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FMR [Fair Market Rents] - Section 8

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November 16, 2000

Rules Docket Clerk
Office of General Counsel
Room 10276
Department of Housing and Urban Development
451 Seventh St., SW
Washington, DC 20410

Re: Docket No. FR 4606-I-01, Increased Fair Market Rents and Payment Standards for Certain Areas

To whom it may concern:

These comments are submitted by the Center on Budget and Policy Priorities. The Center is a nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs, with an emphasis on those affecting low- and moderate-income people. Low-income housing is an important focus of the Center's research and policy efforts. The Center is particularly interested in promoting housing policies that help poor families make the transition from welfare to work.

We strongly commend HUD for this important initiative to improve the effectiveness of the voucher program. These comments are submitted in the spirit of making an excellent proposal clearer and easier to implement. In addition to commenting on the interim rule, we have included a list of related measures that HUD should undertake to help PHAs achieve higher voucher success rates and to promote expanded housing opportunities.

These comments address the following issues:

- HUD's determination that an area needs an FMR based on the 50th percentile rent to expand housing opportunities should not be limited to three years;
- All PHAs in areas where HUD has set the FMR at the 50th percentile rent should be subject to the SEMAP deconcentration indicator;
- The determination of eligibility to use a "success rate payment standard" should include the success of participants in the certificate or voucher program issued a "moving

voucher;”

- PHAs that have a success rate below 75 percent and use a payment standard below 110 percent of FMR in a small portion of their jurisdiction or for a particular unit size should be permitted to qualify for a success rate payment standard;
- Clarification is needed about the duration of the approval of a success rate payment standard and its dollar value over time, and inconsistencies between how the success rate payment will work and the new SEMAP success rate indicator should be resolved;
- The rules should authorize the secretary to approve a success rate payment standard above 110 percent of the 50th percentile rent;
- Options for multi-jurisdictional PHAs to receive approval of success rate payment standards; and
- The final rule should include current policy permitting the use of the median rent method to support a request for an exception payment standard above 120 percent of FMR.

In addition, we recommend that HUD undertake the following related steps to further the goals of the interim rule. Each of these suggestions could be implemented by HUD without any change in regulations or statutes.¹

- Require all PHAs to report their voucher success rate, presumably through the PHA plan, once data is available from the revised MTCS form. Such “sunshine” may result in community collaboration to improve voucher program success.
- Revise the PHA Plan Template to reflect whether a PHA has chosen to request a success rate payment standard or, if it is in an area where HUD has increased the FMR to the 50th percentile, whether it has chosen to increase the payment standard based on this additional flexibility. The current template provisions on the voucher payment standard (Section 4(B)(1)) do not reflect the increased choices that PHAs now have.
- Improve the accuracy of the determination of Fair Market Rents. FMRs would probably better reflect the real cost of obtaining decent quality housing in an area if they were determined without including data on substandard units and/or by

¹ More far-reaching suggestions for the improvement of the voucher program are contained in Barbara Sard, “Housing Vouchers Should Be A Major Component of Future Housing Policy for the Lowest Income Families” due to be published shortly by HUD’s journal Cityscape.

including data on new so-called luxury units; if they were based on smaller areas; or if inflation factors were more accurately calculated.

- Publish a notice advising PHAs, HUD-subsidized owners, and owners of developments with Low Income Housing Tax Credits of the federal laws that prohibit certain owners from discriminating against voucher holders. (I have previously provided HUD staff with a list of such provisions. Please let me know if another copy is needed.)
- Work with the Treasury Department to issue guidance on the obligation of tax credit owners not to discriminate against voucher holders.
- Include testing for Section 8 discrimination and subsequent legal challenges in FY 2001 FHIP grants.
- Use existing authority to provide increased administrative fees to PHAs with low success rates or in areas with limited housing opportunities to meet the extraordinary costs of assisting families to obtain housing with their vouchers in such areas.

HUD's Determination That an Area Needs an FMR Based on the 50th Percentile Rent to Expand Housing Opportunities Should Not Be Limited to Three Years

The interim rule limits the duration of a HUD-established 50th percentile FMR to promote a broad range of housing opportunities to three years. 24 C.F.R. § 888.113(c)(2). In order for HUD to continue to set the FMR at the 50th percentile for a metropolitan area that otherwise meets the standards established in 24 C.F.R. § 888.113(c)(1), HUD will determine whether the overall "concentration measure" for the metro area has improved since the FMR for the area was first set at the 50th percentile. If not, the area is ineligible for a 50th percentile FMR for three years.

The fact that the concentration of voucher program participants in the metro area has not improved over a three year period does not necessarily indicate that the higher voucher payment standard was ineffective. A PHA's ability to use a payment standard based on the 50th percentile rent may have prevented the concentration of voucher participants from becoming worse over the three-year period. Particularly in an area with rapidly escalating rents, where absent a change in the voucher payment standard housing opportunities were likely to have become increasingly limited, maintaining the status quo may in fact represent a positive result.

While the rule does permit individual PHAs to demonstrate that they have made progress toward deconcentration despite the lack of progress in the FMR area as a whole, this salutary provision is not sufficient to prevent the time-limit from having unintended negative effects. To reduce the maximum discretionary payment standard for those individual PHAs that cannot show

that they have made some progress toward deconcentration may result in a further increase in the concentration of voucher holders. Reduced payment standards will affect existing program participants (after a brief lag period) as well as new movers. If families can locate housing they can afford with their vouchers only in more poverty-concentrated neighborhoods, the time limit will result in exactly the situation the overall policy is intended to prevent -- the increasing concentration of voucher program participants in poor neighborhoods.

In addition, the reduction of the FMR to the 40th percentile if the concentration of voucher holders has not decreased over three years may have adverse consequences for other HUD programs that rely on the FMR. For example, unit rents under the HOME program are capped at the HUD-established FMR (unless 30 percent of the adjusted income of a family at the 65th percentile is lower than the FMR). 24 C.F.R. § 92.252(a). A HOME-funded project could be put in service on the assumption that its rents could be set at the 50th percentile FMR, making it more possible to site the project in a better neighborhood or making the project financially viable without additional subsidies. If this provision of the interim rule remains unchanged and the FMR is reduced after three years, the project would be required to reduce its rents for reasons wholly unrelated to the need for higher rents for the HOME program. Serious financial consequences for the development could ensue.

Perhaps the concern leading to the three-year time limit is to have a “stick” to help ensure that PHAs will take whatever further steps may be necessary – in addition to increasing their voucher payment standards – to enable families to have access to broader housing opportunities. If so, it is important to understand that a powerful means to achieve this result exists by virtue of the provision of the interim rule making PHAs in such areas subject to the SEMAP deconcentration indicator.² Under SEMAP, if a PHA receives zero points for any indicator, it is required to submit a corrective action plan to HUD (unless it is able to correct the deficiency within 45 days, which is highly unlikely in this situation). 24 C.F.R. § 985.106(c). If there has been less than a two percent increase in the number of the PHAs’ families with Section 8 vouchers living in low-poverty census tracts, a PHA will receive zero points on the deconcentration indicator.³ Consequently, a PHA that has failed to make progress toward deconcentration will be subject to corrective action, giving HUD an opportunity to scrutinize why the PHA has failed to progress despite the higher FMR and to work with the PHA to achieve positive results.

In addition, the SEMAP expanding housing opportunities indicator, 24 C.F.R. § 985.3(h),

² The issue of whether all PHAs in 50th percentile FMR areas should be subject to the deconcentration indicator, rather than solely those that set their payment standard above 100 percent of the increased FMR, is discussed below.

³ Alternatively, a PHA could receive the five points possible under the deconcentration indicator if half or more of the families with children receiving voucher assistance from the PHA live in low-poverty census tracts.

allocates five points to PHAs that implement a number of the policies likely to be effective in promoting moves to lower poverty areas. HUD's authority to require PHAs that have failed to take these steps to do so, together with its authority to require a corrective action plan specifying further measures the PHA will take to achieve deconcentration of voucher participants, are sufficient to give HUD the power it needs to ensure that funds spent to increase the FMR to the 50th percentile are not spent for naught. HUD should exercise its existing authority to ensure that the new policy is effective, rather than applying arbitrary sanctions that undermine its own goals.

All PHAs in Areas Where HUD Has Set the FMR at the 50th Percentile Rent Should Be Subject to the SEMAP Deconcentration Indicator

It is unclear why HUD made the judgment that only those PHAs that set their voucher payment standards above 100 percent of the new 50th percentile FMRs should have the assessment of their performance include the deconcentration indicator under SEMAP. (Except for this new requirement, the deconcentration indicator may result in a 5-point bonus, but is not a required element.) Any PHA that operates in a metropolitan area that meets the objective standards for excessive concentration of housing opportunities should be required to take the steps necessary to ensure a broad range of housing opportunities to the families it serves. A PHA should be free to decide that it can meet the outcome standards under the deconcentration indicator without further increasing its payment standard. But this judgment should be held to the objective standard of results.

Moreover, it is important to recognize that a PHA that sets its payment standard at 100 percent of the increased FMR will be benefitting from the new rule by increasing the dollar amount of its payment standard. Such a PHA is not simply preserving the status quo, which could perhaps be seen as a justification for not imposing new requirements.

Not only is the interim rule's choice to exempt some PHAs in concentrated areas from the deconcentration indicator without apparent rational basis, it is likely to have the unintended result of discouraging PHAs in overly-concentrated metro areas from exercising their maximum discretion over the payment standard amount. By limiting its payment standard to 100 percent of the newly increased FMR (or less), a PHA avoids the additional burden and scrutiny that the deconcentration indicator may bring. This is exactly opposite to the incentive that HUD presumably intends to create through the new rule.

Improvements in the Success Rate Payment Standard

Two somewhat technical changes are needed in the interim rule regarding the new success rate payment standard in order for the policy change to apply to the PHAs it is probably intended to cover.

Determination of eligibility to use a "success rate payment standard" should include the success of participants in the certificate or voucher program issued a "moving voucher." Under interim 24 C.F.R. § 982.503(e)(1)(i) as currently phrased, it is unclear whether PHAs are only to

measure the success of new participants in the voucher program, or whether they are to include in their success data what happens to current participants in the certificate or voucher program who are issued a “moving voucher.” (The ambiguity is created by the phrase “become participants.” A current participant who moves is issued a voucher, and therefore ought to be included under the first clause of the sub-paragraph, but that family does not *become* a participant by virtue of leasing up in a new location as it is already a participant.) Assuming that HUD intends for PHAs to include all movers in their data as well as new participants who lease up in place, clarification is needed. We suggest that a parenthetical clause “(including existing participants who move to new units)” be added at the end of the sub-paragraph.

PHAs that have a success rate below 75 percent and use a payment standard below 110 percent of FMR in a small portion of their jurisdiction or for a particular unit size should be permitted to qualify for a success rate payment standard. Under interim 24 C.F.R. § 982.503(e)(1)(ii) as currently phrased, a PHA with a success rate below 75 percent would not be eligible for a success rate payment standard if it had chosen to set the voucher payment standard below 110 percent of FMR in a single neighborhood, or even for a single unit size in a single neighborhood. The current inflexible requirement is unnecessary to achieve the presumably intended result of making sure that PHAs have exercised their current discretion before allowing an increase in the payment standard. Further, it runs contrary to the signals HUD has otherwise sent to PHAs, that they should increase the voucher payment standard only in those neighborhoods and for unit sizes where the increase is required, and exercise care not to encourage families to move to poor neighborhoods.

If the rule is unchanged, a PHA can meet its requirements by increasing its payment standards to 110 percent for all units in all areas. But at least nine months could go by until the PHA could furnish success rate data for six months of operation under the increased payment standards. (Families issued vouchers near the end of the six month period would have a minimum of 90 days to find units until their results could be included in the data.) Such delay and manipulation are undesirable and unnecessary. Two options appear to be possible to avoid this problem. HUD could modify the regulation so that PHAs could meet the required standard if they use a payment standard of at least 110 percent of FMR for at least a substantial majority of the census tracts they serve. Alternatively, HUD could include in the rule a provision permitting PHAs that do not meet the uniform standard to present an explanation of why the use of a lower payment standard for certain neighborhoods or bedroom sizes has not adversely affected success rates or was otherwise justified by program goals, such as promoting deconcentration.

Clarification Is Needed about the Duration of the Approval of a Success Rate Payment Standard and its Dollar Value over Time, and Inconsistencies Between How the Success Rate Payment Will Work and the New SEMAP Success Rate Indicator Should Be Resolved.

It appears from the interim rule that once a PHA has received approval from HUD to use a success rate payment standard, the PHA may continue in subsequent years to set its payment

standard as high as 110 percent of the 50th percentile FMR regardless of the extent of improvement (or lack thereof) in the PHA's success rate. What is not clear is whether, assuming the dollar value of the 50th percentile FMR increases in the years subsequent to the initial HUD approval, there is a parallel increase in the maximum dollar value of the payment standard. If the dollar value of the maximum payment standard does not increase automatically, then presumably a PHA would have to make a repeat showing that it meets the criteria of 24 C.F.R. § 982.503(e) in order to receive approval of a further increase.

· Requiring a PHA to qualify again for a success rate payment standard in order to receive a second (or subsequent) year increase in the maximum payment standard as the FMR increases is unobjectionable as a matter of policy (although it would increase administrative burdens for both PHAs and HUD). But if this is the scheme that HUD intends, it would appear to be unfair to apply the new SEMAP success rate indicator to PHAs that have not received approval of a multi-year increase in the payment standard based on any increase in the FMR.

For example, assume a PHA qualifies for the success rate payment standard in February 2001 based on a showing of a success rate of 72 percent. As a result, the PHA is able to increase its payment standard from \$949 (for a two bedroom unit, based on 110 percent of the 40th percentile FMR of \$863) to \$998, using 110 percent of the 50th percentile FMR of \$907. With the help of the increased payment standard (and whatever other measures the PHA adopts to improve its success rate), the PHA's success rate improves to 76 percent by the end of 2001. If the dollar value of the applicable 40th percentile FMR increases on October 1, 2001 to at least \$909, this PHA would be able to increase its payment standard to \$1,000 under the usual rules, without using the success rate payment standard. (110 percent of the new FY 2002 40th percentile FMR of \$909 is \$1,000, which exceeds 110 percent of the FY 2001 50th percentile FMR of \$998). If the PHA's fiscal year begins October 1, its second full fiscal year after approval of the success rate payment standard will not end until September 30, 2003. If the PHA was able to maintain a success rate of 75 percent in 2002 and 2003, it would not qualify for a new success rate payment standard in those years based on the increased FMR. Yet if its success rate is 76 percent or less in 2003, it will lose the five points under the new SEMAP success rate indicator because it will not have increased its success rate in 2003 at least five points in comparison with the initial rate of 72 percent.

To resolve this practical inconsistency, there appear to be three options.

1) In areas where the 50th percentile FMR increases, the dollar amount of the success rate payment standard could also increase without requiring a new showing of eligibility. This would resolve the conflict with the SEMAP indicator. But it would create inequities between two groups of PHAs: those that after December 1, 2000 could demonstrate a prior success rate below 75 percent, and then improve to 75 percent or higher, and those with the same success rate of 75 percent or higher that never dipped below 75 percent. The former group would be permitted to continue to use a payment standard at 110 percent of the 50th percentile FMR, based on the current FMR, while the latter would have a maximum of 110 percent of the 40th percentile FMR (assuming the latter group do not demonstrate eligibility for an exception based on the usual

rules).

2) HUD could require PHAs to make a new showing of eligibility for a success rate payment standard in order to increase the dollar value based on an increased FMR, eliminating the inequity created by option #1, but apply the SEMAP indicator only to PHAs where the dollar value of 110 percent of the 40th percentile FMR in the second full year after initial approval does not exceed the initial success rate payment standard. Limiting the applicability of the new SEMAP indicator in this way would eliminate the unfairness to PHAs that received only a temporary benefit from the approval of a success rate payment standard.

3) HUD could require PHAs to make a new showing of eligibility for a success rate payment standard in order to increase the dollar value based on an increased FMR, but apply the SEMAP indicator to *all* PHAs, independent of whether they received approval to use a success rate payment standard. In this way, the inconsistency inherent in the interim rules would become irrelevant, because all PHAs would be subject to the same standard.

From the perspective of fairness and equity, either option two or option three represents a satisfactory resolution of the problems posed by the interim rules. Of the two, we recommend option three – that HUD apply the new SEMAP success rate indicator to all PHAs – because this resolution is likely to lead to better-administered voucher programs. In addition, if all PHAs are subject to the success rate SEMAP indicator, there will be no disincentive to PHAs to request approval of a success rate payment standard.

A Success Rate Payment Standard Above 110 percent of the 50th Percentile Rent Should Be Permitted

The interim rule does not authorize the approval of a success rate payment standard above 110 percent of the 50th percentile FMR. This limitation makes the success rate payment standard quite different from the other bases for exception payment standards under HUD's rules, and may reduce its practical effectiveness. Where a PHA can demonstrate a likely discrepancy in rents between certain neighborhoods and the FMR area as a whole, current HUD rules permit the Secretary to approve whatever level of exception payment standard is justified by the data and the required explanation of the problems to be solved. There is no sound basis to deprive the Secretary of the same scope of discretion when the basis of the exception payment standard is a low voucher success rate.

To ensure that any PHA requesting approval of a success rate payment standard above 110 percent of the 50th percentile FMR is administering its voucher program in a manner designed to enhance success rates, HUD could condition approval of a success rate payment standard above 110 percent of the 50th percentile FMR on a PHA's demonstration that it is conducting effective landlord outreach, using Section 8 administrative fees entirely for the Section 8 program, partnering with other agencies to provide services to families to help them obtain housing, and other such known attributes of successful voucher programs.

Success Rate Payment Standards for Multi-jurisdictional PHAs

A Section 8 program that serves areas with substantially different housing markets is likely to experience varying success rates depending on the relative availability of rental housing in the voucher program price range. Despite such variation, a state, regional or other type of multi-jurisdictional PHA may be able to demonstrate an overall average success rate of less than 75 percent and qualify for the new success rate payment standard. The PHA could then determine where to use the new authority. It makes sense to permit such PHAs to qualify for the success rate payment standard based on all of their data, if that is what they wish to do. This flexibility is particularly important for agencies that maintain a PHA-wide waiting list, and as a result may have only agency-wide data on success rates.

The interim rule, however, makes no allowance for a multi-jurisdictional PHA that has a success rate below 75 percent in some of the areas it serves but nonetheless has an average rate above the eligibility cut-off. In this situation, a PHA that is able to provide HUD with reliable success rate data for a portion of the area it serves should be permitted to do so. Approval of a success rate payment standard would then be limited to the area(s) for which qualifying data were submitted.

Current Policy Authorizing Approval of an Exception Payment Standard Above 120 Percent of FMR Based on the Median Rent Method Should Be Included in the Final Regulations

In PIH Notice 2000-46 issued September 28, 2000, HUD clarified that the median rent method established by 24 C.F.R. § 982.503(c)(2)(i)(A) as a basis for approval of an exception payment standard above 110 percent of the FMR may also be used to support an increase above 120 percent of the FMR if the data justify such a higher increase. (See ¶ 4(b)(1)(b).) This notice clarified the ambiguity that resulted from the specification of the median rent method as part of § 982.503(c)(2) but its omission from § 982.503(c)(3), which authorizes exception payment standards above 120 percent of FMR. Indeed, subparagraph (B) of § 982.503(c)(3) appears to limit such further increases to areas that provide current rent data to support the increase, rather than relying on the far easier and less expensive median rent method. The policy clarification in PIH 2000-46 is sensible and commendable. HUD should avoid any continuing ambiguity by taking the opportunity of this rulemaking, which involves § 982.503(c), to make the appropriate revisions to § 982.503(c)(3).

Thank you in advance for your attention to these comments.

Sincerely,

Barbara Sard
Director of Housing Policy



Barbara Sard <bsard@rcn.com>

12/08/2000 12:29:48 PM

Record Type: Record

To: Margy Waller/OPD/EOP

cc:

Subject: FMR/payment standard

What I omitted to address, as I told you, is the issue of whether a PHA with a success rate payment standard could receive HUD approval to use a payment standard of 120% (or higher) of the 50th percentile FMR as a reasonable accommodation.

Barbara Sard, Director of Housing Policy

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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.

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

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

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

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?

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 be 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

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---Subcommittee 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 50th 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.

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

~~2:00~~ —

Jennifer M. —
Quinn@hud.gov

MW - let me know if any as about my comment to the AIC

D-R-A-F-T

Description of HUD's New FMR Policy

Overview

HUD's new Fair Market Rent (FMR) policy provides substantial targeted relief to areas where low FMRs are preventing families from successfully using Section 8 housing vouchers. Where necessary to ensure the effective operation of the housing voucher program, HUD will raise FMRs 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 newly available units in those areas.

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 FMRs 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, low FMRs are preventing families from finding units. The new policy authorizes Public Housing Agencies (PHAs) to use voucher payment standards based on a 50th percentile FMR where fewer than three-fourths of the families issued vouchers succeed in using them to find housing. *rental or add 1 sentence on what FMR is.*
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. *or high costs?*

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 ~~saves money by targeting~~ increases only on those areas experiencing problems. *efficiency targets*
- In keeping with sound management principles, PHAs 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 FMR Increases to Ensure that Voucher-Holders Can Find Suitable Housing

Unlike the old housing certificate program, in which subsidy levels were controlled directly by the FMR, subsidies under the new housing voucher program are governed by a "voucher payment standard." This gives public housing agencies (PHAs) 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 have discretion to set the voucher payment standard anywhere between 90 and 110 percent of FMR. *sounds like a new policy - I don't think met's will mean*

Most PHAs 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 FMR. *already*

PHAs that qualify for the higher FMR 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 FMR, rather than of a 40th percentile FMR.

The higher payment standards will be available as a matter of right to all PHAs that meet the criteria stated above. All they have to do is request the increase. The one exception is PHAs whose Section 8 programs are classified as "troubled" under the Section 8 Management Assessment Program (SEMAP). For such PHAs, HUD retains the discretion to decide whether or not to grant the request. *Since many don't want to say this is a new policy, HUD applied*

Targeted FMR Increases 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 in particular should 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 area reside in five percent or less of all census tracts; and
- Fewer than 70.5 percent of census tracts within a metropolitan area are "accessible" to voucher-holders at the current FMR. For the purposes of this analysis, census tracts have been identified as "accessible" to voucher-holders where 30 percent or less 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. At present, the metropolitan areas qualifying for FMR increases cover approximately 30 percent of all voucher-holders nationwide. A list of those metropolitan areas that qualify initially under this section of the new FMR policy is included below.

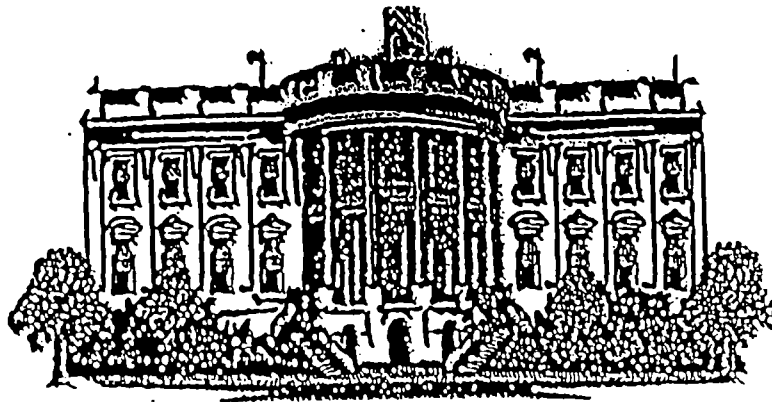
Performance Measurement

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

- PHAs that receive authority to base payment standards on a 50th percentile FMR because fewer than 75 percent of voucher-holders are able to find housing will have two years to raise their success rates to 75 percent, with the aid of the higher FMR. If they fail to achieve the objective 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, HUD will provide funding for housing search assistance to help PHAs meet this goal.

*what is
the
concrete goal
of PHAs*

The higher FMRs awarded to metropolitan areas to boost mobility will apply to all PHAs unless they request permission to utilize lower FMRs. PHAs that elect to use the higher FMRs will be expected to show progress in achieving deconcentration. For such PHAs, the current "bonus" measure of deconcentration outcomes in SEMAP will become a part of their regular SEMAP score.



THE WHITE HOUSE

Domestic Policy Council

DATE: 8/14

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NUMBER OF PAGES (INCLUDING COVER): 4

COMMENTS:

I've asked them to send the other info
mentioned.

They are considering combining this announcement
w/ fair-share vouchers.

Still looking at 8/24 to announce - or maybe
8/28 (at PHA training in Atlanta.).



FAX TRANSMISSION

Center for Community and Interfaith Partnerships

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Number of Pages (including cover): 3

To: Margie Walker

From: Jennifer Quinn

Comments: We have a more detailed, technical
background piece available if
you need it.

For information regarding the Center for Community and Interfaith Partnerships, please access our web site at www.hud.gov/cdc.html.

Recipient's Phone: _____

Recipient's Fax: 456-7437

Please call 202/708-2404 if this fax is not received in its entirety. Thank you.

Background on Proposed Section 8 Rule

- On August 24, HUD will issue a proposed rule that will dramatically increase the availability of affordable housing for low-income renters in tight housing markets. *asked if we have estimate of how many?*
- Nationwide, despite the booming economy, there are a record number of families with worst case housing needs -- 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. *few investments in expanding the supply of affordable housing*
- 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. 1.4 million families receive Section 8 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 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 wherever necessary to ensure more effective use of housing vouchers. The proposed 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 tight housing markets.
- 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 rule change is targeted to those communities where: (1) more than a quarter of Section 8 voucher-holders cannot find housing within six months of receiving their vouchers; or (2) Section 8 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 number of rental units available to families with Section 8 vouchers in tight markets by 25 percent.

Draft White House Statement - Fair Market Rents

8/15/00

HW -

no commitments will in d. his name

usually say by the Dept of ...

Today's action by Secretary Cuomo to raise the rent levels for Section 8 vouchers is a major step toward meeting the housing needs of our nation. This new policy is further evidence of my ^{MC-6(?)} Administration's commitment to address the shortage of affordable housing in many parts of the country -- especially in hot real estate markets.

This is a bold initiative that builds on the significant progress that Secretary Cuomo and the Department of Housing and Urban Development 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 renewing the supply of housing vouchers. *call in conference to ...*

These
~~Secretary Cuomo's action today~~ will dramatically expand the available pool of Section 8-eligible housing, giving voucher holders far more choice and mobility than they have under current regulations.

not sure about taking the 30-year old pledge - what was context?

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." By bringing the Section 8 program into the 21st century, today's action brings us a step closer towards that goal.

D-R-A-F-T

Description of HUD's New FMR Policy

Overview

HUD's new Fair Market Rent (FMR) policy provides substantial targeted relief to areas where low FMRs are preventing families from successfully using Section 8 housing vouchers. Where necessary to ensure the effective operation of the housing voucher program, HUD will raise FMRs 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 newly available units in those areas.

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 FMRs 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, low FMRs are preventing families from finding units. The new policy authorizes Public Housing Agencies (PHAs) to use voucher payment standards based on a 50th percentile FMR 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 saves money by targeting increases only on those areas experiencing problems.
- In keeping with sound management principles, PHAs 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 FMR Increases to Ensure that Voucher-Holders Can Find Suitable Housing

Unlike the old housing certificate program, in which subsidy levels were controlled directly by the FMR, subsidies under the new housing voucher program are governed by a "voucher payment standard." This gives public housing agencies (PHAs) 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 have discretion to set the voucher payment standard anywhere between 90 and 110 percent of FMR.

Most PHAs 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 FMR.

PHAs that qualify for the higher FMR 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 FMR, rather than of a 40th percentile FMR.

The higher payment standards will be available as a matter of right to all PHAs that meet the criteria stated above. All they have to do is request the increase. The one exception is PHAs whose Section 8 programs are classified as "troubled" under the Section 8 Management Assessment Program (SEMAP). For such PHAs, HUD retains the discretion to decide whether or not to grant the request.

Targeted FMR Increases 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 in particular should 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 area reside in five percent or less of all census tracts; and
- Fewer than 70.5 percent of census tracts within a metropolitan area are "accessible" to voucher-holders at the current FMR. For the purposes of this analysis, census tracts have been identified as "accessible" to voucher-holders where 30 percent or less 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. At present, the metropolitan areas qualifying for FMR increases cover approximately 30 percent of all voucher-holders nationwide. A list of those metropolitan areas that qualify initially under this section of the new FMR policy is included below.

Performance Measurement

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

- PHAs that receive authority to base payment standards on a 50th percentile FMR because fewer than 75 percent of voucher-holders are able to find housing will have two years to raise their success rates to 75 percent, with the aid of the higher FMR. If they fail to achieve the objective 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, HUD will provide funding for housing search assistance to help PHAs meet this goal.

The higher FMRs awarded to metropolitan areas to boost mobility will apply to all PHAs unless they request permission to utilize lower FMRs. PHAs that elect to use the higher FMRs will be expected to show progress in achieving deconcentration. For such PHAs, the current "bonus" measure of deconcentration outcomes in SEMAP will become a part of their regular SEMAP score.



FAX TRANSMISSION

Center for Community and Interfaith Partnerships

Father Joseph Hacala, S.J., Director

Jennifer Quinn, Deputy Director

451 7th Street, S.W., Rm. 10286

Washington, DC 20410

202/708-2404 ~ 1-800-308-0395 - fax 202/708-1160

Date: 8/16

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To: Margy Walker

From: _____

Comments: _____

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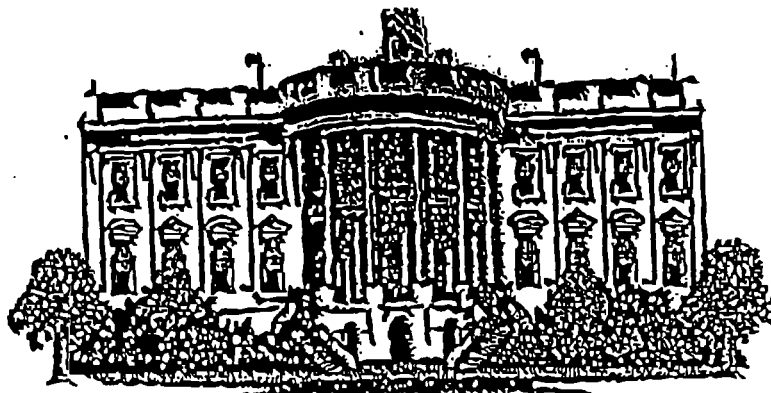
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THE WHITE HOUSE

Domestic Policy Council

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Michael Deich, Steven Redburn

FAX: _____

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FACSIMILE FROM: Margy Waller

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► **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

8.8.00.

Fmk roll-out →

Jackie	David Kass
Vanessa	Deborah
Jeff Lubell	

anticipating approval:
optimal time, venue, audience

Congress	Housing authorities
FH advocates	WtW
realtors	Cities

(rule)

timing

→ week after convention
→ 22nd ?? NO

live event w/ Stacy
stepping on messages

Wt paper statement

24th??

intent to publish a proposed rule . . .

~~press~~

press conference
- have a HA that would benefit
- resident
- congress?

amplification in most impacted offices.

Alan Rhinesmith / Dick /

clearance on homeownership!

Jol -
Steve/Alan

- roll-out
- get a copy
-

Fmk
Whan Ansd - Cab affairs

Anna
Bruce Barbara MD ~~Steve~~

201
tent. 24th
announcing
we dis. from
22nd
groups interested
whoever.

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.

Message Copied To:

Alan B. Rhinesmith/OMB/EOP@EOP
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Chandini M. Bachman/OMB/EOP@EOP
Margy Waller/OPD/EOP@EOP
Andrea Kane/OPD/EOP@EOP

For Paul

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.

Related Issues

- 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.

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For Paul

July 28, 2000 Consensus Proposal on FMRs

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the idea of using housing

§206 of HUD-VA bill

allows PHAs in diff utilization areas
either to increase payment std.

→ 150% FMR

→ \$ for additional one-time benefits
holding fees

→ \$\$\$ holding fee
bounty payments to bring in }
loan for SP

→ PHA does to bring lls in
short-term uses of staff

→ kinds of services to families
counseling
driving

Senate HUD-VA committee
has not decided what they think of

This

NAHBO is going to decide next week
whether to decide it.

2020
payment std. flex
does it have to change



Barbara Sard <sard@gis.net>

08/02/2000 06:09:59 PM

Record Type: Record

To: Margy Waller/OPD/EOP

cc:

Subject: 206 services

my sum/analysis of the discussion -- obviously for your eyes only:

On the services piece of 206, we talked at length about their concerns. They appear to agree that services are important adjuncts, especially in tight markets, but want to avoid certain pitfalls. Bottom line is that I think that two of their concerns can easily be met with either some tweaking of the statutory language or, preferably, report language, and that their other 2 concerns are neither so important nor so easy to accomplish, so I would not favor pushing for their desired changes. Hopefully, our conversation changed their minds.

(1) They want to make sure that only non-troubled PHAs can use the flexibility in 206. Seems easy to give this authority to HUD in report language. [The concept of "troubled" under SEMAP is not in the statute now, so I think it would be awkward to introduce it.]

(2) They also want to make sure that HUD would be able to exclude the monies spent on services from inflating renewal costs. Some modification or override of the Section 8 renewal rule would be required to do this. Because HUD is obligated to make any changes in the renewal rule only after consultation with "stakeholders," I think it would be helpful to have report language requiring this modification.

I agree with both of those caveats, and think they should be fairly easy to get.

The two I don't agree with are these:

(3) They also want to build in performance measures so that only PHAs that can demonstrate that their spending on services is effective could continue to use funds in this way. While this sounds nice, I think it would be very hard to do, AND I think would be opposed by both Valerie and PHA groups. Bottom line is I don't think this modification is worth the potential risks, as I think PHAs will be sufficiently disciplined to use funds for services only if effective because administrative fees are tied to the number of units leased, and not to funds spent.

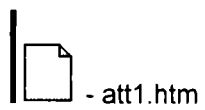
(4) They want to cap the total amount nationally that could be spent on services out of housing assistance funds. I think there are overwhelming practical obstacles to coming up with such a number on a permanent basis, as the amount available is determined by underutilization of funds each year. In addition, I think that meeting concern #2 above makes this provision unnecessary.

Barbara Sard, Director of Housing Policy

Center on Budget and Policy Priorities

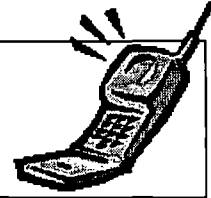
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Ophelia Basgal, Executive Director of the Alameda County Housing Authority, Oakland, CA

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Mark your calendar for the next audio short on another interesting topic: September 20.

MEMORANDUM FOR THE PRESIDENT

FROM: Jack Lew
Bruce Reed

SUBJECT: Secretary Cuomo's July 28th Memo to You on Affordable Housing

Secretary Cuomo's memo highlights the difficulty that many poor families face in finding affordable rental housing. He proposes that the Administration: (1) make it easier to use federal housing vouchers by immediately increasing the range of rents for which vouchers can be used; and (2) announce a plan to dedicate certain future receipts of the Federal Housing Administration (FHA) mortgage insurance program to new programs that would produce affordable housing and increase home ownership.

We recommend that you approve the Secretary's proposal to raise the Fair Market Rent for housing vouchers. We believe that this proposal -- designed jointly by HUD, OMB, and DPC -- would improve the effectiveness of existing housing vouchers and strengthen our ability to secure additional vouchers during the appropriations end-game. We ask that you not decide on the merits of the Secretary's proposed production plan, however, until OMB, DPC and HUD have completed their joint analysis of FHA receipts and spending alternatives. Although we agree with the broad outlines of the Secretary's proposed production program, our preliminary analysis indicates that the FHA will not generate the additional receipts that HUD anticipated this past Spring. As you requested on March 7th, we expect to report to you on this matter in mid-August.

Increasing Voucher Success Rates. Housing vouchers continue to work well for most families, even where market conditions are tight. The most recent national studies show that over 80 percent of families issued a voucher are able to rent within three months. At any moment in time, approximately 94 percent of all available vouchers are in use.

As the Secretary notes, however, increased demand in some rental markets has made it more difficult for those holding vouchers to find an apartment. The booming economy that expands job opportunities and raises incomes also causes rental markets in some regions to tighten temporarily. In those markets, families with housing vouchers must search harder and longer to find apartments (so must most other renters, whatever their incomes). We expect that problems resulting from tight markets will be alleviated gradually as markets respond by increasing the supply of housing. Nonetheless, we agree with Secretary Cuomo that the Administration should act now to address the immediate problems of those who depend on

vouchers. Without such action, Administration efforts to expand the number of vouchers are likely to founder on Congressional doubts about the effectiveness of the program.

Housing vouchers pay the difference between 30 percent of family income and the full market rent, up to a limit determined by the Fair Market Rent (FMR). The HUD proposal would offer a higher FMR not only in places where voucher success rates are temporarily low (because of tight markets and other factors), but also in those larger metropolitan areas where voucher holders have been concentrated in a small number of neighborhoods. In addition, the proposal would require that localities using a higher FMR also take administrative action to increase the percentage of voucher holders who succeed in finding housing within the usual three-month search period.

In announcing this action, the Administration would press Congress to fully fund your requests for 120,000 new vouchers and for a \$50 million Voucher Success Fund (the Fund would provide grants for counseling and other local assistance that has been shown to increase voucher success rates significantly).

Using Future FHA Receipts for a Housing Production Initiative. On March 6th, HUD released an actuarial review of FHA's mutual mortgage insurance fund. The review suggested that receipts to the fund might exceed the level shown in your FY 2001 Budget by a total of \$5 billion over five years. On March 7th, you asked HUD, OMB and DPC to estimate the extent of any excess receipts, and to define how any additional resources could be used to best strengthen our affordable housing efforts.

The Secretary's memo references \$5 billion in excess receipts, and recommends dedicating these receipts to programs that would increase the production of new affordable housing and raise the rate of home ownership. If additional resources in fact become available, we agree that the Administration should propose such a fund. The issue, as we see it, is not whether the Administration should support additional housing production, but how to ensure that the design and targeting of such programs avoid the flaws that led to the abandonment of past housing production programs. As we understand it, the Secretary's proposal includes a number of features that would avoid past mistakes. Most notably, the new program would combine housing production with portable vouchers, thereby ensuring that low-income households could move if their needs changed or a project were poorly run. Moreover, the proposed fund could be expanded to address other targeted needs (such as those of Native Americans and "second chance homes" for teen parents).

Our views on the proposed fund are complicated, however, by preliminary analysis indicating that there will not be additional receipts beyond those estimated in your February budget. Although FHA appears to be making more money per mortgage, the total volume of insured loans appears to have fallen; on balance, total FHA receipts are likely to be less than shown in the February Budget.

We continue to examine these issues, and expect to provide you with a final report in about two weeks.

THE WHITE HOUSE
WASHINGTON

Date 7.28.00

To: LEW, REED, PODESTA

From: The Staff Secretary

ANY COMMENT?

00 JUL 28 4:55 PM '00



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

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. *payments*

2. **Announce a plan to dedicate \$5 billion¹ 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 funds² 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.

► **Margy Waller**
07/21/2000 06:29:49 PM
.....

Record Type: Record

To: Michael Deich/OMB/EOP@EOP

cc:

Subject: counseling and services for voucher holders

You probably already knew this - I didn't: the option to use assistance payments for services to assist families issued vouchers in finding housing is in the House approps bill. I guess Barbara said this the other day (I think I thought she was saying that there are members who like the idea).

What do you think - setting aside the FMR 'problem'? Here's the language.

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.'

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.

Wote like
something
we should do
FMR and
ASRA

Andrea

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.

Related Issues

- 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.

July 27, 2000 Draft of 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 between 90 and 110 percent of 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.

Related Issues

- 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, HUD will provide funding for technical assistance and ~~grants 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 an applicant for HUD for funding.
- PHAs that satisfy the criteria will receive approval to use payment standards within a range of 90 to 110 percent of the 50th percentile. The approval will be for specific dollar amounts. Following HUD's normal procedures for approval of higher payment standards, they will phase out over time as the 40th percentile increases from year to year; the phase-out will be complete once the 40th percentile reaches the mid-point of the approved exception payment standard range. Following HUD's normal procedures, PHAs remain free to reapply to use the higher payment standards.

- If a PHA wishing to apply for the increase does not yet have a SEMAP score, the ability to obtain the higher payment standards as of right will be judged based on whether they have a utilization rate of 90 percent. PHAs with utilization rates of 90 percent or more will be eligible for the increase as of right. HUD will retain the discretion whether to approve requests of PHAs with lower utilization rates.
- 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. ~~The video will allow for customization by the local PHA.~~ PHAs that receive an increase will be required to show this video to new participants at the initial briefing. Ideally, HUD would require all PHAs to use this video during initial briefings. ~~PHAs will be encouraged to prepare paper tip sheets for voucher holders to keep.~~
- We will work out at the regulatory stage how to handle the small number of PHAs that raise payment standards to 110 percent of the FMR only in part of the FMR area.
- HUD will make release of the \$10 million in ROC funds (announced 6/15/00) a priority, and with the goal of releasing the funds before December 31, 2000. CBOs and FBOs will be eligible applicants.

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 [70.1] percent of census tracts are accessible to voucher-holders at the current FMR.

~~C.~~ 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

- OMB has not yet consented to the numbers in brackets.
- To qualify for the increase, metropolitan areas must have at least 100 census tracts.

- 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.

- ① availability of ROC? \$10M
- ② performance target - tied to SEMAP
in lieu of advance
drill requirement
- ③ counseling + services
Voucher Success Fund
- ④ video



"Jeffrey M. Lubell" <Jeffrey_M._Lubell@HUD.GOV>
07/27/2000 12:44:47 PM

Record Type: Record

To: Margy Waller/OPD/EOP
cc: See the distribution list at the bottom of this message
Subject: Re: A Few Questions

Sorry so late. If you need a few minutes to digest, let me know.

Please understand that these are my responses from staff level only and do not necessarily represent position of the Department. I will meet with the relevant decisionmakers immediately following our call so that hopefully we can bring closure today.

OMB Questions

What set of MSAs would receive an FMR boost under the second (mobility/concentration) test if the thresholds were that: (1) fewer than 67% of census tracts are accessible at the current FMR; and (2) more than 10 percent of voucher holders in the area live in tracts where voucher holders comprise 10 percent or more of occupied units?

Dubuque, IA
Lincoln, NE
Naples, FL
West Palm
San Antonio
Oklahoma City
Green Bay
Duluth, MN
Dallas, TX

These are obviously not the right areas. I am having some additional data run and let you know how that works out.

What is the recent success rate in New York City?

87 percent. This is combined success rate of homeless program (100%) and regular program (76 percent).

Under the very general authority for Regional Opportunity Counseling funds, could the \$10 million balance be used by HUD to hire one or more experienced organizations to work with the affected PHAs both by providing direct counseling and assistance to voucher recipients and also to train their staffs to provide improved orientation and search

assistance, thereby leaving a lasting gain in capacity?

Still looking into ROC. Let

?s discuss.

Could you put into your words how you see performance standards for improved success rates and improved mobility/deconcentration being defined, including time frames (we discussed three years yesterday for mobility/deconcentration but the timeframe for progress on success rates might be shorter), and how SEMAP would be modified to incorporate performance for the affected PHAs by these standards?

Success rates: PHAs that get an increase to the 50th percentile would be expected to do whatever it takes to achieve a 75 percent success rate within two years. The total SEMAP points applicable to these PHAs would increase by 5. They would get 0 or 5 depending on whether they meet the 75 percent threshold.

Mobility: I continue to be troubled by imposing a specific performance standard on PHAs that are given an increase to the 50th percentile based on which MSAs they reside in (rather than whether they have requested the increase). I propose we develop a method of monitoring the effectiveness of the FMR increases, but don't apply a performance measure.

Can you confirm my understanding that the increase "as a matter of right" resulting from low success rates (test #1) will be published as a new dollar figure (corresponding to the 50th percentile of FMRs at the time) and that, as has been the practice with similar increases granted to date, the payment standard will remain at 90 to 110% of this number until HUD either grants a subsequent increase or inflation in market rents erodes the established figure to the 40th percentile?

I confirm that this is what I am proposing.

Similarly, can you confirm that an increase in the FMR to the 50th percentile for MSAs meeting test #2 will be revisited periodically (we discussed every 3 years)? How will the decision to extend interact with the performance standard for this objective?

I propose that the situation be revisited every three years. As noted above, I do not believe there should be a performance standard applied to this prong.

DPC Questions



1) It's our understanding that PHAs will not be scored under SEMAP until September. The first to be scored will be those with FYs ending on June 30, the rest will follow on a rolling basis. Is it possible for a PHA to offer to be scored early in order to access the option to increase the FMR? Or would it be OK to use the old definition of 'troubled' until the first ratings are done?

Not practical to do SEMAP ratings before end of fiscal years. If not SEMAP

this is what they do now.

scores available, I propose using a 90% utilization as a threshold. Above 90% utilization, increased as a matter of right. Below 90%, increase at HUD's discretion.

2) Will HUD use the ROC \$ to provide grants to local PHAs for contracts with local providers who can provide counseling and other assistance (transportation, landlord outreach, security deposits etc.) to voucher holders? We see value in asking a national intermediary to provide TA to PHAs to build capacity, but think it is critical to have a local provider or PHA staff provide on-site assistance.

Let's discuss ROC.

We also do not think there should be any special emphasis on using this money to encourage the involvement of faith-based providers. Do you agree?

For constitutional reasons, I assume we must target both CBOs and FBOs. However, the Secretary has already made an announcement on FBOs. See below:

CUOMO SAYS HUD IS BUILDING A \$1 BILLION PARTNERSHIP WITH AMERICA'S FAITH-BASED ORGANIZATIONS

June 15, 2000

NEW YORK ? U.S. Housing and Urban Development Secretary Andrew Cuomo announced today that the amount of HUD assistance administered by faith-based organizations will reach at least \$1 billion next year ? a \$200 million increase.

"Faith-based organizations are the eyes and ears, hearts and souls of the communities HUD serves," Cuomo said. "Again and again, they have proven themselves to be effective and innovative partners in HUD's efforts to expand the supply of affordable housing, create jobs, help businesses grow, and revitalize communities. In the coming year, we intend to significantly step up our partnership with these groups to help people and places left behind by the current economic boom."

The Secretary made the announcement at a HUD-sponsored conference ? "Faith Communities and Community Building" ? at Riverside Church in New York City.

The conference brought together about 600 members of the clergy and the leaders of faith-based and not-for-profit organizations from throughout the Northeast ? primarily New York State, New Jersey and Connecticut ? to learn more about how HUD can help them meet housing, community and economic development needs in their communities.

Cuomo also announced two new initiatives ? one to increase the utilization of Section 8 rental assistance vouchers and the other to equip inner city workers with the skills

Steve - Is there any other info @ bad management? If we did do it now? who would need approval? larger PHAs would be affected.

OK

② ROC 3-6 months before awards transferred

it has been TIMING? plan?

performance measure tied to SEMAP if you go to 50 you have to be at 75 2yr.

subject to availability

will provide \$ to help meet target

→ PHAs would get increase has to co-operate partners if ROC \$ ends up in their community.

extra points

necessary to bridge the digital divide ? that will further increase the role of faith-based organizations in HUD's work. The initiatives are:

PARTNERSHIP DEVELOPMENT GRANTS

Cuomo said that HUD will award \$10 million in "partnership development" grants in at least 20 cities to enlist faith-based organizations to help families find and keep housing, using Section 8 rental assistance vouchers. Special attention will be given to groups working with families being relocated as a result of HUD's efforts to demolish and replace dilapidated public housing.

The Secretary's initiative is based in part on the conclusions of the 4th annual State of the Cities report issued by HUD earlier this week at the U.S. Conference of Mayors meeting in Seattle. The report found that the booming economy has driven up home purchase prices and rents beyond the rate of inflation, putting added pressure on the record 5.4 million American families without affordable housing.

"The rising economic tide has lifted the price of housing, sinking the efforts by some families to find housing they can afford," Cuomo said. "Though the resources allocated to HUD by Congress are far from sufficient to meet the needs of all these families, we are fully committed to insuring that the Section 8 vouchers we do have are as fully-utilized as possible. Who better to help families find housing or to enlist landlords in providing housing than the faith-based organizations who sit at the very heart of our communities?"

The partnership development grants will be awarded competitively under HUD's annual Super NOFA awards process, which will commence early next year.

The grants will be used to: 1) Familiarize faith-based organizations with rules and regulations governing the Section 8 rental assistance program. 2) Enable the organizations to promote HUD's Fair Housing goals. 3) In consultation with local housing authorities, provide rental and homeownership counseling to families with vouchers. 4) Encourage landlords to rent housing units to Section 8 families.

Particular attention will be paid to organizations that are working with families who are using Section 8 vouchers to relocate from public housing complexes that are being

transformed by HUD's HOPE VI revitalization program.

CYBER-READINESS

The Secretary also announced that a major faith-based organization, Harlem Congregations for Community Improvement (HCCI), will open one of the nation's first ten community-based Cisco Networking Academy sites later this fall. The academy will train some 120 at-risk young people from 16 to 25 to be cyber-ready, willing and able to compete in the information age.

Traditionally, CISCO academies have been located in schools. HUD, CISCO and Communities in Schools have agreed to open 10 academies in non-traditional sites like public and HUD-assisted housing complexes, Empowerment Zones and HUD Neighborhood Network Centers. The idea was first proposed during President Clinton's recent New Markets Tour."

"In these cyber-times, the cyber-ready will succeed," said Cuomo. "A recent HUD study found that while high-tech industries are growing in our central cities, that growth is not keeping pace with what's happening in the suburbs because of a shortage of skilled workers.. The partnership we are announcing today will start to close that skills gap, helping make sure that our central cities have a workforce ready, willing and able to compete in the cyber-economy."

HUD's "State of the Cities" report, which surveyed 114 major metropolitan areas, found that some 600,000 high-tech jobs had been created in American cities between 1992 and 1997. However, 900,000 high-tech jobs were created in the suburbs during the same period.

HCCI is an organization of comprised of 80 congregations in the Harlem community that, since its founding in 1986 as part of the Bradhurst Revitalization Plan, has developed more than 1,300 units of affordable housing and is the recipient of a 1998 HUD Safe Neighborhoods Grant.

Its CISCO networking academy will be located at 210 West 146th Street in Manhattan, in an HCCI-owned, HUD-assisted multi-family housing complex. It is part of the Upper Manhattan Empowerment Zone.

The building currently is being wired and is expected to be ready for its first classes in September 2000. Computer equipment for the academy is being donated by Technical Careers Institute, a local technical college.

The academy will offer two classes each year, targeted to young people between

the
ages of 16 and 25. Each participant will receive at least 280 hours of
information
technology training.

Margy_Waller@opd.eop.gov on 07/27/2000 10:26:52 AM

To: Jeffrey M. Lubell/PDR/HHQ/HUD@HUD
cc: Francis_S._Redburn@omb.eop.gov, Alan_B._Rhinesmith@omb.eop.gov,
Adam_Hoffberg@omb.eop.gov, James_F._Jordan@omb.eop.gov,
Lauren_Larson@omb.eop.gov, Andrea_Kane@opd.eop.gov
Subject: Re: A Few Questions

Two questions from DPC.

1) It's our understanding that PHAs will not be scored under SEMAP until September. The first to be scored will be those with FYs ending on June 30, the rest will follow on a rolling basis. Is it possible for a PHA to offer to be scored early in order to access the option to increase the FMR? Or would it be OK to use the old definition of 'troubled' until the first ratings are done?

2) Will HUD use the ROC \$ to provide grants to local PHAs for contracts with local providers who can provide counseling and other assistance (transportation, landlord outreach, security deposits etc.) to voucher holders? We see value in asking a national intermediary to provide TA to PHAs to build capacity, but think it is critical to have a local provider or PHA staff provide on-site assistance.

We also do not think there should be any special emphasis on using this money to encourage the involvement of faith-based providers. Do you agree?

We look forward to your written response to our questions and those from OMB in advance of our 1:00 p.m. call.

Thanks.

Message Copied To:

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



Margy Waller

07/26/2000 05:42:15 PM

.....

Record Type: Record

To: Michael Deich/OMB/EOP@EOP
cc: See the distribution list at the bottom of this message
bcc: Records Management@EOP
Subject: Re: talk w/saul r. 

After a quick look - one problem with the counter-proposal:

We think that the counseling/assistance is key to taking full advantage of raising FMR. Let's NOT be silent on that point. I suggest we outline options: admin, and support the Sec 206 proposal to use housing assistance for up to 6 months. (States could also dedicate TANF for this purpose.) Finally, I understand that HUD has \$10 million in unspent ROC funding that could be used to support mobility moves.

There may be other things after more careful review.

Michael Deich



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
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Message Copied To:

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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 larsen/omb/eop@eop
janis a. coughlin/omb/eop@eop



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

07/27/2000 03:09:01 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: New Mobility List

New Test:

More than 25 percent of voucher-holders in 5 percent or less of all census tracts.

MSAs with fewer than 100 census tracts excluded.

Will call to discuss.

Albuquerque, NM MSA
Atlanta, GA MSA
Austin-San Marcos, TX 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
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

Message Copied To:

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

888.113 (a)
40% percentile km R
ref.

1) It either is
equivalent or better
or worse.

2) This is who it would
impact.

Trade groups - tell me
who this helps &
who it hurts

150% of 40th percentile
depends on the distribution
of rents

depends on
appropriations

**CENTER ON BUDGET
AND POLICY PRIORITIES**

FAX

P: 202-408-1080

F: 202-408-1056

From the desk of....

Ellen Nissenbaum

Legislative Director

nissenbaum@cbpp.org

To: Margy Waller

Date: 7/26/00

Pages (including cover):

Re:

As promised by Barbara Sard.

 **CENTER ON BUDGET
AND POLICY PRIORITIES**

July 25, 2000

**Section 206 of the House VA-HUD Bill Makes Important Improvements
in the Section 8 Voucher Program**

Included in the House-passed FY 2001 VA-HUD appropriations bill is a general provision designed by Committee staff to enable more families in tight rental markets, to locate rental units in which they can use Section 8 vouchers. Section 206 of H.R. 4635 would provide housing agencies that serve "difficult utilization areas" with increased flexibility in using the Section 8 funds they receive from HUD to make the voucher program work more effectively. In addition, it would enable such agencies to help families with Section 8 subsidies access housing in low-poverty neighborhoods. This provision does not require additional appropriations for FY 2001. The Senate HUD-VA appropriations bill should include a similar provision.

What Section 206 would do

Section 206 would amend the Section 8 statute (42 U.S.C. § 1437f(o)) to allow a public housing agency (PHA) that serves a "difficult utilization area" to use the funds it receives from HUD for the tenant-based Section 8 program in two helpful ways not permitted under current law.

- 1) 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 (FMR). The rent for a particular unit would still have to be reasonable in light of rents for comparable units in the neighborhood. Currently, PHAs have discretion to set the payment standard for the Section 8 voucher program up to 110 percent of the HUD-established FMR. They need HUD approval to set the payment standard above 110 percent, and such approval may be difficult to obtain. Such an increased payment standard would make more housing potentially available to families with vouchers.
- 2) 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.¹ PHAs could determine what types of payments or services to provide in light of their local market

¹ In effect, the limitation of the cost of benefits or services to a particular family to six months' worth of housing assistance means that such payments are 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 cost as little as \$600 - \$1,000 per family. See Margery Austin Turner and Kale Williams, *Housing Mobility: Realizing the Promise*, The Urban Institute, 1998.

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.²

Why is the flexibility provided by Section 206 important?

The current economic expansion has caused rapid increases in rent levels and severe declines in the number of 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. The flexibility afforded by Section 206 would permit PHAs to adopt a number of strategies to make voucher holders more competitive within these constrained market conditions.

By enriching the amount of the voucher subsidy or recruiting new landlords to participate in the program, a PHA can make more units potentially available to families with vouchers. To make the existing housing market more efficient for voucher holders, a PHA may provide services to assist families to locate units that are available. In addition, a PHA may provide certain types of payments, such as holding fees (to compensate 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 an 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 are unable to provide these enhanced services or payments.

Section 206 does not require additional appropriations

The administrative changes that would be permitted by Section 206 do not require increased appropriations. Rather than returning Section 8 funds unused at the end of the year to HUD, PHAs could use the funds they are already contracted to receive to provide one-time payments or services to help families use the Section 8 vouchers they have been issued, or to increase the subsidy provided to landlords.

PHAs have a financial incentive to use the flexibility afforded by Section 206 only to the extent necessary to increase the number of families that rent housing with their vouchers. 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 increasing the subsidy payment or using some of the funds

² Section 206 does not require HUD to use these specified factors, and permits HUD to add other criteria. If adequate data does not exist on the local level regarding rental housing vacancies or inflation rates, HUD could establish other measures of difficult market conditions.

to provide services, it will have more families participating in the program and receive more administrative fees. As a result, a PHA will want to raise subsidy payments or provide additional services with Section 8 funds only if such strategies will result in an increase rather than a decrease in the number of families using vouchers.

If 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 will be necessary to increase the individual PHA's annual Section 8 contract with HUD. Whether an increase in the total budget authority for Section 8 renewals would be required in future years to maintain the number of families served by the Section 8 program nationally, however, is uncertain. Only a portion of PHAs will be eligible to use the flexibility afforded by Section 206, as housing market conditions vary throughout the country. Eligible PHAs may choose to raise subsidy payments less than the maximum allowed, or may choose instead to use available funds to provide services and payments to maximize families' leasing possibilities. The provision of such one-time services or payments on behalf of families newly issued vouchers does not increase the future cost of maintaining the authorized number of families on the program. Further, some PHAs' increased costs may be offset by decreased costs for other PHAs.

The House bill includes an additional \$660,000 within the Housing Certificate Fund for "monitoring" the implementation of Section 206. While not essential to the effectiveness of the provision, it is sound policy to ensure that HUD has the funds necessary to determine whether the flexibility offered by Section 206 accomplishes its goals. Monitoring --- or perhaps more properly, evaluating --- the implementation of Section 206 could identify the most effective and efficient strategies used by PHAs under different housing market constraints.

Section 206 is narrowly targeted at areas where the constraints of the local housing market rather than poor management are preventing appropriated funds from being used despite families' need for housing assistance. It is an important element of a needed comprehensive approach to improving voucher utilization.³ The Senate HUD-VA appropriations bill should

³ 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 the Center paper on *Section 8 Utilization and the Proposed Housing Voucher Success Fund*, available on the internet at <<http://www.cpbb.org/3-22-00hous2.htm>>. The Administration's proposed Voucher Success Fund would provide \$50 million in new funding for technical assistance and training to improve program management as well as to make grants to PHAs for the types of services that some PHAs would be able to implement with existing funds under Section 206. PHAs would not be able to use grants provided by the Voucher Success Fund to increase subsidies paid to landlords. The Voucher Success Fund would be an important complement to, but not a substitute for, the flexibility provided by Section 206. Another means to improve voucher utilization is to make it easier for PHAs to "project-base" some of their vouchers, ensuring that certain units will be available under the program. Families living in units subsidized by project-based vouchers could be provided with a "continued assistance option," allowing them to move if family or economic circumstances required. No additional appropriations would be required for this option.

include this provision.

Sand
green hair

Project Carry Voucher

Administration - proposed to link 76.9 vouchers
→ contract of PIM foundation + depends
on that point
PIM must inform people
on time

Accounting

every year - every week - get with first all
national basis - they need that one year

Small staff was upset @ work + being

FMR

Huby still for a long time proposal to ↑ 110% for payment still
must do more work than before - need date
to compare data
new survey data required for link
every 1 month with

↓
long time that
PIM and 100%
of time

→ House & housing assistance can be
used → services (exp alternative to services
and)
\$3000 HUD VA app. app.

→ ↑ 15,0% of program staff

up to 600,000 / year
family

\$3000 / family with income max

\$500 / family; max. funding for miles

From HUD

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 50th 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 deconcentration 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

07/27/2000

08:26:01 AM

Record Type: Record

To: Jeffrey_M._Lubell@HUD.GOV@ INET

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

Subject: A Few Questions

add the SEMAP question.

Jeff, here are a few questions following from our discussion yesterday:

1. What set of MSAs would receive an FMR boost under the second (mobility/concentration) test if the thresholds were that: (1) fewer than **67%** of census tracts are accessible at the current FMR; and (2) more than **10** percent of voucher holders in the area live in tracts where voucher holders comprise 10 percent or more of occupied units?
2. What is the recent success rate in New York City?
3. Under the very general authority for Regional Opportunity Counseling funds, could the \$10 million balance be used by HUD to hire one or more experienced organizations to work with the affected PHAs both by providing direct counseling and assistance to voucher recipients and also to train their staffs to provide improved orientation and search assistance, thereby leaving a lasting gain in capacity? *DPC thinks there have to be local providers of service.*
4. Could you put into your words how you see performance standards for improved success rates and improved mobility/deconcentration being defined, including time frames (we discussed three years yesterday for mobility/deconcentration but the timeframe for progress on success rates might be shorter), and how SEMAP would be modified to incorporate performance for the affected PHAs by these standards?
5. Can you confirm my understanding that the increase "as a matter of right" resulting from low success rates (test #1) will be published as a new dollar figure (corresponding to the 50th percentile of FMRs at the time) and that, as has been the practice with similar increases granted to date, the payment standard will remain at 90 to 110% of this number until HUD either grants a subsequent increase or inflation in market rents erodes the established figure to the 40th percentile?
6. Similarly, can you confirm that an increase in the FMR to the 50th percentile for MSAs meeting test #2 will be revisited periodically (we discussed every 3 years)? How will the decision to extend interact with the performance standard for this objective?

Thanks. If we have this additional information before us when we resume at 1 p.m., it should help us come to consensus. Why don't you call me then, 395-6932, and we will patch in our DPC colleagues.

Message Copied To:

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



Margy Waller

07/26/2000 03:55:12 PM

.....

Record Type: Record

To: Michael Deich/OMB/EOP@EOP

cc:

bcc: Records Management@EOP

Subject: Re: HUD letter 

Two things about our strawman for the next draft

1) It's my understanding that PHAs will not be scored under SEMAP until September. The first to be scored will be those with FYs ending on June 30, the rest will follow on a rolling basis. Is it possible for a PHA to offer to be scored early in order to access the option to increase the FMR? Or would it be OK to use the old definition of 'troubled' until the first ratings are done?

2) Does the mobility/concentration criteria apply to the PHA area or the FMR area? The PHA area may be too small, right?

Michael Deich



Michael Deich

07/26/2000 03:46:23 PM

Record Type: Record

To: Andrea Kane/OPD/EOP@EOP

cc: alan b. rhinesmith/omb/eop@eop, francis s. redburn/omb/eop@eop, margy waller/opd/eop@eop

Subject: Re: HUD letter 

i spoke with nancy lesser and matt franklin within the last hour; they will take our comments back to cuomo. i haven't spoken yet with jack; i expect to see him shortly, and will report back when i know his views.

**Section 8 Housing Vouchers
Question and Answer
7/25/00 -- Draft**

Q: Is the Section 8 Housing Voucher Program working?

A: The Section 8 Housing Voucher Program provides housing to 1.6 million low-income households. In most areas, Section 8 housing vouchers are effective in helping families afford rental housing. A 1994 report by Abt Associates found 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.

Though nationally the rental vacancy rate remains high at around 8%, there are certain local rental markets that are tight, where rents have risen and vacancy rates have dropped. In these areas voucher 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.

Q: What is the Administration doing to make vouchers better in certain areas?

A: The Housing Voucher Success Fund was proposed in the 2001 budget to ensure that voucher holders receive assistance in their search. Under this proposal, \$ 50 million 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. We urge Congress to enact this initiative.

In addition, 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.

- Public housing authorities (PHAs) have been given authority to raise the payment standards in all or part of its jurisdiction in order to expand the number of housing units affordable to voucher holders. PHAs now have local discretion to raise voucher payment standards to 110 percent of the Fair Market Rent (FMR), covering well over half of the rental units on the market. With HUD approval under new streamlined procedures, 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 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 that 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.



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

Number of page(s) following: _____

Date: 7 / 26 / 00

To: Andrea Kane / Marzy 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: 7/26/00

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 DIRECTOR -
F.Y.J. + FOD REVIEW.

MATT

DRAFT FOUR REVIEW

MEMORANDUM FOR: President Clinton

FROM: Secretary Cuomo

Don't know / Reed

RE: Washington Post Story on Affordable Housing Subsidy

reasons for

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.

*mention
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.

*intense
- low income
category
concentration*

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. *example*

*problematic
doesn't
work
everywhere
admin
did it*

target

2. Announce a plan to dedicate \$5 billion¹ 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:

*percentages
instead
of
\$ amts*

- 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.

drop

pl assistance

the Congress is still 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:

- 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. *gets added to mortgage*

- 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. *gets financed & reduces monthly payment - very small charge*

Like Lazio's bill? - A win for Lazio?

- Create the 21st 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 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. *affordable add tribal housing authorities*

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. *good!*

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.

Link to vouchers!

add to subsidy

timing > announcement?

Pre-1990
what was
the rule for
deciding how
much to give
back?

where's
the
voucher?

is this
competitive?

SCH

 **CENTER ON BUDGET
AND POLICY PRIORITIES**

March 22, 2000

Section 8 Utilization and the Proposed Housing Voucher Success Fund

Established in 1974, the Section 8 tenant-based rental assistance program helps participants afford rental housing by subsidizing the rents of apartments they locate in the private market.⁽¹⁾ Despite 25 years of experience with tenant-based vouchers and certificates, there continue to be differing opinions regarding the extent to which they are effective in helping program participants access affordable housing. In recent years, some housing professionals have expressed concern that the sustained economic expansion has led to changes in local housing markets, such as rapidly escalating rents and low vacancy rates, that may have made housing vouchers more difficult to use in certain areas.

This paper examines the issue of Section 8 voucher and certificate utilization by:

- summarizing currently available data on the extent to which the Section 8 tenant-based program is effective in helping program participants access affordable housing;
- describing recent changes to the program that should improve "success rates" for participants;
- examining the need for a "Housing Voucher Success Fund," as proposed by the Administration in its FY 2001 budget; and
- discussing the importance of a balanced low-income housing strategy that employs both housing vouchers and housing production tools.

In brief, we conclude that housing vouchers appear to be working well in most areas and that recently enacted legislation should help to improve voucher usage in difficult markets. Nevertheless, steps could be taken to make vouchers work better. The Housing Voucher Success fund proposed by the Administration could help to increase the extent to which new program participants (and current participants needing to move) are able to use their vouchers to access affordable housing. In areas with a shortage of available rental housing, however, it may be necessary to adopt a strategy for promoting the production of new affordable rental housing.

The Dominant Housing Problem Is One Of Affordability

Most families with housing problems in the United States have an "affordability" rather than a "housing quality" problem. HUD data show that nearly four in five households with "worst case housing needs" in 1995 lived in housing that was neither moderately or severely inadequate nor overcrowded. Despite the apparent physical adequacy of their housing, these households were classified as having worst case housing needs because their housing costs consumed more than half of their very low incomes.⁽²⁾

In part because families may use Section 8 housing vouchers to help them afford the costs of their current rental housing, such vouchers generally work well to address housing affordability problems. Where there is a shortage of available rental housing of adequate quality, however, strategies to promote the production of additional rental housing may be needed. As discussed below, Section 8 vouchers can contribute to such a production strategy and enable families with the most urgent housing needs to benefit from newly

produced housing.

Section 8 Subsidies Appear To Work Well In Most Areas

Research confirms that, in most areas, Section 8 tenant-based assistance is effective in helping families afford rental housing. The most recent national data on this subject come from the *Section 8 Rental Voucher and Rental Certificate Utilization Study* prepared for HUD by Abt Associates in October 1994. The data from that study show that, outside of New York City, some 87 percent of the households newly issued a Section 8 voucher or certificate succeeded in obtaining housing with their subsidies.⁽³⁾ A new study is currently underway to update these results.

In addition to considering the relative success of new voucher recipients in finding housing, it is important to examine the extent to which the total universe of outstanding housing vouchers are being utilized at any given time. HUD data show that, as of January 2000, some 93 percent of the vouchers that HUD has made available for current use by state and local housing agencies were being used to subsidize the housing costs of low-income households.⁽⁴⁾ An agency can utilize all of its allocated voucher funding even if some families return their vouchers unused. Vouchers returned unused are reissued to new families on the waiting list. PHAs that anticipate that some of the families issued vouchers will not succeed in using them do not have to wait for the return of the unused vouchers. To maximize use of available voucher funding, they can issue vouchers to more families than their funding would be able to support if all families issued vouchers succeeded in using them to rent housing.⁽⁵⁾

It May Be Getting More Difficult To Use Housing Vouchers In Certain Markets

In recent years, as rents have risen and vacancy rates have fallen in many areas, there has been a growing number of informal and anecdotal reports suggesting that families are having problems using vouchers in some areas. A large public housing agency in Massachusetts, for example, reported early in 1999 that it was issuing three or four vouchers for every one that was used successfully to secure housing; while this practice ensures that all of the agency's allocated vouchers were being used, it also suggests the agency was experiencing a "success" rate for new voucher recipients of only 25 to 33 percent. (In the past year, this housing agency has improved its voucher "success rate" by using some of the tools the 1998 housing act and implementing regulations provide, notably the options to increase voucher subsidy levels and extend the time a family has to search for housing.) To similar effect, a recent study of the Section 8 certificate and voucher programs in Missouri found that the St. Louis County voucher program had a success rate of around 50 percent, while the City of St. Louis program reported a success rate of 70 percent.⁽⁶⁾ At a national forum on the housing voucher program the National Low-Income Housing Coalition held in 1999, several other housing agencies in different areas indicated they are experiencing similar problems.⁽⁷⁾

In light of such reports, it makes sense to consider strategies for improving the success rates of new voucher recipients in areas experiencing problems. As described below, there are a number of steps that state and local housing agencies now can take to improve voucher usage. Many of these steps reflect new program options resulting from changes in the Section 8 tenant-based program included in legislation enacted in October 1998. HUD regulations implementing these changes became effective as of October 1999.

Housing Agencies Have New Tools To Help Improve Voucher Usage

Recent changes in the Section 8 tenant-based program should help to resolve some of the obstacles that families face in successfully using their subsidies in certain areas.

- *As of October 1, 1999, the Section 8 certificate and voucher programs have been merged into a new housing voucher program.* This should significantly expand housing opportunities by making additional rental units available if families are willing to pay somewhat more of their income for rent. Whereas families with Section 8 certificates were limited to apartments renting below a HUD-determined Fair Market Rent (FMR) for the area, families with Section 8 vouchers may choose to rent apartments above the voucher payment standard by paying more than 30 percent of their income for rent. In the past, families with Section 8 vouchers had consistently higher success rates in all areas of the country than families with Section 8 certificates. Prior to the merger, roughly three-fourths of all households with Section 8 tenant-based assistance had certificates rather than vouchers.

With the merger of the two programs, all new recipients of Section 8 tenant-based assistance will receive vouchers. In addition, any family with a Section 8 certificate that chooses to move will receive a voucher. By October 2001, all Section 8 tenant-based assistance will be converted to vouchers.

- *Housing agencies now have discretion to raise voucher payment standards to 110 percent of the FMR.* This will allow housing agencies experiencing problems with the utilization of tenant-based subsidies to raise subsidy levels, thereby expanding the number of rental units accessible to Section 8 participants. Under prior law, housing agencies could set the voucher payment standard no higher than the FMR. HUD data on the distribution of rents in various metropolitan areas suggest that the new discretion to raise payment standards could significantly expand families' housing opportunities.⁽⁸⁾ (To economize, housing agencies could reduce payment standards in lower-cost areas and raise them in higher-cost areas.)
- *HUD now has authority to approve "exception" payment standards exceeding 120 percent of the FMR.* This will allow housing authorities to address difficulties with the utilization of tenant-based subsidies in extremely high-cost areas. Under prior law, exception payment standards could not exceed 120 percent of the FMR. To be authorized to use an exception payment standard, housing agencies must demonstrate that the exception is justified by actual rental costs in a portion of the FMR area, and provide evidence sufficient for HUD to determine that the exception is needed to overcome difficulties in using vouchers or to help families find housing outside areas of high poverty. PHAs also may receive HUD approval to use a payment standard above 110 percent to enable a person with disabilities to lease appropriate housing.
- *The Section 8 Voucher Program has become more landlord-friendly.* Among other changes, the 1998 Housing Act permanently eliminated the "endless lease" policy that made it difficult to evict Section 8 participants. The Act also permanently repealed the requirement that a landlord accepting one Section 8 family agree to take others.
- *The new Section 8 Management Assessment Program (SEMAP) system provides strong incentives for housing agencies to improve Section 8 utilization.* To obtain a good score under the new SEMAP system, a housing agency must demonstrate that at least 95 percent of the tenant-based subsidies budgeted for the agency are under lease.

In addition to raising payment standards, there are a number of steps that state and local housing agencies could take to improve the success rates of families with tenant-based subsidies. For example, housing agencies could:

- *Take advantage of the authority to "project-base" up to 15 percent of the total number of Section 8 tenant-based subsidies they administer.* To stimulate the

rehabilitation of existing units and the production of new rental units that are affordable to extremely low-income families, Congress has authorized housing agencies to attach up to 15 percent of their portfolio of tenant-based subsidies to new or rehabilitated units. Few housing agencies have fully utilized this authority.

- *Provide housing search assistance to voucher-holders and/or start a landlord outreach program.* Even in markets where the overall voucher success rate is reported to be low, anecdotal evidence suggests that the vast majority of voucher-holders provided with housing search assistance — in contrast to those who do not receive such additional help — succeed in using their vouchers to rent housing. Two sources of additional funding for such programs are HUD's Regional Opportunity Counseling program and Homeless Supportive Services grants. In addition, some housing agencies have secured funds from the state TANF agency to assist with such housing search assistance. Another helpful strategy that requires no additional funding is to ensure that families with vouchers are allowed adequate time to search for housing. Housing agencies may extend the search time of voucher-holders that do not find housing during the initial 60-day period. Although prior law limited families' search time to a maximum of 120 days, this limitation has been eliminated.
- *Improve basic program administration.* Administrators of effective Section 8 programs report that faster unit inspections and the timely issuance of rent checks can increase the willingness of landlords to participate in the Section 8 tenant-based program.
- *Collaborate with agencies administering HOME, CDBG and lead paint abatement funds to link voucher-holders to rehabilitated rental properties.* In many areas, difficulties in using vouchers result from the poor quality of available housing rather than a housing shortage per se. (Vouchers can only be used in units that meet federal housing quality standards.) While substantial federal funds — and some state and local funds — are available to remedy inadequate housing conditions, the agencies that administer these programs rarely use these funds to make additional units available to voucher-holders. Where housing quality is a substantial barrier to voucher use, the relevant city and state agencies should work together to alleviate the problem.
- *Start a Section 8 homeownership program.* In those areas where ongoing mortgage costs are comparable to Fair Market Rents, housing agencies could take advantage of the new authority to use Section 8 vouchers for homeownership. This program option could increase the number of units available to voucher-holders, particularly those with large families. HUD has issued a proposed rule implementing the Section 8 homeownership program. A final rule is expected soon.

A Housing Voucher Success Fund Could Help to Improve Voucher Usage

As the above discussion makes clear, state and local housing agencies have a variety of tools at their disposal to help address any problems in voucher usage. There are a number of obstacles, however, to agencies' effective implementation of these strategies. Some of the strategies — such as improved housing search assistance and landlord outreach — may cause housing agencies' administrative costs to increase beyond the level that can be supported by current administrative fees. Other strategies — such as establishing a homeownership program — may (or may not) cause agencies' administrative costs to go up in the long-run, but certainly have significant start-up costs.

Still other strategies — such as changing the housing voucher search time or the voucher payment standard — have little or no administrative cost to housing agencies, but are unlikely to be implemented until agency administrators obtain a better understanding of the program options and the possible consequences of their implementation. For example, many administrators do not yet understand that the recently-issued rule that governs

funding for Section 8 contract renewals permits agencies to increase their voucher payment standards, either to improve utilization or to promote moves outside concentrated poverty areas, without reducing the number of families their Section 8 programs can serve.

For FY 2001, the Administration has proposed a \$50 million housing "Voucher Success Fund." Depending on how this fund is implemented, it could help to ensure that state and local housing agencies are able to take the necessary steps to improve housing voucher usage. The Administration has proposed to use the fund for:

- (1) technical assistance to the local public housing authority or community to improve the success of the voucher program;
- (2) 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
- (3) further outreach to landlords and community groups to encourage participation in the voucher program.

The Administration also has proposed language that would allow the Secretary to use up to one percent of the Fund "to establish monitoring systems" for the Fund and "to conduct detailed evaluations of the effect of providing assistance under [the] Fund."⁽⁹⁾

The increased technical assistance provided by the proposed fund could help state and local housing agencies better understand the many changes in Section 8 voucher program rules over the past 18 months. It is particularly important to help agencies think strategically about how to use their newly expanded discretion to improve voucher success rates. Housing agencies also may need help understanding the complex interactions of the various new rules and the implications of the new Section 8 Management Assessment Program.

Grants targeted on areas experiencing problems with voucher usage also could help to improve voucher success rates, as well as increase the number of households using vouchers to move to areas offering good employment and educational opportunities. Among other possible uses, housing agencies could use grants from the voucher success fund to:

- implement landlord outreach strategies, such as the establishment of a private landlord advisory board, the design and distribution of marketing materials, or the payment of bonuses to landlords newly participating in the program;
- provide additional housing search assistance to families to help them locate available units that meet housing quality standards, preferably in neighborhoods with better employment and other opportunities;
- establish a revolving loan fund to help provide security deposits to families who need this assistance to locate decent housing, especially in better neighborhoods;
- provide holding payments to landlords to cover their costs between the time a voucher-holder submits a request for lease approval and the time the lease is approved, which enables voucher-holders to stand on roughly equal footing with ordinary renters who are not required to obtain a housing quality inspection and housing authority approval before signing a lease; and
- provide assistance to families that believe they have been denied housing opportunities unlawfully to pursue discrimination complaints.

The proposed fund also offers an opportunity to learn which strategies are most effective in

improving voucher usage in different types of markets. To maximize the research value of the proposed fund, it is important to ensure that a variety of different strategies are tested and evaluated in different problem settings. Potential examples of such problem settings include: markets with low-vacancy rates, markets with a shortage of units that can pass HUD quality standards, and markets in which there is a high incidence of discrimination in the rental housing market against minorities and families with children.

In Some Markets, Housing Production Strategies Are Needed

As noted above, the voucher program works best where there already is an adequate supply of decent quality rental housing. In areas with supply problems, however, it may be necessary to promote the construction of additional rental units or the rehabilitation of existing units so that they comply with Section 8 quality standards. Sources of funding for such efforts include the HOME block grant program and the low-income housing tax credit (LIHTC).

Subsidized units constructed or substantially rehabilitated through HOME and the LIHTC program are required to be affordable to families with incomes of approximately 50 to 60 percent of the area median income. Although some units produced through these programs have rents that are affordable to families with somewhat lower incomes, these units generally are not affordable to poor and near-poor families, including families attempting to make the transition from welfare to work. Through the use of housing vouchers, however, these newly produced units can be made affordable to poor and near-poor families.

There are a number of different ways to integrate housing vouchers into a housing production strategy. One option under existing laws and regulations is for housing agencies to link a portion of their Section 8 vouchers to specific developments through the "project-basing" authority described above. This strategy can help to improve voucher usage but has the drawback of limiting the mobility of participating families by denying tenants the opportunity to move and retain their housing assistance. One reason families might need to relocate is to move closer to a new job.

Another example of how housing vouchers could be used as part of a housing production strategy may be found in the Administration's FY 2001 budget. The Administration has proposed 10,000 new vouchers to be used in a "housing production voucher" initiative. Under this proposal, state agencies responsible for the low-income housing tax credit program would receive an allocation of vouchers that they could assign to specific tax credit developments. State agencies would have discretion to decide which developments should receive vouchers and how many vouchers each development would receive, up to a maximum of one-fourth of the number of units in any development. These vouchers would enable tax credit developments to serve some poor and near-poor families, which ordinarily could not afford the rents. Families issued the vouchers could decide after a year whether to stay in the development or move to a private market unit of their choice.

Still another potential model for integrating housing vouchers into a housing production strategy is described in the box on the previous page. This model seeks to achieve the benefits associated with the existing "project-basing" model, including improved voucher usage and potential production incentives, without sacrificing the ability of subsidized tenants to move and keep their housing assistance.

A Model for Integrating Vouchers Into a Housing Production Strategy

This model seeks to combine the best aspects of project-based and tenant-based assistance. Under this model, housing agencies would contract with non-profit organizations or private owners to link a specified number of housing vouchers to a particular development for a fixed period of time (perhaps five or ten years). The initial tenants would be selected by the manager of the development from among families referred by the housing agency. Unlike current project-based programs, however, the tenants in this model would have the right to move (after one year) and retain their federal housing assistance. (One reason families might need to relocate is to move closer to a new job.) Tenants that wished to move would receive the next available housing voucher, freeing up a subsidy at the development for a family on the housing agency's waiting list that wished to live there. This would ensure that the specified number of subsidies continue to be utilized at the development throughout the term of the housing agency's contract with the owner.

Such a model could provide a sufficiently secure subsidy stream to induce owners to commit units to the program, thereby improving voucher success rates. This model of project-based vouchers also could help to produce new housing by reducing the amount of other subsidies, such as low-income housing tax credits or HOME funding, needed to enable a development to house poor and near-poor families. At the same time, this model ensures that subsidized families have the freedom to choose where to live, a key benefit of tenant-based assistance.

End notes:

1. The first Section 8 tenant-based subsidies were called Section 8 "certificates." As the program evolved, a second type of tenant-based subsidy emerged, termed a Section 8 "voucher." Some of the difference between these two programs are described later in this paper. In 1998, Congress merged these two programs into a single tenant-based program known as the Housing Choice Voucher program.

2. U.S. Department of Housing and Urban Development (HUD), Rental Housing Assistance—The Crisis Continues: The 1997 Report to Congress on Worst Case Housing Needs, Washington, DC, 1998, Table A-7. HUD defines households with worst case housing needs to be renter households with incomes below 50 percent of the area median income that do not receive government housing assistance and either (a) spend more than half their income on rent and utilities or (b) live in housing with severe physical problems. Although HUD tracks the extent to which households live in overcrowded housing or housing with moderate physical problems, this information is not used in determining the number of households with worst case housing needs. The database that HUD uses for its report on worst case housing needs — the American Housing Survey — does not include data on homeless households.

3. The comparable "success" rate in New York City was 62 percent. Although called for based on the study's research protocol, the study did not include data from Los Angeles because of data reporting problems.

4. Resident Characteristics Report for the Section 8 Certificate and Voucher Programs, Multifamily Tenant Characteristics System, January 2000. The latest version of this report may be accessed through the Internet at: <http://www.hud.gov/mtns/public/navmenu.cfm>. The January MTCS data is a snapshot for the particular month. There are a number of reasons why there is a gap between the number of vouchers allocated by HUD and the number in use in a particular month. For example, some PHAs may not be issuing all of their subsidies because the subsidies are reserved for a particular purpose, such as relocating families from public housing due to be demolished later in the year. Some PHAs may not anticipate correctly the rate of turnover of current program participants and as a result may issue new subsidies too slowly to keep all vouchers under lease. In markets where many families return vouchers unused because they cannot locate housing to lease, PHAs may not be over-issuing vouchers by a sufficient amount to achieve full utilization.

5. Predicting accurately the rate of "lease-up" by new voucher-holders is difficult, due to the vagaries of families' search efforts and rapid changes in local housing markets. Generally, PHAs seek to utilize as close to 100 percent of their voucher funding as they can without exceeding their budgeted funds. (If families issued vouchers succeed in leasing units, PHAs are obligated to provide the subsidy amount due.) PHAs that "overlease" and become obligated to provide a greater amount of monthly payments to owners than HUD has authorized usually do not receive additional funds from HUD; they must use program reserves or other funds to meet the additional expenses. Such PHAs must cease to issue vouchers that become available through turnover to new families until their total subsidy costs are within their budget authority and they have

replenished their program reserves.

6. See Laura Barrett and Kelly Camrud, Still Vouchered Up and Nowhere to Go Part II: Problems and Promise in Missouri's Subsidized Housing Programs, Housing Comes First, St. Louis, MO, November 1999.

7. See Brian Maney and Sheila Crowley, Scarcity and Success: Perspectives on Assisted Housing, National Low-Income Housing Coalition and Meeting America's Housing Needs, 1999, available on the Internet at: <http://www.nlihc.org/mahn/sec8index.htm>.

8. HUD Office of Policy Development and Research, U.S. Housing Market Conditions, Summary (Spring, 1999), p. 6, available on the internet at: <http://www.huduser.org/periodicals/ushmc/spring99/summary-2.html>.

9. Appendix to the Administration's FY 2001 Budget, p. 480.

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next week - meeting w/ HHS to talk @ cost estimates.

- contingent on receipts being >
create the fund
- dedicate the receipts every year
- use intermediaries

Andrea Kane

Record Type: Record

To: Margy Waller/OPD/EOP@EOP

cc:

Subject: note to BR/BC

this is what I was going to send. any suggestions?

.....
You may have seen an article on front page of the Post yesterday about problems with Section 8 vouchers in Northern Virginia and other high cost markets. Attached is information Margy pulled together with help from OMB in the event we got asked for guidance.



Section8Q&A0725.d

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 an increase in the Fair Market Rent (FMR) and a housing production program with the FHA surplus. You'll recall that the President directed HUD to work with DPC and OMB to come up with a plan to use these funds to address affordable housing. Margy's been working closely on this and though we're not too far apart on a proposed approach, it looks like there may be big differences between the amount of money HUD and OMB think are available.

We've just gotten a copy of the draft memo Cuomo plans to send to the President very soon. We and OMB have conveyed to HUD that we think the FMR increase needs to be targeted to those areas that need it most - not just across the board. Since Cuomo really wants the announcement, he'll probably agree to some kind of targeting. The draft memo also lays out a proposal for spending the FHA surplus, which contains some elements we've not seen or discussed (though Cuomo presents it as our combined response to the President's directive). We're meeting w/ OMB at 11 to discuss both the content and process.

Assuming it will be hard to get Cuomo to not send the memo to the President, **we'll probably need to get your guidance on how to proceed this afternoon.** For example, we may need to send our own OMB/DPC memo that accompanies the HUD memo, or see how close we can get before HUD sends their memo.

Boom Times a Bust For Housing Subsidy

By Ann O'Hanlon
Washington Post Staff Writer
Tuesday, July 25, 2000 ; B1

She loved her old apartment: outdoor fountains at the building's entrance, a view from a spacious sixth-floor balcony, a laundry room on every floor. A child of Detroit's ghetto, Cynthia Evans thought living at London Park Towers in Alexandria "was one of the few times in my life where I felt like a normal person."

Then her landlord broke the news. London Park was raising rents and, more important, no longer would accept the federal voucher that had allowed her to live there for six years. Evans either had to pay the higher rent without the federal help — an impossibility — or move out in 60 days. Her once-crippling depression returned; she again felt suicidal. "When I got that notice, it just — I almost OD'd," she said.

Now a cockroach-laden building with poor security is her home.

Hundreds of the working poor locally — and thousands across the country — are being squeezed out of their apartments into less desirable ones or onto waiting lists as many private landlords opt out of a huge federal rent subsidy program.

With the rental market sizzling, the landlords have discovered they can easily find unsubsidized clients willing to pay escalating rents and no longer need to fill out their buildings by accepting poorer tenants paying below-market rates through the program, called Section 8.

The owner of a Prince George's County apartment complex, for example, just told 300 tenants who use Section 8 that they had to be out by the end of September.

"It's definitely a business decision," said Dave Thomas, director of property management for Allen and Rocks, which oversees the Washington Heights Apartments. The owner, Nalbel Limited Partnership, believes it can "get better rents and not have to deal with the bureaucracy of the federal government."

As a result of the Section 8 crunch, officials say, homeless rolls are rising — up 12 percent in Fairfax County, for example — and qualified Section 8 families are waiting longer for a slot in a shrunken universe of landlords still willing to participate in the program.

All this comes at a time when other options for the poor, such as public housing, are diminishing as well. Pam Michell, who runs New Hope Housing in Fairfax County, a private group, said the Section 8 situation has never been worse in her 16-year career.

"It used to be if someone got a Section 8, we could sort of breathe a sigh of relief and say, 'Oh, these folks are going to be okay,'" Michell said. "Now I see them get one and I think, 'Oh God, they got a Section 8.'"

Under the program, which is administered through local housing officials, the low-income participants pay a portion of an apartment's rent and the federal government covers the rest, up to a fixed maximum. But in many cases, that maximum is now below the rent the apartment could command in the open market. According to Delta Associates, the vacancy rate in the region is less than 1 percent. Rents have increased 15 percent in some cases since last year.

Translation: Section 8 renters are no longer enticing to many landlords, especially given the program's paperwork requirements. They can make more profit without it.

"I guess a lot of the landlords that may have needed us before don't need us anymore," said Peggy Pimenthal, Arlington County's housing director.

No one knows how many Section 8-related units in the region have evaporated; there used to be 32,000; in part because of how the program works.

In some cases, landlords agree to designate all or some of the units in a building as available for Section 8 tenants, and housing officials then direct them to those buildings. So when a participating landlord takes a building off the list, the units lost are readily known to officials. To date, landlords of such designated buildings have withdrawn about 1,000 apartments from the pool.

In other cases, tenants are not directed to buildings available to Section 8 applicants but are given a voucher, good for a limited period, that they can give to any landlord willing to take it as partial payment of the rent. Because this type of Section 8 is decentralized, it is difficult to quantify how many landlords who used to say yes to vouchers are now saying no.

But a survey of 200 local landlords and housing offices by The Washington Post suggests that about half the landlords in Fairfax and Prince George's counties who used to accept vouchers no longer do. Twelve of the 31 landlords in Alexandria who did have stopped doing so. Many prospective tenants describe fruitlessly calling 100 or more landlords.

Ernette Starks, 33, who lives with her three children at the Washington Heights complex in Prince George's, is scrambling to find a new place before the Sept. 30 deadline. But, she said, landlords have told her either that they won't take a Section 8 voucher or that the waiting list for the few units they devote to the program is long. So long, Starks said, that "you'll be on the street before they have a place for you." And if a voucher expires before being used, its holder must return to the waiting list and start over.

Kay Management, which operates Cynthia Evans's former building, decided it would no longer participate in Section 8 there and at two other Alexandria locations because of government paperwork and because the subsidies left rents too far below market rates, a spokeswoman said.

Banners at London Park Towers now tout "our new look" and "fantastic designer kitchens," and the rent on Evans's former unit is now \$865, up from \$810. The building's rents will soon climb even higher, said Suzanne Higgs, Kay Management's regional property manager.

"We're moving it from a Class B property to a Class A property," Higgs said, adding that the effect on Section 8 residents was sad. "When they say, 'This is my home,' we feel it, because we're human, too, but we have a responsibility to the owners, too."

In her search for new accommodations, Evans, 30, had two options. One was the homeless shelter where she works as a mental health counselor, giving seminars on how to survive mental illness. The other was the bug-infested building she ultimately chose. She didn't think living among clients at the shelter would send the right message.

"It's kind of hard to set yourself up as a person who's coping when you've just been evicted," Evans said, only half-joking.

Signs of the crisis abound across the country. Homeless shelters in Boston have overflowed for 24

consecutive months, a record. In San Francisco, the federal Department of Housing and Urban Development raised its subsidy ceiling by 50 percent, trying to keep pace with high rents. In a trial program, Seattle's Housing Authority allowed Section 8 recipients to use as much income for rent as they felt they could afford; rather than holding them to 30 percent; in the hope they could hang on to units. Many tenants in the trial program found they had to pay half their income, even with Uncle Sam's help, to have their own roof.

To complaints that they are not adapting to the rising rental market, HUD officials reply that new laws are in place to help and that local governments need to be creative and aggressive in marketing the program.

"HUD does not entirely control conditions and circumstances within the local market," said Gloria Cousar, a deputy assistant secretary. "Local communities themselves can offer incentives such as tax deductions or tax credits."

Indeed, some jurisdictions are finding piecemeal solutions.

Montgomery County, for example, has not lost many Section 8 units because it helps nonprofit organizations buy complexes that landlords are threatening to take out of the program. The Housing Initiative Fund was just approved for another year, to the tune of \$7 million.

Beyond that, some local governments are issuing even more Section 8 vouchers, to guarantee that in a diminished market, all the landlords still willing to accept one are found by apartment seekers, much the way airlines overbook flights to make sure every seat is filled.

And Arlington, Fairfax and Montgomery counties, as well as Alexandria, just raised by 10 percent the maximum rent they are willing to help cover, a new option made possible by HUD and Congress. That means, for example, that government will help underwrite a \$924 apartment instead of an \$840 one, presumably making it more attractive for landlords to participate. The District is on the verge of taking a similar step.

(There's a trade-off for the higher subsidized rents. Jurisdictions get a finite pot of Section 8 money from Uncle Sam. Bigger subsidies mean the money does not underwrite as many apartments overall.)

Even with adjustments, many landlords have little cause other than a good heart to open their doors to government assistance. Jan Landskroner, a senior citizen in Alexandria, was fortunate to have that happen.

Landskroner, a former teacher who is now disabled, got word a year ago that her home of eight years, the Foxchase apartments, might abandon the Section 8 program, possibly forcing 423 tenants to look elsewhere. Then the landlord agreed to a five-year renewal of its Section 8 participation after government agreed to do better with subsidies.

Even so, Landskroner said, "It's inhuman, particularly for the disabled and elderly people, to be put through this." And even with the agreement, the landlord is falling behind again. Two-bedroom apartments could go for \$1,410 a month on the open market now, but under the agreement, the subsidies will reach only to \$1,150.

"I think we could have probably made more money in the long run by opting out," said Bruce Terwilliger, senior vice president with Aimco, the Foxchase landlord. "But we want to be good citizens. . . We want to be supportive of the community."

Many landlords, however, just don't like the hassle.

To become a Section 8 landlord, a property owner must fill out three or four forms and then wait for a government inspection. The lease must contain some government language, which many landlords say is more restrictive than their typical lease. Once the Section 8 tenant is in place, a form or two must be signed each year, and the local housing authority, as well as the tenant, must be notified of any rent increase or eviction.

It sounds like a lot, said Kim Berry, the property manager for a Fairfax homeless-prevention program and Section 8 landlord called Good Shepherd Housing. But, she said, in reality, the paperwork "takes maybe 15 minutes a year."

Paperwork aside, other landlords complain that government checks sometimes arrive late. And some acknowledge that they would rather not have Section 8 tenants at all because apartments sometimes wind up damaged.

Marjorie Kennedy Pantaleo, who runs a transitional housing program in Prince William County, said she understands landlords' reluctance. Just the same, she said, they could help fix the problem. "They could screen people better, get good references and really pay attention," Pantaleo said.

Amid all this turbulence and change sits Jelanda Winston, 22, holding a Section 8 voucher she'd love to use. Her mother died of cancer last year, leaving Winston, a child care worker, with four dependents in a two-bedroom apartment in Reston. Her two young brothers sleep on cushions on the living room floor, and her sister sleeps on a fold-out cushion at the foot of her daughter's bed. The belongings of four children are stuffed into one closet.

One brother, Ammiel, 12, pines for a room where he and his brother could display their L.A. Lakers posters. "I would like my own room to relax in and do my own stuff," he said. "I could do homework in my room."

But Winston can find no landlord willing to accept the Section 8 voucher for a three-bedroom apartment. It will expire next month.

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Program +
Policy ~~staff~~
appalled

starting next year
what success
people are having
→ targeting increases

regulation

6% of population
covers

takes you above
where you can
go now

raise their rent
and capture
windfall

\$350 → \$400M
interim rule

→ concentrations
of Sec 8 voucher
holders

45th-40th
would that
deny access to any
particular
would not drink
and abuse

10% gets you above
the 50th percentile
33% of current FMR

people who pay their
\$150M own
some landlords would

announce
proposed rule

recalculate FMR
late in year

2001

targeted use
encourage PHA
ask them to
seek exceptions
don't want to incur
cost of market

study
make it automatic
PHAs that are
high performing &
low success rates

Cuomo wants to raise the Fmk

\$8-900M fully phased in

Issues ① cost

② success rates on increasing / no evidence for tenants

③ mobility

cost

1st year costs FY 2001

Not in the budget

this can be done administratively says Cuomo
Not in the budget
Not in the first year.

430-Rm 231

Subject: HUD Proposal to Raise Housing Voucher Fair Market Rents

Def
12-1-10

HUD Secretary Cuomo has said that he intends to increase the Fair Market Rent (FMR) payment standard for housing voucher rents from the current 40th percentile of the local distribution of market rents to the 50th percentile. The FMR is set by regulation.

Because assisted families could rent at higher levels, average program rents would rise over the next five years by about six percent and subsidy costs by up to 10 percent. By year five, this would raise annual outlays by \$750 million to \$1 billion. Or, if appropriations did not increase, the number of families aided would drop by up to 160,000.

The increased cost of renewing vouchers also may require a budget amendment to provide up to \$486 million in additional budget authority. Outlays in 2001 would rise by as much as one-half that amount. These immediate increases are largely the result of increases in subsidies to the new FMR level for currently assisted tenants.

Background

The FMR is the basis for determining subsidy payments in HUD's Housing Voucher program, which serves 1.6 million low-income households. The subsidy is the difference between the local voucher payment standard and 30 percent of the household's income, after various adjustments. The FMR is usually the payment standard. It varies from one housing market to another with variations in market rents. It also varies with the size of the household.

Local housing authorities, who administer the voucher program, can at their discretion set the payment standard at 90 to 110 percent of the FMR, for parts or all of the area they serve. If they want to set a payment standard above 110 percent of the FMR, they must come to HUD for approval.

Twenty years ago, the FMR was moved from the 50th percentile to the 45th percentile of the local distribution of market rents. In 1995, this Administration decided to lower the FMR further to the 40th percentile. This was done to reduce per-unit subsidy costs and thereby generate savings that could be used to fund more vouchers and other budget initiatives.

There has been concern that lowering the FMR may have reduced the success of families in using vouchers, especially where the supply of units available for rent is already limited by tight market

conditions or landlords' reluctance to rent to voucher holders. A second concern is that lower FMRs would concentrate voucher holders in poorer neighborhoods. However, HUD has presented data showing that the reduction did not substantially cut the number of eligible rental units or increase geographic concentration of assisted families. Raising or lowering FMRs in this range does not seem to significantly affect success rates or program benefits. Expert testimony points to many and varied other reasons why some families have difficulty using vouchers to rent apartments.

So why do they want to do it?

Recently, concern about tightening rental markets and reports of declining success by voucher holders in some markets in using the voucher have produced new pressure for remedies.

- The Administration's response in the 2001 Budget, which was welcomed by advocates and experts, was to propose a \$50 million Voucher Success Fund that could be used at HUD's discretion to address a wide variety of local circumstances found to reduce success rates.
- The House VA/HUD bill takes a different approach, giving HUD new authority to approve a payment standard in "difficult utilization areas," i.e., tight markets, as high as 150 percent of the FMR and to use subsidy funds to provide search assistance to families in those markets. HUD's proposed increase in the FMR to the 50th percentile seems to have a similar objective. However, it would not be targeted to markets where success rates are depressed and thus would have a wider effect and greater, as well as more immediate, cost impact.

If the Administration raised the FMR and the House provision to permit voucher payment standard increases up to 150 percent of the FMR *also* were enacted, their interaction would have a multiplier effect on program costs.

Pros and Cons of the HUD proposal are summarized below:

Pros

- Expands the range of available units, especially where markets are tight.
- Would be seen as a response to recent concerns that the voucher is not useful to some families.
- May aid efforts to deconcentrate low-income and minority families and to help families who wish to move to higher-cost suburban areas with better schools and plentiful jobs.
- Soaks up some of the excess balances that HUD has been carrying and recapturing from PHAs that did not fully use their allocations, thereby reducing criticisms that the Department cannot correctly estimate its funding needs or effectively use the amounts provided to aid more families.

Cons

- The change is not needed to provide relief from tight market conditions, because a 1998 law

21/27
27

gives local housing authorities the option to raise voucher payments standards to 110 percent of the FMR (roughly the 46th percentile of rents) for part or all of the market area without asking HUD's permission. In addition, HUD has routinely approved requests for larger FMR adjustments; currently 283 areas (covering 15 million people or 6.4% of the U.S. population) have HUD-approved payment standards above 110 percent of the FMR.

- Because areas that need relief can, with few exceptions, get relief by raising the local voucher payment standard, the real effect of an across-the-Nation FMR increase is to raise subsidy levels unnecessarily in other areas.
- If the change is proposed now to be effective October 1st, it will require a budget amendment to provide up to \$486 million in additional budget authority to renew expiring contracts. It also will raise program outlays by up to \$240 million in 2001. The number of households that could be added to the rolls with the \$690 million requested for incremental vouchers would be reduced from 120,000 to fewer than 110,000. These 2001 cost effects could complicate the Administration's efforts to secure additional funds for HUD initiatives, including more vouchers.
- Eventually, either the number served will have to drop by up to 10 percent or the dollars appropriated to renew expiring contracts will have to increase by up to 10 percent. A proposal that reduces the numbers who can be assisted by that amount could undercut the main argument HUD has made for incremental funding, i.e., that 5.4 million families have "worst case" needs, usually meaning they are using over 50 percent of their income for rent and thus desperately need assistance. Higher subsidy costs would effectively eliminate the incremental gains of the last two years and put the goal of reducing "worst case" needs even farther out of reach.
- Although the higher FMR will help soak up excess balances that HUD has been criticized for carrying, it will eliminate the opportunity that HUD has to reallocate unused balances to other jurisdictions where they are badly needed to address "worst case" needs.
- Another effect of higher voucher costs will be to make it harder to achieve one of the Administration's major performance goals, replacing the worst public housing units with vouchers and new units. Up to now, we have been able to show that vouchers are less expensive than the public housing units they replace.

Timing and Strategy

If the HUD proposal were announced now, it could provide an argument that the House provision is unnecessary and allow the Administration to take credit for addressing reports that voucher success rates are declining. On the other hand, it could complicate strategy for securing incremental vouchers.

If HUD waits to see whether Congress will fund incremental vouchers and its proposal for a

Voucher Success Fund, it retains the option to raise FMRs later. In the meantime, we could work with the Department to see whether a more targeted increase in FMRs might achieve its objectives at lower cost.

James F. Jordan

06/23/2000 05:58:04 PM

Record Type: Record

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

cc: Adam Hoffberg/OMB/EOP@EOP

Subject: Ballpark estimates -- Cost of raising the FMR to the 50th percentile

PD&R staff estimate a BA cost of \$486 million in 2001 from raising the Fair Market Rent (FMR) from the 40th percentile to the 50th percentile of all local rents. The large immediate impact results from HUD picking up the over subsidy costs now paid by the tenant. For example, if the tenant is renting an apartment that is \$10 above the FMR, the tenant now pays that \$10 per month. When the FMR is increased, HUD would begin paying that cost (if it is within the new higher FMR).

The associated outlays from the \$486 million are approximately half, or \$243 million, because HUD begins paying the higher costs only after the tenant's annual re-certification of income, which are spaced throughout the year. We would add another \$40 million to that outlay figure, for a total of \$283 million in 2001, due to new tenants renting higher priced apartments (than previously) and existing tenants relocating to higher priced apartments. The outlays would continue to drift upward each year until they eventually reached a total increase of \$741 million. See calculation below.

$$\begin{aligned} & (\text{Average \$ increase in FMR} * 12 \text{ months}) * \# \text{ of voucher holders} = \text{maximum costs} \\ & \text{or} \\ & (\$38.64 * 12) * 1,600,000 = \$741 \text{ million).} \end{aligned}$$

Note that PD&R staff have not yet agreed to \$741 million as an upper bound number. They do agree, however, that there are some secondary effects where the higher FMR will increase other HUD costs. For example, the annual inflation adjustment in some project-based Section 8 projects is capped by the FMR; hence, a higher FMR will result in higher outlays for the annual inflation adjustment on those units. PD&R has not yet estimated those secondary effects.

	(\$ in millions)			
	<u>2001 BA</u>	<u>2001 Outlays</u>	<u>2002 Outlays</u>	
<u>Eventual Upper bound</u>				
PD&R estimate of immediate costs	\$486	\$243	\$486	
OMB estimate, higher costs from new tenants and moves of existing tenants to new units		\$ 40	113	
Total for 2001	\$486	\$286	\$599	\$741+

COST OF RAISING FMR to 50TH PERCENTILE

We estimate that the 50th percentile of rent is, on average, 6.4 percent higher than the 40th percentile of rent.

The MTCS file for October 1999 has been used to calculate (1) actual average subsidy payments, and (2) what those subsidy payments would have been if the FMR had been 6.4 percent higher and the average payment standard had been held at the same ratio to FMR that it is currently holds (94 percent).

We found that the projected subsidy with the higher FMR was approximately 4.39 percent higher than the current subsidy.

The FY 2001 budget projects a per-unit cost of \$5733 for vouchers. 4.39 percent of \$5733 is \$251.68.

There are 1,933,000 units to which this estimate applies: 82,000 welfare to work incrementals and renewals, 60,000 incremental fair share, 10,000 PIH tenant protection units, 1,764,000 regular renewals, 6500 shelter plus care units, and 10,000 HOPE VI/202 conversions.

1,933,000 times \$251.68 equals approximately \$486 million.

MEMORANDUM FOR THE DIRECTOR

FROM: Michael Deich

Subject: HUD Proposal to Raise Housing Voucher Fair Market Rents

HUD Secretary Cuomo proposes to increase the Fair Market Rent (FMR) payment standard for housing voucher rents from the current 40th percentile of the distribution of market rents in each local market to the 50th percentile, effective in FY 2001.

The FMR is used to set the subsidy level for housing vouchers. With the increase, voucher holders could access a larger share of private rental units in the local market area. With the FMR at the 50th percentile, well over one-half of the rental units in each metropolitan area would be within reach of voucher holders paying the standard 30 percent of their income for rent..

Reasons for the Increase

HUD argues that, by expanding the number of units accessible with vouchers, raising the FMR would have two benefits:

- (1) it would increase voucher success rates (the proportion of families issued a voucher who succeed in renting a unit); and
- (2) it would open access to neighborhoods where rents are higher, thus helping people move to better neighborhoods and reducing any tendency for voucher holders to become concentrated in particular neighborhoods.

In addition, Sec. Cuomo believes that raising the FMR to the 50th percentile would be helpful in arguing for incremental vouchers. It would allow HUD to counter claims that vouchers don't work in some tight rental markets by saying that roughly one-half of all rental units in each market were now accessible to voucher holders. *(In fact, because of an upward bias in the FMR calculation, HUD's analysis shows that over one-half of all rental units in metropolitan areas -- and in some areas up to 70 percent -- rent for less than the current FMR.)*

The benefits of raising the FMR depend on how large a role it plays in determining success rates and concentration. Most families issued a voucher succeed in renting an apartment, although for a variety of reasons some return the voucher, which is then reissued to another family. HUD

collects no data on local voucher success rates and is only now studying how and why they vary from place to place. A new survey of expert opinion conducted by the Urban Institute for HUD cites the FMR limit as only one of many factors explaining variation in success rates. We used this study as the basis for the Voucher Success Fund proposal in the 2001 Budget; these funds are designed to be used flexibly by HUD and localities to address a variety of obstacles to using vouchers -- including landlord resistance and poor local administration.

A 1999 HUD analysis found that factors other than a restrictive FMR account for local concentrations of voucher holders in particular neighborhoods. It concluded that "units are generally available to voucher holders throughout a metropolitan area.." HUD also found that the number of neighborhoods accessible by voucher holders declined only slightly when the Administration reduced the FMR in 1995 from the 45th to the 40th percentile as a cost-saving measure.

Changing the FMR now may have less importance because of a 1998 statutory change that permits each community to raise its voucher payment standard to 110 percent of the FMR without asking HUD. HUD also has approved increases above 110 percent of the FMR for areas with six percent of the U.S. population. HUD's analysis of data for ten metropolitan areas showed that increasing the payment standard to 110 percent of the current FMR was equivalent to raising the FMR to between the 53rd and 59th percentile in those areas -- an even larger increase than moving the FMR from the 40th to the 50th percentile of the rent distribution.

If HUD now raises the FMR to the 50th percentile, communities will have the option to raise their payment standard without HUD approval to 110 percent of that new FMR. In the Washington, D.C., area, for example, a voucher holder could rent a three-bedroom apartment for \$1,305 a month (110 percent of the new higher FMR). To afford such an apartment without subsidy and pay the standard 30 percent of income, an unsubsidized family would have to earn \$52,000 a year.

Impact on Program Costs

Because a higher FMR permits assisted families to rent at higher levels, program costs would rise. If implemented at the beginning of FY 2001, HUD would need an additional \$350 to \$400 million in 2001 BA to renew expiring Section 8 contracts. Outlays in 2001 would rise by about \$160 million.

The short-term cost of vouchers would increase because some subsidized families now supplementing the voucher with their own funds to pay rents above the current FMR would immediately receive additional subsidies and pay less rent from their own pockets. If implementation were delayed, much or all of this cost could be deferred to 2002.

Over the next five to seven years as the rents paid by voucher holders shifted upward toward the new payment standard, program costs would increase by up to 10 percent. Annual outlays would be \$750 million to \$1 billion higher. Or, if appropriations did not increase, the number of

families aided would drop by up to 160,000. This would hamper the Administration's effort to reduce the numbers of poor households paying over 50 percent of their income for rent or living in severely substandard housing.

Alternatives to HUD's Proposal

It may be possible to achieve the benefits HUD seeks while avoiding the need for a 2001 budget amendment.

One option would be to target FMR increases to areas that have problems with rising rents or declining voucher success rates. One reason HUD's proposal is so expensive is that it raises rents everywhere, even though most communities have no problem either with success rates or concentration. Targeting the increase would require HUD to collect new information on success rates or rental market conditions, which could delay implementation. A variation on this option would be to announce that HUD will automatically approve a temporary increase in the payment standard to 110 percent of the FMR or above where justified by declining success rates or tight rental market conditions.

Another option would be to announce a plan to increase the FMR now but delay the increase until the public has a chance to comment on the proposal through the rule-making process. Deferring implementation would allow HUD to begin collecting and using local success rate information to target FMR increases. It plans to collect this information beginning next year. It would also permit HUD to adjust details of the proposal after consulting with its constituents.

Who? A third option would be to refine the 2001 Budget proposal for the Voucher Success Fund. Some have criticized the \$50 million fund as giving HUD too much discretion or as simply additional funds for technical assistance. To respond to these criticisms, HUD could redefine the proposal so that local agencies that are having problems with success rates despite good management automatically qualify for a formula amount to boost their efforts to help voucher holders find apartments.

Background on Fair Market Rents

The FMR is the basis for determining subsidy payments in HUD's Housing Voucher program, which serves 1.7 million low-income households. The subsidy is the difference between the local voucher payment standard and 30 percent of the household's income, after various adjustments. The FMR is usually the payment standard. It varies from one housing market to another with variations in market rents. It also varies with the size of the household.

Local housing authorities, who administer the voucher program, can at their discretion set the payment standard anywhere between 90 to 110 percent of the FMR, for parts or all of the area they serve. If they want to set a payment standard above 110 percent of the FMR, they must come to HUD for approval.

Twenty years ago, the FMR was moved from the 50th percentile to the 45th percentile of the local

distribution of market rents. In 1995, this Administration decided to lower the FMR further to the 40th percentile. This was done to reduce per-unit subsidy costs and thereby generate savings that could be used to fund more vouchers and other budget initiatives.

Recently, concern about tightening rental markets and reports of declining success by voucher holders in some markets have produced new pressure for remedies.

- * The Administration's response in the 2001 Budget, which was welcomed by advocates and experts, was to propose a \$50 million Voucher Success Fund that could be used at HUD's discretion to address a wide variety of local circumstances found to reduce success rates.
- * The House VA/HUD bill takes a different approach, giving HUD new authority to approve a payment standard in "difficult utilization areas," i.e., tight markets, as high as 150 percent of the FMR and to use subsidy funds to provide search assistance to families in those markets. HUD's proposed increase in the FMR to the 50th percentile seems to have a similar objective. However, it would not be targeted to markets where success rates are depressed and thus would have a wider effect and greater, as well as more immediate, cost impact.

If the Administration raised the FMR and the House provision to permit voucher payment standard increases up to 150 percent of the FMR *also* were enacted, their interaction would have a multiplier effect on program costs.



Margy Waller

06/27/2000 08:01:18 PM

.....

Record Type: Record

To: Andrea Kane/OPD/EOP

cc:

Subject: HUD proposal to raise FMR rents

Apparently, OMB heard about this issue for the first time last week. Although this is a big deal - and was moving very fast - it seems to be contained. I was told that HUD's policy and program staff were appalled - but going along (of course).

Since this morning - OMB believes that HUD has agreed to slow down.

The memo sent over by Steve Redburn today does a fine job of outlining the issues.

The Secretary proposes to raise the fair market rent payment standard (usually the amount above 30% of household income which will be subsidized) from the current 40th percentile of the distribution of market rents to the 50th percentile - effective in FY 2001.

HUD proposes to make this change to increase voucher success rates and mobility into neighborhoods where rents are higher.

However, currently over 1/2 of all rental units - and in some areas up to 70 percent - rent for less than the current FMR. And HUD found that the number of neighborhoods accessible by voucher holders declined only slightly when this Administration reduced the FMR from the 45th to the 40th percentile in 1995.

It seems HUD may be responding to complaints that the voucher system doesn't work by arguing that the increase will open up more housing to voucher holders and thus create more success in the program.

There is a large cost. (350 - 400 M in 2001 BA and outlays in 2001 would rise by about 160 million). HUD proposed to implement as an interim rule immediately.

There are a number of alternatives. The Administration's proposal for a voucher success fund could address these same issues. A slower implementation of the change (with NPRM and comment period) could delay the cost.

PHAs already have authority to increase to 110% of FMR without permission from HUD (change in the statute in 1998) and can get an additional increase with approval from HUD. HUD has pretty routinely granted such requests. Another alternative would be to notify PHAs that providing evidence of a tight market or declining success rates would automatically result in an increase to 110% or above.

OMB proposes two other alternatives:

- 1) Target the increase to problem areas - this reduces the cost, but would require HUD to gather success rate data. (They are just starting to do this now and won't have info for about a year, at least.) Gathering data means implementation will be delayed.

- 2) Refine the Voucher Success Fund. OMB says 'some have criticized the fund as giving HUD too much

discretion or as simply additional funds for technical assistance'. (We should find out who said this.)

I think I agree with OMB. There's no need to increase across the country - and landlords would surely take advantage of the option. I really like the Voucher Success Fund. Maybe it should be coupled with a plan to raise rents in targeted areas.

What do you think?

cc: Andrea

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FAX TRANSMITTAL COVER SHEET

DATE: 6/27/00	TO: Chandini Bachman
FAX: 395-1307	OF: OMB

COMMENTS:

Forward
To Margy Waller
6-7431

FROM: Lisa Kosow	TELEPHONE: 708-2370 FAX: (202) 708-1485
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NUMBERS OF PAGES (INCLUDING COVER PAGE): 7

MAY 1999

1st Quarter

U.S. Housing Market
Conditions

HUD - PD+R

RESEARCH ON FAIR MARKET RENTS

The February 1999 issue of *U.S. Housing Market Conditions* defined Fair Market Rents (FMRs), explained how they determine the level of benefits available to families participating in the certificate and voucher program, and described how HUD calculates FMRs for 2,736 distinct areas annually. This issue reports research that HUD has conducted on FMRs. Four topics are covered: the accuracy of FMR estimates, the adequacy of FMRs within subareas of metropolitan FMR areas, the impact of specific elements in the FMR standard on the level of benefits provided, and the effect of the increased flexibility given by the Quality Housing and Work Opportunity Act of 1998 to local housing authorities and HUD to alter FMRs.¹

How Accurate Are FMRs?

Once each decade—at the time HUD incorporates the latest decennial census into its calculation of FMRs—HUD has the opportunity to see how much error has accumulated over the past decade in individual FMRs.²

The top panel of Table 1 shows the effects of the 1990 census on the 1994 FMRs—the first year in which FMRs were no longer based on the 1980 census. The results indicate that the accumulated error was both substantial and negative: 55 percent of FMR areas showed a drop of 10 percent or more, 6 percent showed an increase of more than 10 percent, and only 39 percent were within 10 percent of the census numbers. The factors used during the decade to update FMRs had resulted in substantial overestimates of the FMRs.

The error was particularly serious among the non-metropolitan FMR areas, where fully 60 percent had been overstated by more than 10 percent (compared with only 21 percent of the metropolitan FMR areas). This reflects two problems. First, prior to fiscal year 1994, HUD set FMR rents in nonmetropolitan areas by county groups rather than individual counties. These groups typically consisted of several counties, but often the FMR calculation was dominated by a single county in the group. As a result, when HUD shifted to individual counties in

FY 1994, the county group FMRs were frequently substantially different from the FMRs in the individual counties. Second, in the 1980s accurate data on local rent trends among the nonmetropolitan areas during the decade were not available, the only updating that occurred had been based on Consumer Price Index (CPI) data that divided the Nation into only four regions and did not distinguish between metropolitan and nonmetropolitan parts of those regions. By contrast, many metropolitan FMR areas had been updated since the 1980 census using annual CPI surveys of the metropolitan area or several metropolitan areas combined. For the largest metropolitan areas, there had been at least one rebenchmarking of the FMR from an American Housing Survey during the decade.

Because FMR areas vary widely in size, a better measure of the importance of the accumulated errors is found by weighting the percentage errors by the number of rental units in each area. By this measure the errors were not nearly as serious, although nonmetropolitan FMR areas still account for a disproportionate share of serious errors. The bottom panel of Table 1 shows that in nonmetropolitan areas, 45 percent of the rental stock was within 10 percent of being correct, compared with about 80 percent of the metropolitan rental stock. Far more nonmetropolitan markets (45 percent) faced decreases of more than 10 percent than metropolitan markets (7 percent).

Although one would expect errors to be greatest at the end of a decade of updating, HUD has taken major steps to reduce errors in the 1990s. The Department now uses Random Digit Dialing (RDD) surveys to provide finer detail on rent inflation by region, to spot-check areas where other information suggests that FMRs may be inaccurate, and to routinely update the FMR baseline for metropolitan areas that have large certificate and voucher programs.

The RDD surveys used for routine updating also provide a more current picture of the accuracy of FMRs for larger metropolitan areas. Over the past 3 years, HUD has conducted 80 routine update RDD surveys.³ Of these, 39 resulted in no changes, 18 led to increases in the FMR, and 23 led to decreases in the FMR. These results suggest that accurate updating of FMRs is still a challenge but has improved greatly since the 1980s. Of the 41 changes, only 9 were equal to or greater than 10 percent. In other words, 88 percent of the FMRs were within 10 percent of the right level. The current approach appears to be generally unbiased, with approximately equal number of increases (18) and decreases (23).

Table 1. Effect of 1990 Census on 1994 FMRs

Unweighted			
20 percent or more rise	1.5	0.3	1.7
10-19.9 percent rise	4.0	7.6	3.6
Change <10 percent	38.6	70.7	34.5
10-19.9 percent drop	29.6	13.8	31.5
20 percent or more drop	26.4	7.6	28.9
Weighted			
20 percent or more rise	0.7	0.0	3.8
10-19.9 percent rise	11.6	13.1	5.4
Change <10 percent	78.1	79.6	45.4
10-19.9 percent drop	9.6	5.4	27.3
20 percent or more drop	4.9	1.9	18.1

FMRs and Small Areas

A frequent criticism of FMRs in metropolitan areas is that an FMR that covers an entire metropolitan area will be too high in some parts of the metropolitan area (usually the central city) and too low in other parts (usually affluent suburbs). Although average rents vary throughout a metropolitan area, the important question from the perspective of whether the certificate and voucher programs are workable is whether the distributions of rents overlap enough to permit certificate and voucher holders to find units throughout the metropolitan area. HUD analysis indicates that units are generally available to certificate and voucher holders throughout a metropolitan area.

Table 2 lists 30 metropolitan areas where HUD studied the availability of rental units to Section 8 certificate and voucher holders at the minor civil division level. (In compiling data from decennial censuses, the U.S. Bureau of the Census reports separately for local governments and for areas recognized locally as distinct geographical entities; the number and size of these minor civil divisions vary from metropolitan area to metropolitan area.) Column 2 counts the number of minor civil divisions in each metropolitan area. Column 3 reports the percentage of these minor civil divisions in which at least 30 percent of the two-bedroom rental units rented in 1990 for less than the metropolitan 1990 equivalent of the FMR as currently defined (that is, at the 40th percentile).⁴ Column 4 provides the

same information as column 3 for FMRs defined at the 45th percentile. Overall, an adequate number of rental units affordable at the FMR are available in 75 percent of the minor civil divisions. In only three metropolitan areas did the percentage of minor civil divisions fall below 60 percent and in only one case (Rapid City, South Dakota) did the percentage fall below 50 percent.

Table 3 lists 13 metropolitan areas where HUD studied the availability of rental units to Section 8 certificate and voucher holders at the census tract level. Column 2 counts the number of census tracts with at least 10, 2-bedroom rental units with cash rents. Column 3 reports the percentage of these census tracts in which at least 30 percent of the 2-bedroom rental units rented in 1990 for less than the metropolitan 1990 equivalent of the FMR as currently defined (that is, at the 40th percentile). In every metropolitan area, at least 70 percent of the census tracts with some rental activity had at least 30 percent of their two-bedroom rental units renting for less than the FMR.

Effect of Choice of Percentile, Recent Movers, Etc.

The FMR definition contains several elements. Changing any one of these elements will change the FMR and, in turn, the level of benefits received by certificate and voucher holders. For example, in 1995 HUD changed the definition from the 45th to

Table 2. Availability of Rental Units in Minor Civil Divisions

Minor Civil Division	Number of Minor Civil Divisions	Percentage of Rental Units Available	Percentage of Rental Units Available
Baton Rouge	40	82.5	90.0
Birmingham	48	91.7	93.8
Boston	106	92.6	94.3
Charleston, WV	11	90.9	100.0
Cincinnati	98	69.4	78.5
Columbia	16	87.5	87.5
Denver	16	75.0	75.0
Eugene	15	100.0	100.0
Evansville	32	81.3	87.5
Hartford	37	83.8	86.5
Jackson	15	73.3	78.8
Lincoln	26	69.2	69.2
Los Angeles	21	81.0	81.0
Lowell	10	60.0	70.0
Memphis	30	96.7	96.7
Miami	12	58.3	75.0
Milwaukee	94	56.4	62.8
Oklahoma City	20	90.0	96.0
Omaha	68	60.3	64.7
Philadelphia	340	73.8	78.2
Portland, OR	26	96.2	96.2
Pueblo	7	85.7	85.7
Rapid City	37	29.7	29.7
Richmond	44	84.1	86.4
Rochester	81	88.9	91.4
Sacramento	25	88.0	92.0
San Antonio	11	100.0	100.0
Seattle	28	95.7	100.0
Washington	108	79.6	85.2
Wilmington, DE	35	94.3	97.1
All 30 metro areas	1,452	77.6	81.3

Table 3. Availability of Rental Units in Census Tracts

Census Tract	Number of Units	Percentage of Units Available
Atlanta	436	71.1
Buffalo-Niagara Falls	279	90.0
Cedar Rapids	40	92.5
Columbus	326	85.2
Davenport-Moline-Rock Island	93	75.3
Detroit	752	71.1
Houston	643	81.6
Kansas City	406	81.8
Nassau-Suffolk	416	83.9
New York	2,115	91.1
St. Louis	457	83.8
Seattle	416	83.9
Wichita	117	87.2

the 40th percentile. As a result, the average FMR was reduced by \$13. By definition, the percentage of units available to program participants in each FMR area declined by 5 percentage points. The effect of this change on the dollar value of the FMR varied across areas, with an average reduction of 3.5 percent and with most of the reductions in the 3- or 4-percent range.

An important concern at the time was how the change from the 45th to the 40th percentile would affect the ability of certificate and voucher holders to find units throughout metropolitan areas. Table 2 shows only minor effects in the 30 metropolitan areas studied on the number of minor civil divisions in which at least 30 percent of the 2-bedroom units rent for less than the FMR. The percentage declined from 81.3 percent to 77.6 percent over all 30 metropolitan areas.

The FMR standard uses the 40th percentile of rents for units occupied by recent movers because these rents are considered more representative of units available to certificate and voucher holders. Because of this and other adjustments, many more than 40 percent of all rental units have gross rents less than or equal to the FMR. Approximately 41 percent of program participants use certificates and vouchers to rent the unit they occupy prior to entering the program. In these cases, the relationship between the FMR and the overall distribution of rents is more relevant.

Data from a special extract of the 1990 census can be used to measure the effect of using recent movers and making other adjustments. The special extract contains information on gross rents for all units and for those units occupied by recent movers—namely, those occupied within the past 15 months. In accordance with the FMR standard, the extract eliminates units constructed within the 2 years prior to the census and units with severe deficiencies, such as incomplete plumbing or kitchen facilities. In Table 4, FY 1999 FMRs are converted into 1990 dollars using the same rent inflation indices that were used to update FMRs and are compared with the distribution of gross rents for all units in the special extract for 20 metropolitan areas.

Strictly speaking, this comparison does not isolate only the effect of using recent-mover rents. The FMRs contain additional quality adjustments and an adjustment to eliminate the effect of having public housing units in the distribution. Table 4 shows that the combined effect of using recent-mover rents and these other adjustments is to make between 45 percent and 70 percent of all rental units available to certificate and voucher holders depending upon location. Averaging over all metropolitan areas, 51.4 percent of rental units have rents less than the FMR; the comparable figure for non-metropolitan areas is 50.2 percent. The average for all FMR areas is 51.2 percent.

Table 4. Percentage of All Units Affordable at the FMR

Metropolitan Area	Percentage of All Units Affordable at the FMR	Metropolitan Area	Percentage of All Units Affordable at the FMR
Atlanta	47	Kansas City	45
Birmingham	52	Los Angeles-Long Beach	56
Boston	55	Minneapolis-St. Paul	43
Chicago	55	Nashville	47
Columbus	47	New Orleans	49
Detroit	51	New York	73
Hartford	57	Philadelphia	53
Houston	46	San Diego	54
Indianapolis	47	Tucson	46
Jacksonville	48	Washington	61

HUD sets State minimum FMRs for nonmetropolitan areas.³ In FY 1999, 72 percent of all nonmetropolitan counties have FMRs higher than they would otherwise have because of the State minimums. In FY 1996, when HUD first used State minimums, the average increase was \$43 or 13.5 percent. Of the nonmetropolitan counties that benefited, 15 percent had their FMR rents raised by less than 5 percent, 47 percent had their FMRs raised between 5 and 15 percent, and 38 percent had their FMR rents raised by more than 15 percent.

The Quality Housing and Work Opportunity Act of 1998

The Quality Housing and Work Opportunity Act of 1998 allows individual housing authorities to operate their Section 8 programs with a payment standard that differs from the FMR by up to 10 percent in either direction. Table 5 shows the effect of this flexibility by calculating what the effective FMR percentile would be if a locality chose to use the full flexibility. For example, if all the housing authorities in the Buffalo-Niagara Falls metropolitan area chose to use a payment standard 10 percent higher than the FMR, the effect would be the same as if HUD had set the FMR at the 55th percentile of rents charged to recent movers instead of the 40th percentile. In all 10 areas studied, full use of this authority would alter substantially the character of the Section 8 program. In every case, setting the payment standard 10 percent higher than the FMR would be equivalent to raising the FMR standard above the 30th percentile and, in six cases, would be equivalent to raising the FMR standard above

the 55th percentile. Similarly, setting the payment standard 10 percent lower than the FMR would be equivalent to reducing the FMR standard below the 30th percentile.

The 1998 act also gives HUD authority to grant exceptions to FMRs exceeding the 20-percent limits previously imposed by the statute.⁴ Using data from the 1990 census, HUD examined all metropolitan areas to determine how many counties have rent distributions with median rents more than 20 percent higher than the overall metropolitan median. Of 347 metropolitan areas, only 16 had counties with medians more than 20 percent higher than the metropolitan median and, of these, only 3 had counties with medians more than 30 percent higher. At least at the county level, there appear to be only limited opportunities to use this wider authority.

Notes

1. This article contains results from HUD research on FMRs conducted over a number of years. In many cases, HUD looked at the effects in only a few metropolitan areas and selected the areas at the time of the research to see what would happen in a variety of contexts. No effort was made to be consistent in the areas studied over time. Therefore, the tables in the article refer to different sets of metropolitan areas.
2. The 1990 census data became available in 1992 and were used for the first time in setting the FY 1994 FMRs. FMRs from FY 1984 through FY 1993 were based on 1980 census data and other sources.
3. Some judgment was required in separating routine updates from spot-checks. In preparing the list of sites for RDD surveys, HUD starts by identifying places

Table 5. Impact of 10-Percent Variation in FMR

	RECENT-MOVER RENTS	10% BELOW FMR	10% ABOVE FMR
Albuquerque	25.9	40.0	54.5
Buffalo-Niagara Falls	26.2	40.0	55.2
Cincinnati	24.4	40.0	57.4
Cleveland	27.0	40.0	58.3
Lincoln	20.8	40.0	58.2
Newark	26.9	40.0	55.7
Oklahoma City	25.0	40.0	54.7
Philadelphia	27.1	40.0	54.1
Portland-Vancouver	21.9	40.0	58.9
Raleigh-Durham-Chapel Hill	25.3	40.0	55.5

where it believes FMRs may be too low or too high. It then completes the list by adding places based on the size of certificate and voucher programs and the length of time since the last update. The spot-checks contain some areas that might have been routinely updated.

4. This analysis uses all rents, not just recent-mover rents, for two reasons. First, and most importantly, tenants can rent the unit they are currently occupying. Eligibility of these units requires examination of current rents, not turnover rents. Second, the analysis in

Table 4 would not have been possible using only recent-mover rents because many tracts would not have had enough 2-bedroom units to analyze.

5. The February 1999 issue of *U.S. Housing Market Conditions* describes the technique HUD uses to set state minimums.

6. The February 1999 issue of *U.S. Housing Market Conditions* discusses exception rents.

Janis A. Coughlin

07/18/2000 02:55:44
PM

Record Type: Record

To: Margy Waller/OPD/EOP@EOP

cc:

Subject: FMR Increase Materials and CBPP mtg

Here are the FMR materials and the meeting is still on tomorrow with CBPP on vouchers and LIHTC at 11am in 246. See you then.

----- Forwarded by Janis A. Coughlin/OMB/EOP on 07/18/2000 03:12 PM -----



Adam Hoffberg

07/17/2000 06:39:41 PM

Record Type: Record

To: Michael Deich/OMB/EOP@EOP

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

Subject: FMR Increase Materials for Tuesday HUD Meeting

Here are background materials Reid, Andrea and I developed for your meeting Tuesday with HUD.



FMR Increase Materials.w

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's 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, voucher 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.

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Francis S. Redburn

06/27/2000

05:49:38 PM

Record Type: Record

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

cc: James F. Jordan/OMB/EOP@EOP, Reid B Cramer/OMB/EOP@EOP, Douglas Pitkin/OMB/EOP@EOP

Subject: Update on FMR Issue

I understand that Cuomo and Michael have talked. The Secretary appears willing to slow down a bit and have his staff work with us to make sure all the facts are known/alternatives considered before a decision is made.

Attached is a new draft of our memo on this. Although in memo form, it hasn't gone anywhere. Please use it just as notes for yourselves or to brief others.



fmr increase proposal.w

1) Derek says -

no proof that FARR will increase Access +
Success

2) what percent of PTHs is @ 110%?
and where are they?