or title II of the Americans with Disabilities Act of 1990, or other applicable civil rights laws; or

(C) is otherwise determined by the Secretary to be ineligible for receipt of such vouchers.

(iv) PUBLIC HOUSING AGENCY ALLOCATION OF VOUCHERS.—The public housing agency receiving housing vouchers under subparagraph (H) shall make the vouchers available for use in accordance with subparagraph (H) (v) to extremely low-income households that agree to move into the buildings or multifamily housing selected by the housing credit agency under subparagraph (H)(iii)(I).

(v) USE RESTRICTIONS.—The vouchers allocated pursuant to subparagraph (H) shall be administered in accordance with the provisions of section 8(o)(13) of the United States Housing Act of 1937, except that—

(I) public housing agencies administering these vouchers shall initially make these vouchers available to extremely low-income households that agree to move into buildings or housing selected by a housing credit agency pursuant to subparagraph (H)(iii)(I);

(II) the public housing agency's contract to provide project-based assistance pursuant to subparagraph (H) shall not be considered in determining the agency's compliance with the limitation of subparagraph (A)(i);

(III) the public housing agency must ensure that each family assisted with a voucher issued pursuant to subparagraph (H) has a Continued Assistance Option in accordance with

subparagraph (A)(ii) and must provide a tenant-based voucher from its existing allocation within 60 days of request to an otherwise eligible family wishing to move from the structure to which the assistance has been attached at any time after the initial 12 months in occupancy;
(IV) the initial term of the contract to provide project-based housing assistance payments shall be 15 years; and
(V) the public housing agency, without the approval of the Secretary, may set the rent for each size of dwelling unit up to the rents charged for comparable units in the selected building or multi-family housing that have been allocated low-income housing tax credits pursuant to 26 U.S.C. 42 but do not have additional rental assistance. If the units are not allocated a housing credit dollar amount pursuant to 26 U.S.C. 42, the rents shall be set pursuant to subparagraphs (D) and (E).
(vi) FUNDING.—In addition to any amounts appropriated for this purpose for fiscal year 2001, there are hereby authorized to be appropriated such sums as may be necessary in ensuing years to carry out this subparagraph. Any amounts appropriated shall remain available until expended."

(b) APPLICABILITY – This section shall take effect on, and the amendments made by this section are made on, and shall apply beginning upon, the date of the enactment of this Act, and shall supercede the regulations promulgated by the Secretary pursuant to subsection (d) of section 8 of the Housing Act of 1937 prior to the date of the enactment of this Act.

Andrea Kane [illegible]

Record Type: Record

To: Bruce N. Reed/OPD/EOP@EOP, Jennifer E. McGee/OPD/EOP@EOP, Anna Richter/OPD/EOP@EOP, Karin Kullman/OPD/EOP@EOP

cc: Margy Waller/OPD/EOP@EOP, Wendy Arends/WHO/EOP@EOP, Michael Deich/OMB/EOP@EOP, Francis S. Redburn/OMB/EOP@EOP

Subject: HUD FMR announcement

Cuomo will announce the Fair Market Rent (FMR) rule change on September 12th at a press event at HUD. Other participants include Mayor Anthony Williams and the Director of the Atlanta PHA (and probably others TBD). As you probably know, the decision was made not to make this into a White House event.

Here is a copy of a draft POTUS statement that Margy has prepared. We expect HUD will send the interim rule implementing this change to Congress sometime next week, with publication in the federal register expected around 10/1.

Draft White House Statement.fm

Here's a copy of HUD's draft press release with a proposed POTUS quote

HUDFMRPress Release090

The HUD release reflects DPC and OMB edits agreed to by HUD. We've told HUD we need to clear the POTUS quote. The quote is taken from the 1st graph of POTUS statement. Anna, can you get the statement cleared early Monday so HUD can finalize their press release?

HUD asked about putting the POTUS statement in their press packets on Tuesday. Is that OK w/ our press office? It might increase the chances that the President will make it into any stories written from HUD's event.

Draft White House Statement - Fair Market Rents

for release on September 12th – draft as of 9/8

I am pleased that, today, the Department of Housing and Urban Development is announcing a plan to increase payment levels for Section 8 Housing Choice vouchers. Raising the fair market rent level in certain difficult housing markets across the country will increase the pool of apartments affordable to low-income renters by more than 1.4 million units nationwide [ANNA et al – this really is units, not families]. This important initiative builds on the significant progress the Clinton-Gore Administration has made on affordable housing – boosting homeownership to record levels, transforming public housing, stemming the losses of privately-assisted housing, expanding the role of secondary markets, and enlarging the supply of housing vouchers for hard pressed working families.

This decision to change rent guidelines to reflect a changing market complements the 110,000 new housing vouchers secured through the efforts of my Administration working with Congress in the past two years. These housing vouchers subsidize the rents of low-income Americans, enabling them to move closer to job opportunities – many of which are being created far from where these families live. The new rent rule will give voucher holders more choice and mobility than they have under current regulations.

I urge Congress to again join us in making make more housing available to hard-pressed working families, including those moving from welfare to work, by funding my FY 2001 budget request for 120,000 new housing vouchers. In addition, our proposal for an innovative $50 million Housing Voucher Success Fund would enhance the effect of this fair market rent increase by helping families pay for the cost of transportation and other housing search services they need to access a wider range of available units. These budget proposals would expand the supply of affordable housing for the 5.4 million very-low income families who pay more than half their incomes for housing or live in severely inadequate units, including a growing number of families working full time.

More than fifty years ago, the nation committed itself to the goal of a "decent home and a suitable living environment for every American family." Today's action brings us a step closer toward that goal.

hud NEWS

Department of Housing and Urban Development – Andrew Cuomo, Secretary
Office of Public Affairs, Washington, DC 20410

HUD No. 00-223
(202) 708-0685
http://www.hud.gov/news.html

FOR RELEASE
Thursday
September 12, 2000

CUOMO EXPANDS RENTAL OPPORTUNITIES FOR HUNDREDS OF THOUSANDS LOW-INCOME FAMILIES

WASHINGTON - Housing and Urban Development Secretary Andrew Cuomo today announced a new national policy that will give hundreds of thousands of low-income families dramatically greater choice in where they can live. The new policy will increase the pool of apartments affordable to families receiving federal housing vouchers by more than 1.4 million units nationwide.

HUD will change how Section 8 rental assistance is calculated by increasing the so-called Fair Market Rent in communities where skyrocketing rents have left lower income families unable to find a decent and affordable place to live. In these rental hot-spots, HUD will now raise the basis for calculating an area's Fair Market Rent from the current 40th percentile rent to the 50th percentile.

"It's no secret that in some places, rents are rising twice as fast as inflation making it nearly impossible for our poorest neighbors to find a decent place to live," said Cuomo. "Simply changing how we do the math will open many more doors otherwise closed to families who are desperate for a better place to live."

President Clinton said, "This is an important initiative that builds on the significant progress the Clinton-Gore Administration has made on affordable housing – boosting homeownership to record levels, transforming public housing, stemming the losses of privately-assisted housing, expanding the role of secondary markets, and enlarging the supply of housing vouchers for hard pressed working families."

Fair Market Rents are used to calculate the maximum subsidy HUD provides families with Section 8 vouchers, also known as Housing Choice Vouchers. For the past five years, this subsidy

-more-standard was set at a level allowing voucher-holders access to 40% of newly-available rental units. By raising the Fair Market Rents to the 50th percentile, low-income tenants in high-rent markets will now be able to choose from 25% more rental units. As a result of the new policy, HUD estimates more than 1.4 million additional rental units would become available for families living in these communities.

The change will affect areas where the rental climate has been particularly challenging for low-income voucher-holders. Some of these communities contain concentrated pockets of poverty whose residents find it difficult to locate landlords outside their neighborhoods who will accept their vouchers. As a result of HUD's new policy, more families will be able to use their rental vouchers in neighborhoods of their choice and to move closer to job opportunities.

While the nation is experiencing unprecedented economic prosperity, a record 5.4 million very-low income families either pay more than half of their income for housing or live in severely substandard conditions, including a growing number of families working full-time. Over the past three years, rents have risen more than one-and-a-half times faster than inflation and twice as fast in some markets. According to HUD's *State of the Cities 2000* report, "rather than benefiting from the surging economy, low-income renters are left to compete for a dwindling supply of affordable rental housing on the private market." Some recipients are being forced to return their vouchers because they can't find an apartment that qualifies under HUD's current rent guidelines.

HUD's new policy will increase Section 8 rent levels where necessary to ensure more effective use of housing vouchers. "This is the right thing to do," said Cuomo. "In communities where people are struggling to use their vouchers, we will step in and make it easier for renters to use the assistance we provide to find a place for their families to call home."

Specifically, communities will qualify for the increased subsidy standard: (1) where, during a six-month period, fewer than three-fourths of the families issued vouchers succeed in using them to find housing; or (2) where voucher-holders are concentrated in a limited number of neighborhoods and affordable housing is not widely available throughout the metropolitan area.

In addition, to ensure that voucher-holders receive help locating suitable rental units, HUD's proposed FY2001 budget currently before Congress includes an innovative $50 million Housing Voucher Success Fund that will provide housing search assistance and other services that voucher-holder need to access a wider range of available units.

The Section 8 Housing Choice voucher program is the largest of HUD's three programs that assist low-income families with affordable rental housing. More than 1.4 million families receive Section 8 vouchers which they can use to find housing in the private market. Under Section 8, most Housing Choice voucher-holders pay no more than 30 percent of their income toward rent, with the federal government paying the balance.

##

Margy Waller
09/06/2000 08:28:30 PM

Record Type: Record

To: Andrea Kane/OPD/EOP

cc: Paul J. Weinstein Jr./OPD/EOP@EOP
Subject: FMR: deal and event; FHA proposal

After the call with HUD today, we (OMB and I) agreed to do an interim final rule with 3 conditions:

1) The $ to pay for the change comes out of Section 8 reserves in those places where they will need more than the existing $ for FY 2000

2) HUD agrees that it will propose a final rule and that any issues that OMB/DPC cannot resolve with HUD will be submitted to a resolution process (with Lew/Reed etc. if necessary) - this is to insure that the comments result in a final rule in January (and not a long term interim rule).

3) We agree to subject families who lose the higher FMR because the PHA is not improving to the same rule as other voucher holders (13-24 months maximum before the FMR is reduced and the family either makes up the difference out of pocket, or moves) if the rule affirmatively asks for comments on this decision.

Also, the event will highlight budget proposals - and may involve POTUS somehow. The event may be on the 13th instead of the 12th.

There will be a hearing on the 12th for the Lazio and Kerry bills - which will probably force HUD to come to a conclusion about the FHA initiative.

Francis S. Redburn 09/01/2000 04:29:46 PM

Record Type: Record

To: Michael Deich/OMB/EOP@EOP

cc: See the distribution list at the bottom of this message

Subject: FMR Increase - Issues

At the time you left for vacation, we expected an announcement of the targeted FMR increase to the 50th percentile within a few days. We received a draft proposed rule on Friday, 8/18. Our initial staff conference call, with HUD and DPC staff, was held on 8/21.

On 8/22, HUD staff informed us that the Secretary wanted to postpone announcement of the FMR increase until early September (now estimated to be 9/12 by DPC staff) and to implement the change immediately, i.e., as an *interim* rule. This acceleration would advance effective implementation schedule by up to 3 months (implementation would not be immediate because of a 60 day delayed effectiveness for major rules).

Cost

We believe that implementing the new policy as HUD now proposes would require up to $150 million in additional 2001 obligations (vs. less than $100 million if it were implemented as a proposed rule). In separate conversations with Alan and me, Dave Gibbons stressed the tightness of the House mark for contract renewals and that all 2000 resources (including expected recaptures this year) are committed and would not provide a carryover balance to begin 2001. Dave also notes that HUD is committing substantial recent recaptures in 2000 to "synchronization" of tenant-based subsidy contracts. If no reserves are available, then an increase in the Administration's 2001 request for contract renewals is apparently needed to fund the new policy. In our view, the FMR increase is likely to be a higher priority than synchronization, and therefore HUD has the option to fund the new policy without amending the budget by changing its priorities for the use of recaptures.

Procedure

We are concerned about bypassing the opportunity for public comment on what HUD acknowledges is a major rule. OIRA and DPC staff share these concerns, but with differing emphases. They may want to weigh in with their own points.

At HUD's request, OMB and DPC staff resumed dialogue with HUD staff last week on substantive issues. We held a series of conference calls and, working with the text of a proposed rule but recognizing that the procedural issue was to be resolved later, made good progress. We have resolved virtually all substantive issues and now have a substantially revised draft of the *proposed* rule. The rule preamble asks for comment on 2 issues, and in the last call we discussed adding a request for comment on a third issue:

1. One issue is whether the higher FMRs should apply to all HUD programs that use FMRs or just to the voucher program. Our position initially was that extending the increase to project-based subsidies did not provide the same benefits and unnecessarily added to costs. HUD argues (and we agree) that the additional cost is modest and temporary (because of pending changes in the way project-based subsidies are administered). HUD also argues that having two FMRs in the same location is potentially confusing. Our compromise was to include extension to other programs in the draft

proposed rule but invite comment on this issue.

2. A second issue is how best to allow state, regional, and multijurisdictional PHAs to justify and implement the success-rate payment standard. HUD invites proposals on how best to handle this technical problem.
3. The third issue which may require public comment is how to protect families from a reduction in the payment standard that reduces their subsidy when, after three years, an area FMR is reduced to the 40th percentile because of no progress in reducing deconcentration. We all agree that families with vouchers need some payment-shock protection but HUD is still considering whether to extend the protection beyond two years. Regardless of their initial choice, we believe that the rule should seek public comment on this issue.

Publication of the rule in proposed form also will allow time for FEMA (which uses the FMR to size its emergency housing subsidies) to consider the impact on their program before the change is implemented.

We believe that the proposed rule text is now in shape to be cleared almost immediately if HUD were to reverse its stance on procedure. HUD has asked whether the public comment period could be shortened from 60 days to 45 or 30 days if this were a proposed rule (which would have the effect of diminishing the difference in implementation timing between the two rules). OIRA staff (Lackey) have not agreed to this but indicated to HUD staff that there may be flexibility to shorten the comment period -- probably to 45 days.

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Andrea Kane/OPD/EOP@EOP

Margy Waller
08/30/2000 05:14:23 PM

Record Type: Record

To: Andrea Kane/OPD/EOP

cc:
Subject: FMR

The work is basically done. We are waiting for two things:

1) Language that lists the other housing programs impacted by a change in the FMR. This language would be added in the specific request for comments on the decision to use only one FMR even tho there are cost and policy impacts of doing so.

2) Language that clarifies what happens to individual voucher holders when the payment standard drops back to the 40th percentile. HUD has not decided whether to recommend something longer than the existing rule (the current and next PHA fiscal year). I urged them to do something longer - and asked that if they decide not to they add a specific request for comment on that decision too.

HUD understands that we would clear the rule with these changes if it is a proposed rule. One option explored in the call was a shorter than usual comment period (30 days is what HUD has in mind). OMB response was "maybe 45 days".

The rule is not being cleared until the principals talk and decide whether it is proposed or interim. Steve knows how we feel. He says if it is going as interim then we may need more time to clear it so that we can check with FEMA and HHS on unintended impacts, etc.

Margy Waller
08/28/2000 07:34:41 PM

Record Type: Record

To: Andrea Kane/OPD/EOP

cc:
Subject: FMR update

The conversation about the rule continues. The only remaining issues are 1) whether this will be a proposed or interim rule, and 2) the impact on policy and budget of a change in the FMR.

As to the nature of the rule - Deich and Cuomo will fight it out when they get back (end of this week, I think) assuming that Deich agrees with Steve, and unless we want to urge him to disagree with Steve.

The second issue is being researched at my request at HUD and at OMB. It turns out there are some impacts at DOD and FEMA for sure. We think the budget impact is small - but, I want to make sure we've asked everyone we can think of about potential impacts.

We have our next call scheduled for Wed at 5 to discuss impacts. Jeff and I plan to talk tomorrow about the paper. Do you have any comments?

Margy Waller
08/28/2000 12:14:07 PM

Record Type: Record

To: Francis S. Redburn/OMB/EOP@EOP

cc: See the distribution list at the bottom of this message
Subject: Re: Project-based Section 8 and raising the FMR

I don't feel like we have a full understanding of the impact of the FMR increase on other programs and policies. Do we know all of the programs it may impact?

Does anyone know how many HOME funded projects it would impact? My understanding is that HOME uses the FMR (or 30% of 65th percentile) as the rent standard - and there is frequently NOT a voucher attached to the units - therefore tenants themselves may be impacted by the rent increase.

Are there other federal policies/programs that use the FMR? Are there any outside HUD?

Have we heard anything from HUD about a call today?

Message Copied To:

adam hoffberg/omb/eop@eop
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lauren e. bloomquist/omb/eop@eop
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Margy Waller
08/21/2000 01:57:41 PM

Record Type: Record

To: Andrea Kane/OPD/EOP

cc:
Subject:

Here's what the President has said at least once before.

We recognize the importance of a decent home and suitable living environment as a national goal for every American family.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release June 21, 1994

NATIONAL HOUSING WEEK, 1994

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

Homeownership is a great anchor of safety and security in an uncertain world, one of America's most potent symbols of freedom and responsibility, of opportunity and prosperity. The Federal Housing Administration (FHA) has helped to make homeownership and decent affordable housing a reality for millions of Americans, who otherwise might not have had the opportunity.

On this, the 60th anniversary of the establishment of the FHA, our Nation must rededicate itself to renewing the effort upon which it embarked in 1934 to expand homeownership opportunities for millions of Americans. For shelter is not only a basic human need -- it also affects our physical and mental well-being, provides us with a sense of security, and is the focus of family living.

America is a country of many blessings -- a rich land, a thriving democracy, a diverse and determined people. Our culture is built on faith in freedom and on the spirit of community. In a nation of such infinite promise, the continuing problem of homelessness is a national tragedy. We must seek a proper balance of compassion and practicality if we are to end the terrible plight of our society's dispossessed.

Homelessness is not a short-term emergency. It demands longer term, broader solutions -- an array of services to meet the different needs of people who find themselves on the streets. Toward this end, my Administration is proposing a new rent structure for publicly assisted housing, and we are expanding on innovative ways to create a new partnership between cities and the Federal Government to provide those in need with critical social services and permanent housing.

As a direct result of the action taken by the Congress and President Franklin D. Roosevelt in creating the FHA, housing 2 finance was revolutionized, new standards of housing industry innovation and consumer protection were created, and the dream of homeownership for more than 21 million American families has since been realized through FHA funding. Housing is vital to the economic and social well-being of our Nation, and it is essential to the vitality and stability of our communities today, just as it was 60 years ago.

In the years since the Great Depression, the FHA has come to symbolize America's commitment to expanding opportunity for improved housing and homeownership. As the challenges facing the Nation during the birth of FHA were formidable, so are the challenges facing our Nation today.

We recognize the importance of a decent home and suitable living environment as a national goal for every American family. The contributions of the FHA toward the attainment of that goal are a crucial step in helping to save countless people from a lonely, often frightening existence. Working together, we can restore hope and dignity to the lives of the many Americans who have no place to call home.

NOW, THEREFORE, I, WILLIAM J. CLINTON, President of the United States of America, by virtue of the authority vested in me by the Constitution and laws of the United States, do hereby proclaim the week of June 20 through June 27, 1994, as "National Housing Week," and I call upon the people of the United States and interested groups and organizations to observe this week with appropriate activities and events. Let us renew the commitment made 60 years ago and rededicate our Nation to the unfinished business of housing and community development for all Americans.

IN WITNESS WHEREOF, I have hereunto set my hand

this twenty-first day of June, in the year of our Lord
nineteen hundred and ninety-four, and of the Independence of
the United States of America the two hundred and eighteenth.

WILLIAM J. CLINTON

# # #

Francis S. Redburn 08/24/2000 08:46:36 AM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:
Subject: Project-based Section 8 and raising the FMR

FYI> info. to digest for 4 p.m. conference call today.

---------------------- Forwarded by Francis S. Redburn/OMB/EOP on 08/24/2000 08:49 AM ---------------------------

"Jeffrey M. Lubell" <Jeffrey_M._Lubell@HUD.GOV>
08/24/2000 08:29:00 AM

Record Type: Record

To: Francis S. Redburn/OMB/EOP

cc:
Subject: Project-based Section 8 and raising the FMR

---------------------- Forwarded by Jeffrey M. Lubell/PDR/HHQ/HUD on 08/24/2000 08:37 AM ---------------------------

Jeffrey M. Lubell
08/23/2000 06:09 PM

To: francis _s._redburn@omb.eop.gov
cc:
Subject: Project-based Section 8 and raising the FMR

The following is a consolidated assessment of the impact of raising the FMR from the 40th percentile to the 50th percentile on the project-based Section 8 stock. We believe that there are two impacts. The first impact -- regarding AAFs -- is both modest and temporary in nature, as it will no longer apply to project-based contracts that expire. The second impact -- re mark-up-to-market -- is de minimis.

1. Annual Adjustment Factors for Existing Contracts

Section 8(c)(2)(A) limits the annual adjustment factor increase (AAF) in projects with rents above the FMR. In these cases, owners do not get a rent increase unless they can demonstrate that the higher rent would be at or below comparable local market rents. (Projects with rents below the FMR get an AAF without any showing of comparability.) The proposed FMR increase on a national basis would average 6.8% so that projects with existing Section 8 contracts and rents as high as 106.8% of the current 40th percentile FMR could be eligible to receive an AAF under the 50th percentile FMR. AAFs generally apply to Section 8 New Construction/Substantial Rehabilitation (but usually not to Section 202 projects with Section 8).

Arthur Reiger has done a cost estimate using the database of 540 properties that have FHA insurance and some project-based assistance developed for the PD&R report published last year on the status of the HUD-insured stock as of 1995. The data is really late 1995 and the FMRs used were for FY 1996. Abt Associates was the contractor for this study.

There were about 30,000 units in Section 8 NC/SR projects with FHA insurance that had rents between 100%-110% of the FMR in FY 1996. The national average FMR has risen about 10% by FY 2000. We are assuming that none of these projects had gotten an increase for one or two years and are now receiving AAF increases and would not be affected by an increase in the FMR.

There were about 60,000 units in Section 8 NC/SR with FHA insurance that had rents between 110%-120% of the FMR in FY 1996. We are assuming that none of these projects got an AAF increase since FY 1996 and that their rents would now be in the range of 100%-110% of the current FMR. We will assume that all of these projects would have rents under the FMR at the 50th percentile and would now be eligible to receive an AAF increase. However, some of these Section 8 NC/SR contracts have begun to expire (and increases for renewals operate without reference to the FMR) and about 5%-10% of the units in these projects don't have Section 8, so about 50,000 might now get an AAF.

We understand that the AAF for FY 2000 is about 3% so the typical rent increase would be about $20 per month or about $250 per year. However, these projects are also subject to the reduced AAF for stayers (the AAF is reduced by 1% where there is no turnover for a unit). Assuming a high annual turnover of 20%, the average rent increase would be about $184 per unit/per year or about $9.17 million per year for the 50,000 units. There are non-insured Section 8 NC/SR units that are subject to the AAF and doubling this figure to $18.34 million would seem reasonable to account for both insured and non-insured Section 8 projects subject to an AAF.

Since projects get their AAFs at different times during the year, the first year's total cost for an across-the-board increase to the 50th percentile should be about half or about $9 million. The proposed FMR increase will only affect areas where about 30% of tenant-based units are located. Assuming that a similar percentage of Section 8 project-based units are located in such areas, the maximum impact would be 30% of $18.34 million or about $5.5 million for a full year and less than $3 million for the first year. This first-year estimate assumes implementation as of the beginning of FY 2001.

These figures will decrease as more Section 8 NC/SR contracts expire and renewals are subject to comparability and OCAFs and not FMRs. Within a few years, most of the Section 8 contracts will have expired.

2. Mark Up to Market

Last year's Section 8 renewal legislation provided HUD with fairly broad authority to "mark up" rents on below market projects with expiring contracts. The mandatory "marking up" provisions include projects that would have market rents over 110% FMR and caps the "mark up" to 150% FMR. This range was based on the Office of Housing's notice, which was based, in part, on some analyses that PD&R did using the database described above.

Last year, we estimated that over time about 650 FHA insured, below market projects with about 45,000 Section 8 expiring units would be eligible because they would have market rents above 110%FMR. The estimated annual costs in additional Section 8 subsidies was about $50-$70 million. Some owners would prefer to opt out rather than "mark up" and so these estimates were probably high.

By raising the FMR, fewer projects and units would have market rents above the revised 110%FMR and be eligible for "marking up". This could result in a cost savings. Reviewing last year's numbers, it looks as if the total number of eligible units might drop from 45,000 units to maybe 25,000 units--or in theory $20-$30 million less per year. HOWEVER, it is likely that more owners would opt out if they are not subject to mark-up-to-market (and funds would be spent on Vouchers instead) and the legislation allows us to adjust the threshold of applicability for certain projects so it's likely the savings would be less than this figure.

On the flip side of the ledger, revising the FMR could increase "marking up" costs because projects that were capped at the lesser of comparable rents or 150% FMR might receive some additional rents. HOWEVER, there were very few projects that hit the 150% FMR cap at all (only about a 100 projects of the estimated 650 projects that might be" marked up"), and the legislation contains lots of exceptions to this cap, etc so we believe that the impact will be de minimus.

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Jeffrey_M._Lubell@HUD.GOV@ INET

CC: Margy

8/23 call from
a) Nancy Lessen -
new + improved Howard Glazer
in Secs office

b) Deborah Vincent

FMR Rule -

Their intent is not to upset OMB, just learned
that their lawyers think this might be possible to
do legally as interim w/ intent - because not issuing actual
rent. Law says rent must be at for pub. comment → if just policy, not rent, don't need comment!
Knew Michael is out til the 1st
want to keep moving as is to resolve the content
issue

running econ analysis - will get to OMB soon.

~~want~~ sensitive to budget implications

Hoping to award 60,000 fair share next week -
→ No ~~fan~~ fair - to avoid the voucher success issue
+ lateness.

→ Homeownership rule - early Sept.

Likely to move up HUD approp 2nd week of Sept.

FMR Want to have OMB sign off before announce it -
more comfortable

Rationale for interim Also - no longer rational

why interim for effect -
1. PHAs need time to gear up for success rate data
2. get it done while we're here.

don't think interim rule precludes comment -
also pay. indicator doesn't kick in for a year.
atweighted by 50^{th} percentile

Steve Redburn / Joe Lackey
Jeff Lubell called them - wants to keep working
on content - conf. call @

4pm call Thursday

Budget ~~[illegible]~~ concerns -
if effective sooner (at least 3 mos sooner),
then more likely that HUD can absorb costs
in '01. If very tight, wd need to amend.
estim \$120 - \$150m in BA - more for contracts
in '01 if more expensive
Jack Lew - OK as long as not requiring > \$
in '01
wd compete for other priorities

don't disagree w/ HUD on impact of this Δ - there's
more disagreement about reserves.

Rulemaking concern Joe has talked to Spolka
bias toward comment - expect substantial public interest/
comment. HUD argues this min helps provide relief/housing -
how urgent.

"Jeffrey M. Lubell" <Jeffrey_M._Lubell@HUD.GOV>
08/22/2000 01:19:46 PM

Record Type: Record

To: Margy Waller/OPD/EOP, Francis S. Redburn/OMB/EOP, Andrea Kane/OPD/EOP

cc: See the distribution list at the bottom of this message
Subject: FMR Postponement

The Secretary has asked that we postpone the announcement of the new FMR policy until early September. The postponement is intended to achieve two objectives: (1) to increase the media and congressional attention paid to the announcement by allowing for greater congressional participation; and (2) to allow time for discussions about the possibility of issuing this as an interim rather than a proposed rule.

We appreciate all of your efforts to review this rule under a compressed time frame. Since we needed to clear the rule anyway, however, we hope that none of the work will be wasted.

The Secretary feels strongly that the rule should be interim rather than proposed. We should meet soon to discuss what would be involved in implementing this as an interim rule.

Thanks.

Message Copied To:

Deborah Vincent <Deborah_Vincent@HUD.GOV>
"Nancy F. Lesser" <Nancy_F._Lesser@HUD.GOV>
"Camille E. Acevedo" <Camille_E._Acevedo@HUD.GOV>
"Frederick J. Eggers" <Frederick_J._Eggers@HUD.GOV>
Rod Solomon <Rod_Solomon@HUD.GOV>

Margy Waller
08/21/2000 02:21:20 PM

Record Type: Record

To: Andrea Kane/OPD/EOP

cc:

Subject: Re: PROPOSED OMB-HUD CONFERENCE CALL TODAY ON FMR RULE

FYI

---------------------- Forwarded by Margy Waller/OPD/EOP on 08/21/2000 02:21 PM ---------------------------

Francis S. Redburn 08/21/2000 02:01:45 PM

Record Type: Record

To: Margy Waller/OPD/EOP@EOP

cc: james f. jordan/omb/eop@eop, lauren e. bloomquist/omb/eop@eop, joseph f. lackey jr./omb/eop@eop

Subject: Re: PROPOSED OMB-HUD CONFERENCE CALL TODAY ON FMR RULE

Good question. The entire policy discussion and the problem context in which alternatives were discussed related only to housing vouchers. HUD staff initially addressed possible cost implications for other programs that reference the FMR, but concluded that these costs would be rather small. However, at no time do I recall a suggestion or legal argument that HUD should -- or was required to --- apply the FMR increase to other programs.

8/21 Steve, Tim, Lauren Lundquist
Deborah Vincent, Jeff Lubell, Jennifer Bonner

FMR Release

HUD: wants to include list of cities to show impacts
Jeff - census data not likely to Δ, concentration data

39 areas = over 300 housing authorities

Senator Feinstein asking what the ~~fin~~ rule will do because she wants to do

Agree to do a Q + A w/ examples of the areas that will be affected if the rule

25% = 300,000 - 400,000 families
about 30% of voucher holders covered by
will affect "hundreds of thousands" ..

Margy Waller
08/17/2000 03:50:13 PM

Record Type: Record

To: Andrea Kane/OPD/EOP

cc:
Subject: Re: FMR rollout documents

fyi

--------------------- Forwarded by Margy Waller/OPD/EOP on 08/17/2000 03:50 PM ---------------------------

"Jennifer M. Quinn" <Jennifer_M._Quinn@HUD.GOV>
08/17/2000 02:18:51 PM

Record Type: Record

To: Margy Waller/OPD/EOP

cc: "Nancy F. Lesser" <Nancy_F._Lesser@HUD.GOV>, Deborah Vincent <Deborah_Vincent@HUD.GOV>, Michael Freedberg <Michael_Freedberg@HUD.GOV>, "Brian E. Sullivan" <Brian_E._Sullivan@HUD.GOV>
Subject: Re: FMR rollout documents

Here are the statement and the 1 pager revised per your comments. The revisions are marked.

Two notes on the more substantive questions you raised.
We are OK with the term "Section 8 Housing Choice vouchers" but are reluctant to use the choice term alone fo fear that no one will know what it is. Also - we want to correct the view that "Section 8 does not work."
On the number of families assisted, Jeff tell me that there are more funded units than are actually being used. We went with the lower, more conservative number.

(See attached file: Draft White House Statement2b.short.doc)(See attached file: fmr 1 pager.doc)

Also, here is a draft press release. Please note that the number of cities on the second list is likely to increase - we are still getting information in from the field.

(See attached file: FMR #4.doc)

Margy_Waller@opd.eop.gov on 08/16/2000 08:59:21 PM

To: Jennifer M. Quinn/SECY/HHQ/HUD@HUD
cc: Alan_B._Rhinesmith@omb.eop.gov, James_F._Jordan@omb.eop.gov, Francis_S._Redburn@omb.eop.gov, Michael_Deich@omb.eop.gov, Andrea_Kane@opd.eop.gov
Subject: FMR rollout documents

(See attached file: HUD edits.FMR.doc)

Jennifer - Thank you for getting these over to me earlier today. Our comments are attached. Please forward them to Deborah Vincent for me.

Call with any questions, etc. We'll look forward to seeing the next draft.

- Margy

- HUD edits.FMR.doc

- Draft White House Statement2b.short.doc

- fmr 1 pager.doc

- FMR #4.doc

Margy Waller
08/08/2000 07:13:25 PM

Record Type: Record

To: Andrea Kane/OPD/EOP

cc:
Subject: rollout: Section 8 Fair Market Rate increase

Sorry! Meant to CC you.

--------------------- Forwarded by Margy Waller/OPD/EOP on 08/08/2000 07:13 PM ---------------------------

Margy Waller
08/08/2000 06:48:30 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc: Jennifer E. McGee/OPD/EOP@EOP
Subject: rollout: Section 8 Fair Market Rate increase

We spoke to HUD staff this afternoon about the rollout plans for the Section 8 FMR increase.

HUD staff would like to plan an event for either 8/22 or 8/24. We told them about the tentative welfare reform anniversary event on 8/22, and encouraged them to plan for 8/24. (The HUD rule would make a nice follow-up to the welfare event because of the potential to support more welfare to work moves.)

They believe that there is a broad constituency for this announcement: Congress, low-income and fair housing advocates, cities, PHAs, anti-poverty/welfare reform advocates and workers, and realtors. The event would be a press conference with the Secy, a director of a PHA that would benefit, a tenant who might be able to move to a better neighborhood, and a member(s) of Congress - if available. Also, there is a possibility of amplification in impacted cities like LA, Boston, SF.

HUD attorneys are drafting the proposed rule now. No one was certain about timing for sending the proposed rule to OMB (they'll get back to us on that), but they thought maybe by the end of the month. The content of the announcement will depend on the status of the proposed rule.

Message Sent To:

Bruce N. Reed/OPD/EOP@EOP
Michael Deich/OMB/EOP
Barbara Chow/OMB/EOP@EOP
Wendy Arends/WHO/EOP@EOP
Anna Richter/OPD/EOP@EOP

Not sent.

Andrea Kane

Record Type: Record

To: Bruce N. Reed/OPD/EOP@EOP
cc: barbara chow/omb/eop@eop, jennifer e. mcgee/opd/eop@eop, cathy r. mays/opd/eop@eop, margy waller/opd/eop@eop
bcc:
Subject: Re: HUD memo

Bruce, per my voice mail, both we and OMB see pros and cons on how much attention this deserves and whether it's really something the President should announce. It's good but not great policy - mainly driven by need to eliminate an argument by the Hill about why we shouldn't get more vouchers because the current ones aren't working so well. We think the approach we negotiated with HUD is better targeted and more responsible than their orginal proposal to raise FMRs across the board. It's our understanding that HUD would need to do this by rule, though now that we've reached consensus on a proposal, we want to push back again to see if it could be done administratively. Either way, if the President were to announce, he'd need to direct HUD to take actions (either administrative or regulatory) to implement the proposal (otherwise, all we have to announce is a decision to address the problem). If this decision is delaying getting the memo into staff secretary, couldn't we just revise the
Bruce N. Reed

Bruce N. Reed
08/04/2000 05:24:37 PM

Record Type: Record

To: Andrea Kane/OPD/EOP@EOP
cc: barbara chow/omb/eop@eop, jennifer e. mcgee/opd/eop@eop, cathy r. mays/opd/eop@eop, margy waller/opd/eop@eop
Subject: Re: HUD memo

Do we want attention for this or not?

Margy Waller
08/07/2000 06:37:58 PM

Record Type: Record

To: Andrea Kane/OPD/EOP

cc:
Subject: FHA proposal

The concept is essentially the same as the budget proposal for vouchers linked to LIHTC and other subsidized projects. The only difference is the use of the intermediaries. The intermediaries would compete for authority to award vouchers to eligible deals.

The budget proposal only required language for appropriations. We might also want language for the intermediary role here.

The $5 B would provide for 60,000 vouchers - a lot more than the budget proposal. There is a cost in the first year, and if there is legislation it will get scored. It only gets scored for the first year - and then it's in the base.

However, depending on receipts means that there may not be funding to cover the cost in subsequent years and the surplus would be used. Steve thought there might be a way to do this administratively in which case it would not get scored - he had not thought of that before.

But, all of that depends on having receipts which we don't think we will. It feels like it has turned into a pointless conversation.

He said that Michael met with Jack and that Jack thought the draft was basically OK and a new draft is being done today. Since we haven't seen it - I'll drop a note to both of them.

7-31-00

stamps policy and instituted a corrective action plan. As you know, both USDA and HHS have also taken a number of steps to enforce existing laws, provide guidance to states on how to improve practices, and propose bonuses to states that improve participation of eligible families in food stamps and Medicaid.

10. **Housing -- HUD Fair Market Rents Proposal:** Secretary Cuomo plans to send you a memo recommending raising the Fair Market Rent (FMR) used to determine the limit on Section 8 rental assistance. HUD believes that in certain markets, raising the FMR will increase the number of people who are able to find housing with a Section 8 voucher. A recent Washington Post story highlighted difficulties with using Section 8 vouchers in booming markets such as Northern Virginia. Where local conditions limit voucher holders' success in finding an apartment, HUD proposes automatically approving a Public Housing Authority's request to increase the FMR from the 40th to the 50th percentile of local rent levels. (Currently, HUD requires PHAs to develop substantial justification to raise their payment standards). The announcement would be an opportunity to press Congress to fund the $50 million Voucher Success Fund included in your FY 2001 budget that PHAs could use to help address these issues. The memo may also present HUD's proposal on how to spend FHA surplus funds. As you directed in March, we've been working closely with OMB and HUD to assess available funds and develop proposals for using these funds to expand affordable housing; however, we have not yet reached a final consensus.

Would like
something
we should do [illegible]
[illegible] next wk
ASAP —

Andrea

THE WHITE HOUSE

WASHINGTON

Date 7.28.00

To: LEW, REED, PODESTA

From: The Staff Secretary

ANY COMMENT?

'00 JUL 28 PM 6:59

U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-0001

THE SECRETARY

July 28, 2000

MEMORANDUM FOR: President William J. Clinton

FROM: Secretary Andrew Cuomo

AC

RE: Washington Post Story on Affordable Housing Subsidy

On July 25, the Washington Post highlighted the lack of affordable housing in Northern Virginia in a front-page story. In an ironic twist, we have become victims of our own success. The record economic expansion has exacerbated the affordable housing crisis in some areas of the country. We now have the worst affordable housing need in history – a record 5.4 million families. The need for affordable housing is highest in those markets with the "hottest" economies. Typical of these areas, Northern Virginia is experiencing an economic boom that has revitalized the region, but at the same time driven up housing costs. We have done much to make housing more affordable over the last four years, and with renewed public trust in HUD, this year the Administration is proposing the best HUD budget in twenty years. We are requesting $32 billion for FY2001, including 120,000 new housing vouchers, full funding of the New Markets Initiative and increased funding for new forms of Senior Housing.

Still, there is more we can and must do to address the shortage of affordable housing. We recommend two immediate actions described below. These actions will address this crisis, and further establish your legacy in the housing arena.

1. **Increase the Fair Market Rent (FMR) for all units receiving federal rental assistance in high cost markets.** In areas around the country where prices are rising rapidly, the current rent subsidy structure does not work. In these selected areas, Section 8 vouchers are inadequate and ineffective. Since the Section 8 rental assistance program was created in 1974, Congress has twice lowered rent payments (dropping from 50 percent ultimately to 40 percent of the average area rent). Our Administration reduced rents in 1994. By raising payments back to the original 50 percent level in high cost areas, the Administration would help the families featured in the Washington Post story and thousands like them around the country struggling to find decent, affordable housing. This policy has been advocated by the affordable housing community, bi-partisan members of Congress, and approved within the Administration. I believe you should announce this initiative which will highlight our housing accomplishments and the strength of the economy.

2. **Announce a plan to dedicate $5 billion[1] in projected revenue generated by the Federal Housing Administration (FHA) over the next five years to promote homeownership and produce new affordable rental units.** While the Section 8 rent increase will be a positive step, the systemic solution lies in an accompanying production program to increase the supply. The FHA is our primary housing production vehicle. The Administration has completed a remarkable turnaround of FHA – increasing the economic value of the Fund from negative $2.7 billion in 1991 to a record $16.7 billion in FY1999. The turnaround has generated $5 billion above projections. Pursuant to your previous instructions, HUD has been working with the Office of Management and Budget (OMB) and the Domestic Policy Council (DPC) to develop a plan, to be completed by August 14. We expect the principal elements of this plan to propose the dedication of these surplus funds[2] to the following uses:

- Create the 21st Century Housing Fund with $4 billion in FHA profits. The main housing need is now affordable rental housing. Just as your New Markets Initiatives will leverage private capital to create new employment in places left behind, the 21st Century Housing Fund will leverage private capital to create new rental housing. HUD will use these funds to partner with eligible organizations, including State and local governments, Public Housing Authorities, for-profit and nonprofit financial intermediaries (such as the AFL-CIO Housing Trust). Through existing public housing, HOME and other HUD programs, these partners have a demonstrated ability to create affordable housing. Building on their experience, these organizations will couple Fund investments with existing public and private sources of financing on a minimum 4:1 basis to leverage federal resources five-fold.

  With an annual investment of $800 million ($4 billion over five years) from FHA and a typical Fund investment of 3 percent mortgage capital, the Fund will spur the production of approximately 120,000 units per year (600,000 units over five years). In order to ensure this fund helps the neediest Americans, 15 percent of the funding, or $120 million annually ($600 million over five years), will be directed to create permanent housing for homeless persons through HUD's local Continuum of Care providers throughout the nation.

- Invest $1 billion in fostering homeownership efforts and continuing to grow the highest homeownership rate in history. We propose to:

  - Reduce the FHA premium on future single family insured loans by approximately $750 million over the next five years. With a projected 1 million borrowers annually,

---

[1] Our independent auditors, Deloitte & Touche, have confirmed this number. We are working with OMB to provide that verification.

[2] Future estimates of FHA surplus profits may vary from $5 billion, in which case funds that are identified as available in those estimates will be proportionately allocated among component parts of the plan.

this would lower the cost of achieving the dream of homeownership for 5 million American families.

- Distribute $250 million to current homeowners who have FHA-insured mortgages. Since 1935, FHA has operated much like a cooperative, paying dividends to holders of its mortgages during years when the FHA Fund is fiscally sound. With the Fund nearly bankrupt, in 1990 Congress ordered HUD to suspend these payments until FHA returned to sound financial condition. With FHA healthy again, I propose to restore our commitment to those who have contributed to the turnaround of FHA.

This proposal perfectly captures the spirit of the Administration's initiative to reinvent government. Better management turned around the FHA from a money loser to a money maker. The plan does more with less by using FHA profits to fully fund the $5 billion plan at no cost to taxpayers. This is the fruit of the Administration's hard work to reform HUD, and we should dedicate it to help more Americans buy a home of their own or find decent, affordable housing. Now is the time to capitalize on FHA's and the nation's prosperity.

This plan would also define and conclude your housing and urban development legacy. You reinvented HUD, brought the "third way" to urban renewal with Empowerment Zones and new markets, you reached the highest homeownership rate in history, and you adequately addressed affordable housing issues with changes to Section 8 and with the $5 billion affordable production program as the centerpiece. This would eliminate a potential vulnerability and frame an intelligent housing agenda. I suggest that both these initiatives be White House announcements. The timing is perfect to make these major announcements before the Senate convenes.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

GENERAL GOVERNMENT AND FINANCE
Old Executive Office Building
Room 246
Fax Number: (202) 395-6988

FACSIMILE TRANSMISSION

Date: 7-26-00 **Number of pages including cover:** ______

Deliver To: Rhinesmith, Redburn, Kane, Waller

From:

✓ **Michael Deich**
Associate Director **(202) 395-3120**

____ **Sherron Duncan** **(202) 395-3120**

____ **Janis Coughlin** **(202) 395-7512**

Comments: ____________________

U. S. Department of Housing and Urban Development
Washington, DC 20410-8000

Tel: (202) 708-2236 **Fax: (202) 708-6092 or 4087**

FACSIMILE TRANSMITTAL

DATE: 7-26-00

TO: Michael Deich, Associate Director for General Government and Finance

ORGANIZATION:

FAX: 202-395-6988 **TELEPHONE:** 202-395-3120

FROM: Nancy Lessar, Special Counsel to the Secretary

MESSAGE: Dear Michael,

Here is the final draft. We plan to send it to The President by COB today, so I'd appreciate your comments.

Nancy Lessar

NUMBER OF PAGES (including this page):

If you experience problems receiving this facsimile, please call (202)708-2236

MEMORANDUM FOR: President Clinton

FROM: Secretary Cuomo

RE: Washington Post Story on Affordable Housing Subsidy

Today the Washington Post highlighted the lack of affordable housing in northern Virginia in a front page story. In an ironic twist, we have become victims of our own success. The record economic expansion under your Administration has exacerbated the affordable housing crisis in some areas of the country. We now have the worst affordable housing need in history – a record 5.4 million families. The need for affordable housing is highest in those markets with the "hottest" economies. Typical of these areas, Northern Virginia is experiencing an economic boom that has revitalized the region, but at the same time driven up housing costs. We have done much to make housing more affordable over the last four years and with renewed public trust in HUD, this year the Administration is proposing the best HUD budget in twenty years. With your help, we are requesting $32 billion, including 120,000 new housing vouchers, full funding of the New Markets Initiative and increased funding for new forms of Senior Housing.

Still, there is more we can and must do to address the shortage of affordable housing. We recommend two immediate actions described below. These actions will address this crisis, and establish your legacy in the housing arena.

1. **Increase the Fair Market Rent (FMR) for all units receiving federal rental assistance in high cost markets.** In communities around the country where prices are rising rapidly, the current rent subsidy structure does not work. In these areas, Section 8 vouchers are inadequate and ineffective. Since the Section 8 rental assistance program was created in 1974, Congress has twice lowered rent payments (dropping from 50 percent ultimately to 40 percent of the average area rent). Our Administration reduced rents in 1994 as a budget device. By raising payments back to the original 50 percent level in high cost areas, the Administration would help the families featured in the Washington Post story and thousands like them around the country struggling to find decent, affordable housing. Not to increase the FMR is to render largely ineffective our main housing program. overstates the impact!

2. **Announce a plan to dedicate $5 billion[1] in projected revenue generated by the Federal Housing Administration (FHA) over the next five years to promote homeownership and produce new affordable rental units.** The Administration has completed a remarkable turnaround of FHA – increasing the economic value of the Fund from negative $2.7 billion in 1991 to a record $16.7 billion in FY1999. Pursuant to your previous instructions, HUD, working with the Office of

[1] Future estimates of FHA surplus profits may vary from $5 billion, in which case funds that are identified as available in those estimates will be proportionately allocated among component parts of the plan.

Management and Budget (OMB) and the Domestic Policy Council (DPC), has developed a plan to dedicate these surplus funds to the following uses:

- Create the 21st Century Housing Fund with $4 billion in FHA profits. The main housing need is now affordable rental housing. Just as your New Markets Initiatives will leverage private capital to create new employment in places left behind, the 21st Century Housing Fund will leverage private capital to create new rental housing. HUD will use these funds to partner with eligible organizations, including State and local governments, Public Housing Authorities, for-profit and nonprofit financial intermediaries (such as the AFL-CIO Housing Trust). Through existing public housing, HOME and other HUD programs, these partners have a demonstrated ability to create affordable housing. Building on their experience, these organizations will couple Fund investments with existing public and private sources of financing on a minimum 4:1 basis to leverage federal resources five-fold.

  With an annual investment of $800 million ($4 billion over five years) from FHA and a typical Fund investment of 3 percent mortgage capital, the Fund will spur the production of approximately 120,000 units per year (600,000 units over five years). In order to ensure this fund helps the neediest Americans, 15 percent of the funding, or $120 million annually ($600 million over five years), will be directed to create permanent housing for homeless persons through HUD's local Continuum of Care providers throughout the nation.

- Invest $1 billion in fostering homeownership efforts and continuing to grow the highest homeownership rate in history. We propose to:

  - Reduce the FHA premium on future single family insured loans by approximately $750 million over the next five years. With a projected 1 million borrowers annually, this would lower the cost of achieving the dream of homeownership for 5 million American families.

  - Distribute $250 million to current homeowners who have FHA-insured mortgages. Since 1935, FHA has operated much like a cooperative, paying dividends to holders of its mortgages during years when the FHA Fund is fiscally sound. With the Fund nearly bankrupt, in 1990 Congress ordered HUD to suspend these payments until FHA returned to sound financial condition. With FHA healthy again, I propose to restore our commitment to those who have contributed to the turnaround of FHA.

This proposal perfectly captures the spirit of the Administration's initiative to reinvent government. Better management turned around the FHA from a money loser to a money maker. The plan does more with less by using FHA profits to fully fund the $5 billion plan at no cost to taxpayers. This is the fruit of the Administration's hard work to reform HUD, and we should dedicate it to help more Americans buy a home of their own or find decent, affordable housing. Now is the time to capitalize on FHA's and the nation's prosperity. I suggest that both these initiatives be White House announcements.

Executive Office of the President
Office of Management and Budget
Housing Branch

Number of page(s) following: ______

Date: 7 / 26 / 00

To: Andrea Kane / Margy Waller

Fax Number: 67431

Office Number: ______

Comments: per MD email

Steve Redburn

Fax Number : (202) 395-1307

Office Number: (202) 395-4610

OFFICE OF THE ASSISTANT SECRETARY FOR
HOUSING-FEDERAL HOUSING COMMISSIONER

FAX TRANSMISSION

DATE: 7/24/00

NUMBER OF PAGES (including this page) 3

TO: MICHAEL DEICH

FROM: MATT FRANKLIN

PHONE:

PHONE:

The phone number of this fax machine is (202)708-2580.

MICHAEL - DRAFT MEMO TO THE PRESIDENT - F.Y.I. + FOR REVIEW.

MATT

DRAFT FOR REVIEW

Timing?

MEMORANDUM FOR: President Clinton

FROM: Secretary Cuomo

RE: Washington Post Story on Affordable Housing Subsidy

Today the Washington Post highlighted the lack of affordable housing in northern Virginia in a front page story. In an ironic twist, we have become victims of our own success. The record economic expansion under your Administration has exacerbated the affordable housing crisis in some areas of the country. Typical of these areas, Northern Virginia is experiencing an economic boom that has revitalized the region, but at the same time driven up housing costs. We have done much to make housing more affordable over the last four years and with renewed public trust in HUD, this year the Administration is proposing the best HUD budget in twenty years. With your help, we are requesting $32 billion, including 120,000 new housing vouchers, full funding of the New Markets Initiative and increased funding for new forms of Senior Housing.

voucher success fund

Still, there is more we can do to address the shortage of affordable housing highlighted by the Washington Post. By taking two immediate actions described below, you can cement an unprecedented affordable housing legacy.

1. **Increase the Fair Market Rent (FMR) for all units receiving federal rental assistance in high cost markets.** In communities around the country where prices are rising rapidly, the current rent subsidy structure does not work. Since the Section 8 rental assistance program was created in 1974, Congress has twice lowered rent levels (dropping from 50 percent ultimately to 40 percent of the average area rent). By raising payments back to the original 50 percent level, the Administration would help the families featured in the Washington Post story and thousands like them around the country struggling to find decent, affordable housing.

   always

   too strong ?

   Sounds like across the board rather than targeted

2. **Announce a plan to dedicate $5 billion[1] in projected revenue generated by the Federal Housing Administration (FHA) over the next five years to promote homeownership and produce new affordable rental units.** The Administration has completed a remarkable turnaround of FHA – increasing the economic value of the Fund from negative $2.7 billion in 1991 to a record $16.7 billion in FY1999. Pursuant to your previous instructions, HUD, working with the Office of Management and Budget (OMB) and the Domestic Policy Council (DPC), has developed a plan to dedicate these surplus funds to the following uses:

   brief Bruce

   - Invest $1 billion in homeownership. Today, the Nation boasts the highest homeownership rate in history. Some communities, however, have been left out of this success. And while the minority homeownership rate has been growing

[1] Future estimates of FHA surplus profits may vary from $5 billion, in which case funds that are identified as available in those estimates will be proportionately allocated among component parts of the plan.

faster than any other segment of the population, it still lags too far behind. No vehicle reaches more first-time and minority homeowners better than FHA. Therefore, I propose part of the funds generated by FHA be invested as follows:

reduces profit

$150 per mortgage

- Reduce the FHA premium on future single family insured loans by approximately $750 million over the next five years. With a projected 1 million borrowers annually, this would lower the cost of achieving the dream of homeownership for 5 million American families. by how much.

how does this work? a few $ per mo

- Distribute $250 million to current homeowners who have FHA-insured mortgages. Since 1935, FHA has operated much like a cooperative, paying dividends to holders of its mortgages during years ~~when the FHA~~ Fund is fiscally sound. With the Fund nearly bankrupt, in 1990 Congress ordered HUD to suspend these payments until FHA returned to sound financial condition. With FHA healthy again, I propose to restore our commitment to those who have contributed to the turnaround of FHA.

?? send check to current policy holders

5 m policy holders $50/one time

more relevant to voucher connection

affordable

- Create the 21[st] Century Housing Fund with $4 billion in FHA profits. Just as your New Markets Initiatives will leverage private capital to create new employment in places left behind, the 21[st] Century Housing Fund will leverage private capital to create new rental housing. HUD will use these funds to partner with eligible organizations, including State and local governments, Public Housing Authorities, for-profit and nonprofit financial intermediaries (such as the AFL-CIO Housing Trust). Through existing public housing, HOME and other HUD programs, these partners have a demonstrated ability to create affordable housing. Building on their experience, these organizations will couple Fund investments with existing public and private sources of financing on a minimum 4:1 basis to leverage federal resources five-fold. so we cd say this was largest investment in $20B in affordable rental housing

Tribal housing entities

With an annual investment of $800 million ($4 billion over five years) from FHA and a typical Fund investment of 3 percent mortgage capital, the Fund will spur the production of approximately 120,000 units per year (600,000 units over five years). In order to ensure this fund helps the neediest Americans, 15 percent of the funding, or $120 million annually ($600 million over five years), will be directed to create permanent housing for homeless persons through HUD's local Continuum of Care providers throughout the nation.

formula? intermediaries.

This proposal perfectly captures the spirit of the Administration's initiative to reinvent government. It does more with less by using FHA profits to fully fund the $5 billion plan at no cost to taxpayers. This is the fruit of the Administration's hard work to reform HUD, and we should dedicate it to help more Americans buy a home of their own or find decent, affordable housing. With "worst case needs" for housing at their highest level in history – 5.4 million families – now is the time to capitalize on FHA's and the nation's prosperity. I suggest that both these initiatives be White House announcements.

Timing

+25 m for 30 Hz

Margy Waller
07/28/2000 05:40:48 PM

Record Type: Record

To: Francis S. Redburn/OMB/EOP@EOP
cc: See the distribution list at the bottom of this message
bcc:
Subject: Re: Revised Consensus Proposal

Looks good to DPC.
Francis S. Redburn

Francis S. Redburn 07/28/2000 02:26:52 PM

Record Type: Record

To: Michael Deich/OMB/EOP@EOP, Alan B. Rhinesmith/OMB/EOP@EOP, James F. Jordan/OMB/EOP@EOP, Adam Hoffberg/OMB/EOP@EOP

cc: Margy Waller/OPD/EOP@EOP, Andrea Kane/OPD/EOP@EOP, Janis A. Coughlin/OMB/EOP@EOP, Sherron Duncan/OMB/EOP@EOP
Subject: Revised Consensus Proposal

Here is the final summary of the FMR increase agreement. Last set of changes, which I went over with Jeff at 11:30, reflects his conversations with the program offices about practicalities/legalities. Nothing substantive. Please call if you have a question about the wording of any part. Some details are deferred to the rule-making stage.

---------------------- Forwarded by Francis S. Redburn/OMB/EOP on 07/28/2000 02:27 PM ---------------------------

"Jeffrey M. Lubell" <Jeffrey_M._Lubell@HUD.GOV>
07/28/2000 12:53:51 PM

Record Type: Record

To: Francis S. Redburn/OMB/EOP, Margy Waller/OPD/EOP

cc: Deborah Vincent <Deborah_Vincent@HUD.GOV>
Subject: Revised Consensus Proposal

Attached is a revised draft that reflects the minor changes I discussed in separate conversations this morning with Steve and Margy. Hopefully, this is acceptable to all.

In my absence, please convey any final agreement on the details or remaining concerns to Deborah Vincent: x 6966.

I will return on Thursday.

Thanks.

(See attached file: July 28, 2000 Consensus Proposal on FMRs.doc)

- July 28, 2000 Consensus Proposal on FMRs.doc

Message Copied To:

michael deich/omb/eop@eop
alan b. rhinesmith/omb/eop@eop
james f. jordan/omb/eop@eop
adam hoffberg/omb/eop@eop
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sherron duncan/omb/eop@eop

July 28, 2000 Consensus Proposal on FMRs

Success Rates:

PHAs that have raised payment standards to 110 percent of the FMR but nevertheless have an average success rate over six months below 75 percent will be eligible to apply for authority to utilize payment standards based on the 50th percentile of rents of recent movers. PHAs that satisfy this standard and are high or standard performers on SEMAP will be eligible for the increase as a matter of right. HUD will have discretion regarding whether to approve the requests of PHAs that meet this standard but have troubled Section 8 programs, as measured by SEMAP.

<u>Related Issues</u>

- In its announcement of the new policy, HUD will stress that improving success rates requires both higher FMRs and the provision of better housing search services. HUD will call for Congress to approve its proposal for a $50 million housing voucher success fund.

- There will be no requirement that PHAs provide a certain level of services as a condition for receiving the higher FMRs. However, PHAs that seek and obtain the ability to use payment standards based on the 50th percentile will be held accountable through the establishment of a performance measure added to SEMAP. PHAs that receive the higher payment standards will be expected to do whatever is required to achieve a 75 percent success rate within two years. If they fail to meet the measure, they will lose 5 points on SEMAP.

- Subject to the availability of appropriations through the Housing Voucher Success Fund, HUD will provide funding for technical assistance and for services (search assistance, landlord outreach, payments to landlords, etc.) to help PHAs that have received a higher payment standard achieve the performance objective.

- As a condition for PHAs to receive the higher payment standards, they will also be required to agree to work cooperatively with any agencies HUD funds in the future to provide counseling services to voucher holders in their areas and must sign an agreement to partner with any applicant to HUD for such funding.

- PHAs that satisfy the criteria will receive approval to use payment standards based on the 50th percentile. HUD will notify PHAs of the dollar value of the 50th percentile, by bedroom size. PHAs will have discretion to adopt payment standards within 90 to 110 percent of this new benchmark. Following HUD's normal procedures for approval of higher payment standards: (a) they will phase out over time as the 40th percentile increases from year to year, but (b) PHAs remain free to reapply to use the higher payment standards.

- If a PHA satisfies the criteria for an increased payment standard, but does not yet have a SEMAP score, the PHA's request will be approved unless HUD has reason to doubt the administrative competence of the PHA.

- The approval of requests for higher payment standards is subject to HUD's satisfaction with the quality of PHAs' data reporting.

- To improve the quality of Section 8 briefings, HUD will develop a video that provides a brief overview of how the Section 8 program works and tips for how to locate and secure housing. PHAs that receive an increase will be required to show this video to new participants at the initial briefing. HUD will consider whether to require all PHAs nationwide to use this video during initial briefings.

- HUD will make release of the $10 million in ROC funds an agency priority. The target date for release of the funds will be no later than December 31, 2000. Both CBOs and FBOs will be eligible for participation.

Mobility / Deconcentration

FMRs will be increased in all metropolitan areas that satisfy both the mobility and deconcentration tests.

A. *Mobility.* Using data from the most recent decennial census, we will analyze the proportion of census tracts in each FMR area in which at least 30 percent of two-bedroom units have rents below the current FMR. An FMR area satisfies the mobility prong when this analysis shows that fewer than 70.5 percent of census tracts are accessible to voucher-holders at the current FMR.

B. *Deconcentration.* An FMR area satisfies the deconcentration prong when current program data show that more than 25 percent of voucher-holders in the metropolitan area live in five percent or less of all census tracts in the MSA.

Related Issues

- To qualify for the increase, metropolitan areas must have at least 100 census tracts.

- PHAs have the option not to implement the 50th percentile FMR and instead utilize a 40th percentile FMR. One way to accomplish this would be to approve such PHAs' requests to use lower payment standards.

- PHAs that decline to exercise their option to go back to the 40th percentile will be held accountable through SEMAP. For such PHAs, the bonus measure on deconcentration will become a regular part of their SEMAP score beginning in the second fiscal year following the initial effective date of the increase to the 50th percentile. (In other words, if the increase takes place on October 1, 2001, and the PHA's fiscal year begins April 1, the new SEMAP requirement begins to apply in the fiscal year beginning April 1, 2003.)

- The increase will last for three years. At that point, HUD will reevaluate whether the area continues to qualify; the area continues at the 50th percentile only if it continues to meet the test.

- HUD will study the extent to which raising FMRs in these areas results in reduced concentration and/or improved mobility.

Francis S. Redburn 07/26/2000 08:59:52 AM

Record Type: Record

To: Andrea Kane/OPD/EOP@EOP, Margy Waller/OPD/EOP@EOP

cc: Adam Hoffberg/OMB/EOP@EOP, Alan B. Rhinesmith/OMB/EOP@EOP, James F. Jordan/OMB/EOP@EOP

Subject: Revised Strawman for Targeted FMR Increase

We just sent this to HUD.

---------------------- Forwarded by Francis S. Redburn/OMB/EOP on 07/26/2000 09:02 AM ---------------------------

Francis S. Redburn 07/26/2000 08:58:46 AM

Record Type: Record

To: Jeffrey_M._Lubell@HUD.GOV@ INET

cc: Alan B. Rhinesmith/OMB/EOP@EOP, Adam Hoffberg/OMB/EOP@EOP, James F. Jordan/OMB/EOP@EOP

Subject: Revised Strawman for Targeted FMR Increase

Following up on the high-level conversations held yesterday, this is our proposal for a targeted increase in the FMRs to address the problems of low success rates and restricted access/concentration that have been affecting vouchers in some areas of the country. Please get it to whoever needs to review.

The early rough outline of a targeted increase proposal either had blanks for the threshold criteria or arbitrary numbers. However, we have now given considerable thought to what should be the appropriate percentage cutoffs to target this increase to the areas where it is needed. Also, we've streamlined the test a bit by consolidating the mobility and concentration factors, which tend to measure the same phenomena.

Comments welcome. I think we are on a fast timeline.

latest strawman.wp

Establishing Flexible Payment Standards for Tenant-Based Housing Assistance
A Strawman Proposal

Proposed Change: Summary

Where local conditions limit the success of voucher holders or limit their access to quality housing, HUD will redefine the Fair Market Rent (FMR), increasing it to the 50th percentile. Public Housing Authorities (PHAs) using this opportunity to raise the voucher payment standard will be required to augment search assistance and counseling to recipients. Unlike the current process, which requires PHAs to develop substantial justification for HUD approval of higher payment standards, this process is automatic for those who meet the criteria. PHAs will track the success rates of voucher recipients, the location of voucher holders' units, and some characteristics of the local housing market.

w/ what $?

or amend fees

Proposed Criteria for Non-Troubled PHAs

also talk about who'd ask —

see 6 approach - using vouchers.

PHAs that are not classified as "Troubled" under SEMAP can base their local payment standard on the 50th percentile FMR if they meet one of the following objective criteria. PHAs using this authority to raise the payment standard will be required to offer counseling and other search assistance. If funding is available, the Voucher Success Fund will be used to support counseling, landlord outreach, and technical assistance. + if not?

performance

would want to Δ name - sounds like a measure of technically a market problem

1. *Low Success Rates*[1]: success rate below 70% over a six-month period.

what % of PHAs/vouchers meet this criteria

Or

2. *Restricted Mobility and High Concentration:* Fewer than 60% of census tracts have at least 30% of units that rent at or below the FMR and more than 40% of voucher holders reside in census tracts with poverty rates above 30%.

HUD may need time to develop measures of restricted mobility. In the meantime, PHAs that might not qualify under the first criterion can establish higher payment standards under the current approval process.

Troubled Housing Authorities   cd they submit a plan?

Lower-performing PHAs will not be rewarded under this proposal. SEMAP evaluates PHAs' performance in administering their tenant-based assistance program. PHAs deemed "Troubled" based on SEMAP may not presumptively raise their payment standards if the proposed criteria are met. They will still be eligible to apply to HUD for higher payment

[1] Success rates are defined as the percentage of families offered a voucher that secure housing.

standards under current procedures.

MEMORANDUM

To: Michael Deich, OMB

cc: Saul Ramirez, Harold Lucas, William Apgar, Jacquie Lawing, Nancy Lesser, Rod Solomon

From: Susan Wachter

Re: Mobility / Deconcentration

Date: July 27, 2000

I understand from Jeff Lubell that HUD and OMB are nearing an agreement on a targeted FMR proposal. The primary remaining obstacle appears to be the criteria for determining which areas receive increases in the FMR to promote greater mobility and lower levels of concentration among voucher-holders.

My understanding of the situation is that HUD has agreed to OMB's proposal to overlay mobility and deconcentration measures and has agreed to revise the deconcentration measure in a manner that OMB staff find more acceptable. HUD has also agreed to drop MSAs that have fewer than 100 census tracts.

Having made these concessions, and examined the policy merits of a series of different proposals, we have concluded that the most logical measure is to target areas that meet both of the following criteria:

(a) Deconcentration. 25 percent or more of voucher-holders reside in five percent or less of the census tracts in the MSA; and

(b) Mobility. Fewer than 70.1 percent of the census tracts in the MSA have 30 percent or more units renting below the 40th percentile FMR.

We feel strongly that this is the appropriate test. Raising the thresholds for either of these measures results in the omission of areas that clearly have serious problems. For example, lowering the mobility threshold from 70.1 percent would drop off Miami and Philadelphia – two MSAs that are among the ten worst MSAs in the country on the concentration measure. It also would involve dropping St. Louis, which anecdotal reports identify as one of the cities with serious problems using vouchers.

On the other side of the ledger, raising the deconcentration threshold would drop off Minneapolis and Las Vegas –MSAs that score very poorly on the mobility measure – as well as Buffalo, which has been the focus of substantial fair housing scrutiny on the grounds of a failure to promote mobility.

For these reasons, we urge you to accept the criteria we have proposed and bring this matter to a speedy resolution.

The following is a list of the affected MSAs. Please note that a more careful examination of the data has revealed that two MSAs that meet the criteria -- Houston and Baton Rouge – were inadvertently left off an earlier list. Even with the inclusion of these MSAs, the affected MSAs cover less than 30 percent of the vouchers in the country.

Albuquerque, NM MSA
Atlanta, GA MSA
Austin-San Marcos, TX MSA
Baton Rouge, LA MSA
Bergen-Passaic, NJ PMSA
Buffalo-Niagara Falls, NY MSA
Chicago, IL PMSA
Cleveland-Lorain-Elyria, OH PMSA
Dallas, TX PMSA
Denver, CO PMSA
Detroit, MI PMSA
Fort Lauderdale, FL PMSA
Fort Worth-Arlington, TX PMSA
Grand Rapids-Muskegon-Holland, MI MSA
Houston, TX PMSA
Kansas City, MO-KS MSA
Las Vegas, NV-AZ MSA
Miami, FL PMSA
Minneapolis-St. Paul, MN-WI MSA
Newark, NJ PMSA
Norfolk-Virginia Beach-Newport News, VA-NC MSA
Oakland, CA PMSA
Oklahoma City, OK MSA
Orange County, CA PMSA
Philadelphia, PA-NJ PMSA
Phoenix-Mesa, AZ MSA
Richmond-Petersburg, VA MSA
Sacramento, CA PMSA
Salt Lake City-Ogden, UT MSA
San Antonio, TX MSA
San Diego, CA MSA
San Jose, CA PMSA
St. Louis, MO-IL MSA
Tampa-St. Petersburg-Clearwater, FL MSA
Tulsa, OK MSA
Ventura, CA PMSA
Washington, DC-MD-VA-WV PMSA
West Palm Beach-Boca Raton, FL MSA
Wichita, KS MSA

Margy Waller
07/25/2000 08:31:04 PM

Record Type: Record

To: Andrea Kane/OPD/EOP

cc:

Subject: policy making by the front page of the post

Apparently Cuomo decided he had to respond to the story in the Post with a memo to the President. He called Lew and said he wants to announce FMR increase and a production program with the MMI fund.

Apgar is writing a draft memo which Michael thinks will be sent directly to Pres - and therefore come back to us (before anyone sees it) - so we'll have a chance to weigh in. Since Cuomo really wants the announcement, he'll probably agree to targeting the FMR increase. And then we'll fight about how to use the $ and how much $ there is really.

I guess Bruce will hear about this - so, we should send him a note.

Michael Deich
07/26/2000 05:14:32 PM

Record Type: Record

To: Francis S. Redburn/OMB/EOP@EOP

cc: See the distribution list at the bottom of this message
Subject: talk w/saul r.

i spoke w/saul. he agreed call jeff and empower him to negotiate with you and margy/andrea in the hopes that you all could find a consensus recommendation. i suggest you give saul a few minutes to make a call and then reach out to jeff. thx.

Message Copied To:

alan b. rhinesmith/omb/eop@eop
andrea kane/opd/eop@eop
margy waller/opd/eop@eop
james f. jordan/omb/eop@eop
adam hoffberg/omb/eop@eop
lauren larson/omb/eop@eop
Janis A. Coughlin/OMB/EOP@EOP

July 26, 2000 Counter-proposal on FMRs

1. Increased payment standards for PHAs with low success rates.

   PHAs that have raised payment standards to 110 percent of the FMR but nevertheless have an average success rate over six months below 75 percent will be eligible to apply for authority to utilize payment standards between 90 and 110 percent of the 50^{th} percentile of rents of recent movers. PHAs that are high or standard performers on SEMAP will be eligible for the increase as a matter of right. HUD will have discretion regarding whether to approve the requests of PHAs with troubled Section 8 programs, as measured by SEMAP.

2. Targeted FMR increases to promote mobility and deconcentration objectives.

   FMRs will be increased in all metropolitan areas that satisfy both the mobility and deconcentration tests.

   A. *Mobility*. Using data from the most recent decennial census, we will analyze the proportion of census tracts in each FMR area in which at least 30 percent of two-bedroom units have rents below the current FMR. An FMR area satisfies the mobility prong when this analysis shows that fewer than 70 percent of census tracts are accessible to voucher-holders at the current FMR.

   B. *Deconcentration*. An FMR area satisfies the deconcentration prong when current program data shows that more than five percent of voucher-holders in the metropolitan area live in census tracts in which voucher-holders comprise 10 percent or more of all occupied units.

Notes

Success Rates:

1. We agree with the concept of targeting based on PHAs' success rates and agree that such targeting could be accomplished by approving higher payment standards. While we would like to discuss ways to secure the much needed voucher success fund, and we hope that the fund will independently help to boost success rates, we would like to keep that discussion separate from this FMR proposal. A requirement that a certain level of services be provided as a condition for receiving a higher payment standard would be extremely difficult to monitor and would unnecessarily complicate this policy.

2. We are willing to limit application of the policy to PHAs that have already tried to make the program work by raising payment standards to 110 percent of the FMR. In exchange, we propose raising the threshold of an acceptable success rate to 75 percent.

Mobility/Deconcentration:

3. We are willing to accept an approach that overlays mobility and deconcentratation indicators. However, your approach literally reaches no metropolitan areas. This test obviously needs to be expanded.

4. In our view, mobility and deconcentration should be approached at the metropolitan-area level, rather than on a PHA by PHA basis. If market conditions are such that the mobility of families in the area is impeded, or there is substantial concentration of voucher-holders, FMRs should be increased throughout the metropolitan area, rather than just at specific PHAs within the area. Deconcentration and mobility thus should be addressed through metro-wide FMR increases rather than exception payment standards.

5. Our mobility measure is similar to yours. The main difference is that we have chosen a more realistic threshold that ensures that a reasonable number of areas are covered. We selected 70 percent by rounding up from the 25th percentile (69.2 percent) of this distribution.

6. Our deconcentration measure departs from your proposal. Our problem with your proposed indicator is that poverty rates vary significantly from metro area to metro area. A fixed poverty threshold will thus be too high in some areas and too low in others. (Beyond that, a 30 percent poverty rate is extremely high.) In place of your proposed indicator, we suggest a deconcentration indicator based on the extent to which voucher-holders are concentrated in particular census tracts. We propose that the deconcentration prong be met where more than a de minimis proportion of voucher-holders (say 5 percent) reside in census tracts in which they constitute 10 percent or more of all occupied units.

7.

8. Based on the most recent data available, we estimate that 31 metropolitan areas meet both of these criteria. The following is a list of the affected MSAs:

Atlanta, GA MSA
Austin-San Marcos, TX MSA
Casper, WY MSA
Chicago, IL PMSA
Cleveland-Lorain-Elyria, OH PMSA
Dallas, TX PMSA
Denver, CO PMSA
Dubuque, IA MSA
Duluth-Superior, MN-WI MSA
Galveston-Texas City, TX PMSA
Green Bay, WI MSA
Houston, TX PMSA
Lincoln, NE MSA
Macon, GA MSA
Minneapolis-St. Paul, MN-WI MSA
Naples, FL MSA
Norfolk-Virginia Beach-Newport News, VA-NC MSA
Oakland, CA PMSA
Oklahoma City, OK MSA
Orange County, CA PMSA
Philadelphia, PA-NJ PMSA
St. Joseph, MO MSA
Salinas, CA MSA
San Antonio, TX MSA
San Jose, CA PMSA
Tampa-St. Petersburg-Clearwater, FL MSA
Tulsa, OK MSA
Ventura, CA PMSA
Washington, DC-MD-VA-WV PMSA
West Palm Beach-Boca Raton, FL MSA
Wichita, KS MSA

Francis_S._Redburn@omb.eop.gov on 07/26/2000 08:58:46 AM

To: Jeffrey M. Lubell/PDR/HHQ/HUD@HUD
cc: Alan_B._Rhinesmith@omb.eop.gov, Adam_Hoffberg@omb.eop.gov, James_F._Jordan@omb.eop.gov
Subject: Revised Strawman for Targeted FMR Increase

Following up on the high-level conversations held yesterday, this is our proposal for a targeted increase in the FMRs to address the problems of low success rates and restricted access/concentration that have been affecting vouchers in some areas of the country. Please get it to whoever needs to review.

The early rough outline of a targeted increase proposal either had blanks for the threshold criteria or arbitrary numbers. However, we have now given considerable thought to what should be the appropriate percentage cutoffs to target this increase to the areas where it is needed. Also, we've streamlined the test a bit by consolidating the mobility and concentration factors, which tend to measure the same phenomena.

Comments welcome. I think we are on a fast timeline.

(See attached file: latest strawman.wpd)

- counter-proposal.doc

Message Sent To:

Michael Deich/OMB/EOP@EOP
Alan B. Rhinesmith/OMB/EOP@EOP
Andrea Kane/OPD/EOP@EOP
Margy Waller/OPD/EOP@EOP
James F. Jordan/OMB/EOP@EOP
Adam Hoffberg/OMB/EOP@EOP
Lauren Larson/OMB/EOP@EOP

Margy Waller
07/27/2000 07:16:40 PM

Record Type: Record

To: "Jeffrey M. Lubell" <Jeffrey_M._Lubell@HUD.GOV>

cc: See the distribution list at the bottom of this message

Subject: Re: Draft Consensus Proposal

July 27, 2000 Draft of Consensus Proposal on F

Jeff - This is the DPC redline version of your draft. The only major change is the addition of the reference to getting the ROC $ out ASAP that we agreed on earlier.

OMB staff has reviewed this, and are just waiting for resolution of the outstanding issues on mobility.

It is the understanding at DPC that the memo to the President will only cover the FMR issue, since we have had no further conversation about the FHA/MMI fund.

I hope you can see the redlines. If you have trouble, or questions - call or page me. 456-5586.

I'm going to have lunch now.

Message Copied To:

Francis S. Redburn/OMB/EOP@EOP
Alan B. Rhinesmith/OMB/EOP@EOP
Adam Hoffberg/OMB/EOP@EOP
James F. Jordan/OMB/EOP@EOP
Lauren Larson/OMB/EOP@EOP
Andrea Kane/OPD/EOP

Francis S. Redburn 07/28/2000 02:15:00 PM

Record Type: Record

To: Michael Deich/OMB/EOP@EOP

cc: See the distribution list at the bottom of this message
Subject: Re: HUD memo

Jeff Lubell and I talked at 11:30. He had spoken to the program office and wanted to make minor word changes to the draft summary of the agreement to reflect their concerns. Nothing significant, in my view. He is leaving at 1 p.m. today and expected to email me a revised draft by then. (I don't see it yet.) On one wording change, I asked him to call Margy (I couldn't raise Margy or Andrea at 11:30 or they would have been on the call). There is no change on the new bullet for ROC funding. I'm satisfied that we are done.

Jeff suggested Deborah Vincent as the HUD contact in his absence today and early next week.

Jeff said that he saw a new draft of the memo to the President this morning, but didn't know when/if it was being sent over.

We went over the probable regulation drafting and review schedule. Because this is a major rule that will require public comment, it won't be effective at the earliest until early calendar 2001.

Alan and I spoke to Dave Gibbons this a.m. about the amount of additional recaptures needed to cover the added first-year cost of implementation. He didn't express much concern.

Message Copied To:

margy waller/opd/eop@eop
francis s. redburn/omb/eop@eop
andrea kane/opd/eop@eop
Alan B. Rhinesmith/OMB/EOP@EOP
Adam Hoffberg/OMB/EOP@EOP
James F. Jordan/OMB/EOP@EOP
Janis A. Coughlin/OMB/EOP@EOP
Sherron Duncan/OMB/EOP@EOP

OMB paper on FMR issue
I'm told there was no decision in the meeting yesterday

What is the Most Effective and Efficient Strategy for Increasing Voucher Success Rates?

While there is convincing anecdotal evidence that there are significant problems with using vouchers in many rental markets, HUD' proposal to raise the fair market rent (FMR) to the 40th to the 50th percentile is a more costly approach than allowing public housing authorities (PHAs) to use existing authority to selectively raise FMRs. Also, the HUD proposal by itself is unlikely to reduce excessive Section 8 balances.

HUD's Proposal

HUD's proposal would raise FMRs nation-wide and require little action on the part of PHAs to implement. HUD argues that this would significantly raise voucher success rates and allow voucher holders expanded access to neighborhoods with lower concentrations of poverty and minority populations. HUD maintains this expansive action is necessary to address concerns, including those raised in the congressional appropriations process, that funding vouchers is a poor investment given the failure of voucher holders to find housing.

An Alternative Proposal

PHAs already have the flexibility to raise FMRs to 110%. On average this level achieves an FMR equal to the 55th percentile. An alternative to the HUD proposal would seek to allow PHAs to more effectively and easily use this authority when appropriate.

Information on use of this new authority is scant but, according to HUD, it appears that relatively few PHAs are taking advantage of this authority despite the apparent value of doing so. HUD cites two potential obstacles. The first is a fear on the part of PHAs that HUD will subsequently deny their increase when contracts are renewed. An associated HUD concern is that they will be criticized for their determinations regarding use of this authority and subject to intense political scrutiny of individual decisions. PHAs may also be reluctant to increase FMRs because they fear this may lead to rent increases for unassisted low-income tenants in neighborhoods where vouchers are used extensively. (To the extent this is true, it would be an even larger problem for HUD's proposal as that applies universally.)

Alternatively, we could structure use of this authority so that it is based less on HUD oversight and more on transparent measures of program success, clearly defined objectives for program improvement, and market conditions. PHAs exercising discretionary authority would be required to collect information on success rates and poverty/minority concentration. In addition, PHAs would develop a comprehensive plan for improving these indicators, encompassing strategies such as enhanced tenant counseling, outreach to potential landlords, and management efficiencies in addition to the FMR increase. The emphasis would be on a cooperative venture with HUD that would rely on minimal oversight and clear, measurable objectives.

Cost Impact

By allowing selective rather than universal increases to FMRs, this alternative would be significantly less costly than the HUD proposal while creating many of the same benefits. Simply put, HUD's proposal increases subsidies universally regardless of need and therefore affects more units than the alternative which is applied selectively. Since increases to the per unit FMR are roughly the same under either proposal, the alternative is significantly less costly. Costs in 2001 for either proposal are minimal because the FMR increases are slowly phased in and require lead-time for administrative promulgation. We estimate that by 2005, however, HUD's proposal would cost over $500 million a year while HUD estimates the cost would be over $300 million. We have not estimated the long-term cost of the alternative.

Effect on Section 8 Balances

By itself, HUD's proposal is not likely to have a significant impact on reducing excess Section 8 balances. By increasing voucher utilization rates (the number used versus those allocated to a PHA), any proposal to increase voucher success will somewhat reduce excess balances. There are several other reasons why excess balances take place, however, and this will remain. One is the existence of long-term contracts where estimation of funding needs over 20 to 40 years proved difficult. These contracts are liquidating over time and being replaced with single year renewals. More systemically, we intentionally provide healthy reserves for PHAs so that they are adequately funded to avoid shortfalls due to rapid declines in tenant incomes or increases in rents. These reserves simplify HUD financial management and avoid the need for massive balancing of reserves or for supplemental appropriations to avoid tenant displacement. Finally, PHAs vary in their ability to properly budget for reserves and some do not adequately sweep excess reserves in a timely fashion.

Why people have trouble using Section 8 housing vouchers and what we are doing about it.

What is the problem?

In most areas, Section 8 housing vouchers appear to be effective in helping families afford rental housing. A 1994 report by Abt Associates confirmed that except for New York City 87 percent of the households newly issued a Section 8 voucher or certificate succeeded in obtaining housing. Utilization rates, which are the proportion of budgeted units that are utilized in a given year, are even higher. HUD data show that 93 percent of the vouchers that HUD has allocated to state and local PHAs were being used as of January 2000.

However, there is a recognition that in particularly tight markets, where rents have risen and vacancy rates have dropped, vouchers holders may experience problems in securing housing. Despite the lack of research data, HUD reports that there is anecdotal evidence to suggest that voucher success rates have dropped in recent years.

What we are doing about it?

Even though the scope of the problem and its geographic manifestation are unknown, we expect that recently enacted legislation should help to improve voucher usage in difficult markets. During the last two years, a series of program initiatives have been enacted to strengthen the tenant-based program.

- PHAs have been given authority to raise the payment standards in order to expand the number of housing units affordable to voucher holders. PHAs now have sole discretion to raise voucher payment standards to 110 percent of the FMR, covering well over half of the rental units on the market. With HUD approval, PHAs can obtain payment standards above 120 percent of the FMR.

- The Section 8 certificate and voucher programs have merged so that a family can choose to pay more than 30 percent of their adjusted incomes to rent higher cost units, which previously was not permitted under the rules of the certificate program.

- PHAs can also extend the allocated search time of voucher holders beyond 120 days.

- The Housing Voucher Success Fund was proposed in the 2001 budget to ensure that voucher holders receive assistance in their search. Under this proposal, funds will be used to provide mobility counseling and search assistance as well as outreach to owners and technical assistance to PHAs with low success rates.

The new Section 8 Management Assessment Program (SEMAP) system provides incentives for housing agencies to improve Section 8 utilization. To be designated as a high performer, a housing agency must demonstrate at least 95 percent of its tenant-based subsidy budget for the agency are under lease. Furthermore, HUD now has authority to take away unused funds from PHAs that do not use at least 90 percent of their vouchers or budgeted funds.

Margy Waller
07/21/2000 05:30:50 PM

●●●●●●●●●●●●●●●●

Record Type: Record

To: Andrea Kane/OPD/EOP

cc:
Subject: housing counseling for vouchers

This is in the House VA/HUD/IA approps bill.

SEC. 206. Section 8(o)(1) of the United States Housing Act of 1937 (42 U.S.C. 1437f(o)(1)) is amended--

(1) in subparagraph (B), by striking `subparagraph (D)' and inserting `subparagraphs (D) and (E)';

(2) by redesignating subparagraph (E) as subparagraph (F); and

(3) by inserting after subparagraph (D) the following new subparagraph:

`(E) DIFFICULT UTILIZATION AREAS-

`(i) CRITERIA- The Secretary shall establish criteria setting forth requirements for treatment of areas as difficult utilization areas with respect to the voucher program under this subsection, which may include criteria specifying a low vacancy rate for rental housing, a particular rate of inflation in rental housing costs, failure to lease units by more than 30 percent of families issued vouchers having an applicable payment standard of 110 percent of the fair market rental or higher, and any other criteria the Secretary considers appropriate.

`(ii) USE OF ASSISTANCE- Any public housing agency that serves a difficult utilization area may--

`(I) increase the payment standard applicable to all or part of such area for any size of dwelling unit to not more than 150 percent of the fair market rental established under subsection (c) for the same size of dwelling unit in the same market area; and

`(II) use amounts provided for assistance under this section to make payments or provide services to assist families issued vouchers under this subsection to lease suitable housing, except that the cost of any such payments or services for a family may not exceed the agency's average cost per family of 6 months of monthly assistance payments.'.