U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

# Issue Brief

HUD Reinvention: *From Blueprint to Action*

March 1995

## TENANT-BASED HOUSING ASSISTANCE WORKS

HUD's blueprint for reinventing Federal housing programs relies heavily upon tenant-based assistance (modeled on Section 8 certificates and vouchers) as the primary vehicle for addressing the housing needs of low-income renters. Tenant-based assistance supplements the amount that very low-income families and individuals can afford to pay for housing in the private market, empowering them to choose moderately priced housing of the type and location that best meets their needs.

Opponents have claimed that tenant-based assistance does not work—that rental housing is in short supply and that needy people cannot find units in which they can qualify to receive assistance. The facts do not support these claims. Two decades of experience with the Section 8 certificate and voucher programs have proven that tenant-based assistance is an extremely effective mechanism for addressing the urgent housing needs of most low-income Americans. Where shortages exist—either in particular locations or for particular types of housing—they can best be addressed through local strategies supported by the new Affordable Housing Fund.

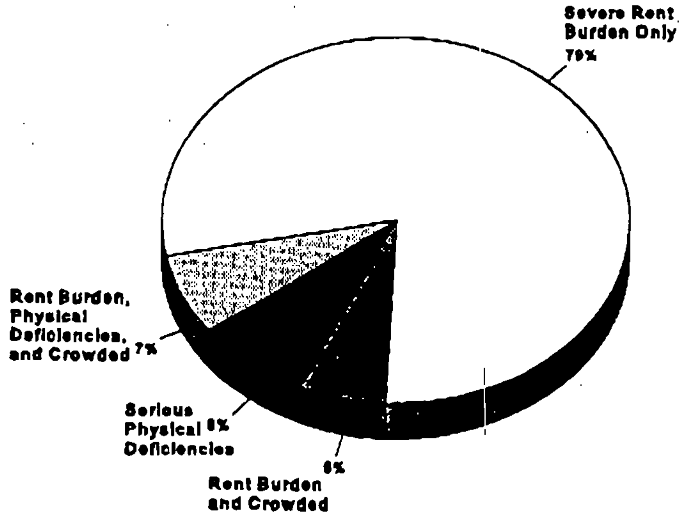
■ **Certificates directly attack the core housing problem facing low-income Americans: affordability.**

The primary causes of severe housing problems in the U.S. today are lagging incomes and high housing costs, not broad-based housing shortages. Decent quality rental housing is widely available; some simply cannot afford it. In fact, the vast majority of people with acute housing needs live in adequate, uncrowded housing but pay too large a portion of their income for rent. Certificates give low-income families and individuals the purchasing power they need to obtain the housing that is available in the private market.

In 1993, 5.6 million households had "worst-case" needs, which Congress defines as paying more than 50 percent of income for rent or living in substandard housing. Four out of five of these households lived in homes or apartments that were both adequate and uncrowded; affordability was their only housing problem.

**Housing Affordability Is the Biggest Problem for Very Low-Income Renters With Acute Housing Needs**

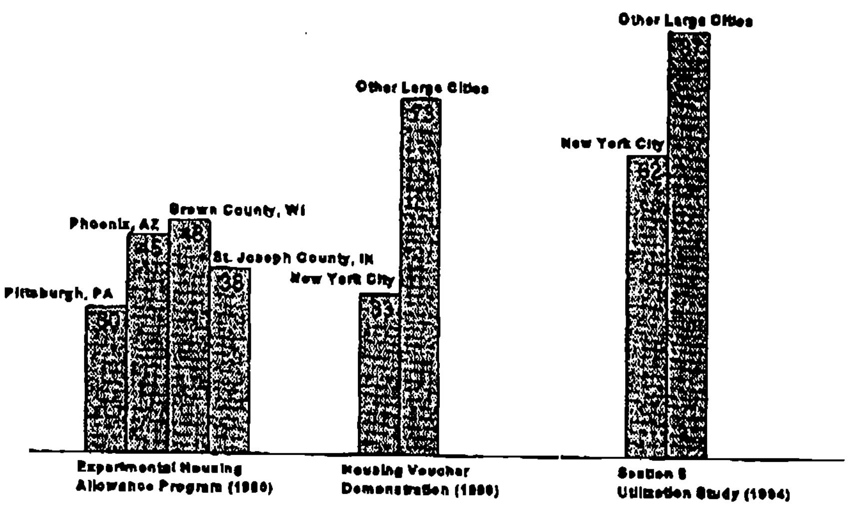
Total: 5.6 Million Households (1993)




■ **Most households that receive certificates and vouchers are successful in finding units.**

A nationwide study of Section 8 certificate and voucher utilization, completed in 1994, found that 80 percent of recipients in large cities were able to use them successfully. Among cities other than New York, success rates were even higher, averaging 87 percent. Fewer than one-third (31 percent) of all recipients qualified for assistance by remaining in their original house or apartment. Of those who did not remain, three-quarters were successful in finding another house or apartment in which they could receive assistance.

**Success Rates for Tenant-Based Assistance Have Been Rising**




Percent of Recipients Who Are Successful in Finding Housing

Success rates in the certificate and voucher programs have been increasing steadily over time, indicating that the program is becoming easier to use as housing authorities, landlords and families become more familiar with it.

Certificates work well for the people who need help most. More than two thirds (69 percent) of successful recipients had unaffordable rent burdens prior to joining the program; more than half (54 percent) were overcrowded; and almost half (47 percent) lived in physically deficient housing. Minorities, families with children, disabled people, and the homeless all have the same high rates of success using Section 8 certificates and vouchers.

■ **In most housing markets, there is a substantial supply of housing at rents below the Fair Market Rent.**

There are, indeed, shortages of very low-cost housing in most urban housing markets, but these shortages generally occur at rents substantially below the Fair Market Rents (FMRs). FMRs determine the rents participants can afford to pay under the Section 8 program, and HUD adjusts them annually to correspond to the 40th percentile of rents for standard-quality, unsubsidized units that have been recently occupied. Because of these adjustments, more than 40 percent of a housing market's rental stock typically falls below this level.

Analysis of Census data for 10 selected metropolitan areas shows that at least 40 percent of all two-bedroom units had rents at or below the FMR. In four of these metro areas, more than half of all two-bedroom units rent at or below the FMR. These data also show that units renting for less than the FMR are widely disbursed geographically, accounting for at least 30 percent of the rental stock in over two thirds of all residential Census tracts. In other words, certificate recipients have access to a significant portion of the rental housing stock in the majority of residential neighborhoods.

**Housing That Rents for Less Than the FMR Is Widely Available**

| Metropolitan Area | Percent of 2-Bedroom Rental Units Below FMR | % of Residential Tracts With at Least 30% of Rental Units Below FMR |
|---|---|---|
| Atlanta, GA | 45 | 71 |
| Davenport-Moline, Rock Island, IA-IL | 41 | 75 |
| St. Louis, MO-IL | 51 | 84 |
| Buffalo-Niagara Falls, NY | 52 | 90 |
| Detroit, MI | 52 | 71 |
| Houston, TX | 47 | 82 |
| Seattle, WA | 47 | 84 |
| Nassau-Suffolk, NY | 51 | 84 |
| Cedar Rapids, IA | 46 | 93 |
| Columbus, OH | 50 | 85 |
| Kansas City, KS-MO | 48 | 82 |
| New York, NY | 71 | 91 |

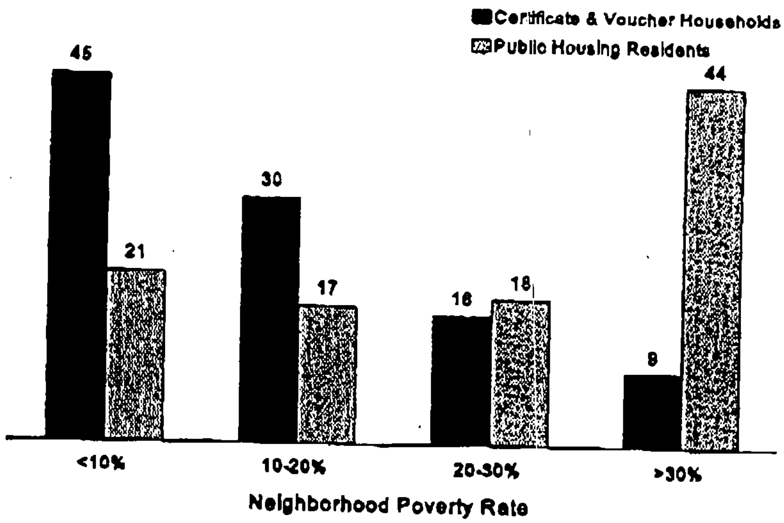
■ **Certificate recipients enjoy much greater choice about where to live than residents of public housing and are less likely to be concentrated in distressed neighborhoods.**

Tenant-based assistance is less likely than project-based programs to concentrate needy households in high-poverty neighborhoods. Data collected by the General Accounting Office (GAO) for four metropolitan areas indicate that fewer than 10 percent of Section 8 recipients live in high-poverty neighborhoods (more than 30 percent poor). In contrast, 44 percent of public housing residents in the same four metropolitan areas live in high-poverty neighborhoods.

Whites are much more successful than blacks in using their Section 8 certificates outside poor and minority neighborhoods. For example, the GAO data show that 55 percent of white recipients, but only 36 percent of black recipients, live in neighborhoods that are less than 10 percent poor. Nevertheless, blacks who receive tenant-based assistance are far less concentrated in high-poverty, high-minority neighborhoods than those who live in public housing.

**Tenant-Based Assistance Recipients Are Less Likely To Live In High-Poverty Neighborhoods**

(Percent of Assisted Households)




Note: Data are for four metropolitan areas--Washington, DC; New Castle County, DE; King County, WA; and Oklahoma County, OK.

■ **Participation rates can be increased and location choices expanded through reforms to the existing program.**

Recent experience indicates that tenant-based housing assistance can be effectively supplemented by landlord outreach and housing search assistance that expands opportunities for choice and mobility, particularly for minority recipients. Over the last two decades, special mobility programs for Section 8 recipients have been implemented in at least eight metropolitan areas. These programs have helped roughly 11,000 families (about half in Chicago) move to low-poverty, low-minority neighborhoods, demonstrating that it is possible to help families take full advantage of housing opportunities available in the private market.

Experience in Los Angeles following the Northridge Earthquake further confirms that effective landlord outreach and mobility counseling, as well as elimination of burdensome regulations such as the "take one-take all" requirement and the "endless lease" provision, can open up a wide range of housing opportunities to assistance recipients. A survey of people who received emergency Section 8 certificates as a result of the Northridge Earthquake indicates that finding a unit was not easy. About half (53 percent) reported some difficulty in finding a house or apartment they could afford. Nevertheless, the overwhelming majority of respondents (97 percent) were ultimately successful.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

NOV - 6 1996

Mr. Leon N. Weiner
Chairman of the Board
Leon N. Weiner & Associates, Inc.
One Fox Point Centre
4 Denny Road
Wilmington, DE 19809

Molly
Rm. 707

Dear Mr. Weiner:

Following up on a commitment that Steve Redburn gave you and Carl Coan at your meeting in August, here is an analysis which supports his assertion that vouchers are substantially less expensive than project-based housing assistance. Sorry for the delay in responding. Please understand that this is a busy time of year.

The issue that Steve addressed is distinct from that of the potential budgetary savings from our Mark-to-Market proposal for FHA-insured assisted multifamily housing. However, it is part of the broader comparison of the relative costs of alternative methods of housing assistance that we perform as part of our ongoing analysis of housing budget issues.

The enclosed example compares the long-term cost, based on current budget estimates and discounted to today's dollars, of assisting a household needing a two-bedroom unit using a housing voucher vs. assisting the same household by constructing a new public housing unit, assuming occupancy starts in the same year. Similar examples could be given using other project-based programs, but the calculations for public housing are more straightforward. In addition, HUD has conducted careful studies that provide reliable estimates of the rate at which capital needs accrue for the public housing stock.

The cost of public housing includes national average figures for the initial construction cost, the operating subsidy, and the cost to meet future capital needs as they arise. It is assumed that new capital needs are met immediately, so that no extra costs arise because of delays, e.g., internal damage resulting from a leaking roof. This assumption probably understates actual costs, given what we know about the program's administration; HUD's study estimated that actual modernization costs were 8.7 percent higher because of such delays. The cost of the voucher is the national average annual subsidy payment to the landlord plus a 7.65 percent administrative fee. Note that public housing does not provide service until six or seven years after the initial appropriation and outlays.

After the first 20 years (first 13 years of service), public housing is more than twice as expensive as the voucher. After 30 years, it is about 60 percent more expensive. Comparisons extending farther out get somewhat tenuous because the ages and locations of the two units can no longer be assumed to be the same. That is, voucher holders will, on average, occupy a cross-section of the rental stock, representing all ages and locations. Public housing units, on the other hand, may become obsolete or poorly located as judged by the market; as a result, they provide lower quality housing than vouchers. Some public housing may actually be vacant or demolished by that time.

The example focuses only on cost. However, there is a substantial body of evidence suggesting that vouchers are superior to project-based assistance in terms of the benefits they provide. Voucher holders have a wide range of housing options. As a result, they often use housing assistance to move closer to jobs, good schools, or other transportation. Retired people may use a voucher to remain in their homes when their incomes decline or to move to another city to be closer to friends or children. Census surveys suggest that voucher holders are more satisfied with their housing, and especially their neighborhoods.

I am enclosing copies of HUD issue briefs that discuss other issues related to vouchers. Thanks for the opportunity; to continue an interesting dialogue about the relative merits of different forms of low-income housing assistance.

Sincerely,

Robert E. Litan

Robert E. Litan
Program Associate Director
General Government and Finance

Enclosures

cc: Alan Rhinesmith, OMB
Steve Redburn, OMB
Bruce Katz, HUD
Carl Coan, Jr.,
Molly Brostrom, WH

# COST COMPARISON: PUBLIC HOUSING AND VOUCHERS
**(Two bedroom unit)**

| | Build New Public Housing | | | | | | House Same Family with Voucher | | |
|---|---|---|---|---|---|---|---|---|---|
| Fiscal Yea | BA | Construction Outlays | Op. Subs Outlays | Modernization Accrual | 7% Dis. Rate | Discounted Outlays | Outlays | 7% Dis. Rate | Discounted Outlays |
| 1995 | 85,500 | 0 | 0 | 0 | 0.9346 | 0 | 0 | 0.9346 | 0 |
| 1996 | | 10,004 | 0 | 0 | 0.8734 | 8,737 | 0 | 0.8734 | 0 |
| 1997 | | 12,825 | 0 | 0 | 0.8163 | 10,469 | 0 | 0.8163 | 0 |
| 1998 | | 13,082 | 0 | 0 | 0.7629 | 9,980 | 0 | 0.7629 | 0 |
| 1999 | | 22,316 | 0 | 0 | 0.7130 | 15,911 | 0 | 0.7130 | 0 |
| 2000 | | 24,453 | 0 | 0 | 0.6663 | 16,293 | 0 | 0.6663 | 0 |
| 2001 | | 2,822 | 0 | 0 | 0.6228 | 1,757 | 0 | 0.6228 | 0 |
| 2002 | Complete construction | | 2,811 | 1,305 | 0.5720 | 2,354 | 6,981 | 0.5720 | 3,993 |
| 2003 | | | 2,895 | 1,345 | 0.5439 | 2,306 | 6,898 | 0.5439 | 3,752 |
| 2004 | | | 2,982 | 1,368 | 0.5084 | 2,212 | 7,105 | 0.5084 | 3,612 |
| ***Subtotal – 10 years*** | | | | | | ***70,020*** | | | ***11,357*** |
| 2005 | | | 3,072 | 1,390 | 0.4751 | 2,120 | 7,318 | 0.4751 | 3,477 |
| 2006 | | | 3,164 | 1,412 | 0.4440 | 2,032 | 7,538 | 0.4440 | 3,347 |
| 2007 | | | 3,259 | 1,435 | 0.4150 | 1,948 | 7,764 | 0.4150 | 3,222 |
| 2008 | | | 3,356 | 1,457 | 0.3878 | 1,867 | 7,997 | 0.3878 | 3,101 |
| 2009 | | | 3,457 | 1,480 | 0.3625 | 1,790 | 8,237 | 0.3625 | 2,986 |
| 2010 | | | 3,561 | 1,502 | 0.3387 | 1,715 | 8,484 | 0.3387 | 2,873 |
| 2011 | | | 3,668 | 1,525 | 0.3166 | 1,644 | 8,738 | 0.3166 | 2,767 |
| 2012 | | | 3,778 | 1,547 | 0.2959 | 1,576 | 9,000 | 0.2959 | 2,663 |
| 2013 | | | 3,891 | 1,570 | 0.2765 | 1,510 | 9,270 | 0.2765 | 2,563 |
| 2014 | | | 4,008 | 1,592 | 0.2584 | 1,447 | 9,548 | 0.2584 | 2,467 |
| ***Subtotal – 20 years*** | | | | | | ***87,667*** | | | ***40,823*** |
| 2015 | | | 4,128 | 1,615 | 0.2415 | 1,387 | 9,835 | 0.2415 | 2,375 |
| 2016 | | | 4,252 | 1,637 | 0.2257 | 1,329 | 10,130 | 0.2257 | 2,286 |
| 2017 | | | 4,379 | 1,660 | 0.2109 | 1,274 | 10,434 | 0.2109 | 2,200 |
| 2018 | | | 4,511 | 1,682 | 0.1971 | 1,221 | 10,747 | 0.1971 | 2,118 |
| 2019 | | | 4,646 | 1,705 | 0.1842 | 1,170 | 11,069 | 0.1842 | 2,039 |
| 2020 | | | 4,786 | 1,727 | 0.1722 | 1,121 | 11,401 | 0.1722 | 1,963 |
| 2021 | | | 4,929 | 1,750 | 0.1609 | 1,075 | 11,743 | 0.1609 | 1,890 |
| 2022 | | | 5,077 | 1,772 | 0.1504 | 1,030 | 12,096 | 0.1504 | 1,819 |
| 2023 | | | 5,229 | 1,795 | 0.1406 | 988 | 12,459 | 0.1406 | 1,752 |
| 2024 | | | 5,386 | 1,818 | 0.1314 | 947 | 12,832 | 0.1314 | 1,686 |
| ***Total – 30 years*** | | | | | | ***99,207*** | | | ***60,952*** |

**Notes:**

> Actual modernization outlays may not occur until several years after completed construction.

> Modernization costs after 2003 does not assume an 8.7 percent increase in accrual for cost of capital replacement delays. Under a well-maintained system this additional cost would not occur.

> Assumes inflation of 3 percent per year for operating subsidies, modernization and voucher outlays.

> First year of voucher outlays reflects the following one-time administrative fees of $284: $275 for the administrative cost of a new voucher, plus $9 for the pro-rata cost of the hard-to-house fee ($45 for each hard-to-house family with three or more dependants which comprises 20 percent of all vouchers). Thus, first year outlays is the total of $6,697 + $284 = $6,981.

**Sources:**

Budget of the United States

ICF Study: Future Accrual of Capital Repair and Replacement Needs of Public Housing - Final Report April 1989

23-Oct-95

LEON N. WEINER
& ASSOCIATES, INC.
ONE FOX POINT CENTRE
4 DENNY ROAD
WILMINGTON,
DELAWARE 19809
302-764-9430

ONE FOX POINT CENTRE • 4 DENNY ROAD • WILMINGTON, DELAWARE 19809 • 302-764-9430 • FAX 302-764-4805

LW&A

October 19, 1995

Mr. Steve Redburn
Chief, Housing Branch
Office of Management and Budget
New Executive Office Building - Room 9226
Washington, D.C.

Mr. Redburn:

I refer you to Carl Coan, Jr.'s letter of October 6, reminding you of a promise you made on August 17, at a meeting with the representatives of domestic policy arranged by The White House Domestic Policy Staff.

You clearly stated that the use of the administration's proposal to convert all HUD project based assistance to vouchers was 50% less expensive than project based assistance. We requested, then, a copy of that analysis which you promised to send us. Mr. Coan's letter of October 6, better than ten days ago, reminded you of your promise. We still haven't heard from you.

We are in the midst of extremely serious legislative initiatives supported both by HUD and sections of Congress based on the belief that vouchers will be an effective method for reducing the deficit. Time is marching on and frankly I am getting impatient with the vagueness of the administration's policy supposedly based on your advise and support.

I shall be in constant contact with Mr. Coan to monitor the receipt of your promised analysis. I cannot stress its importance in terms of overall housing policy.

Yours truly,

LEON N. WEINER & ASSOCIATES, INC.

Leon N. Weiner

LEON N. WEINER
Chairman of the Board

LNW/paw

cc: Molly Brostrom, Domestic Policy Staff, The White House
Carol Rasco, Domestic Policy Staff, The White House
Bruce Katz, Chief of Staff, HUD
Carl Coan, Jr.
Kent Colton

REGISTERED MEMBER

COAN & LYONS
ATTORNEYS AT LAW
SUITE 1000
1100 CONNECTICUT AVENUE, N.W.
WASHINGTON, D.C. 20036
TELEPHONE (202) 728-1070
TELECOPIER (202) 293-2448

CARL A. S. COAN, JR.
JAMES A. LYONS, JR.
RAYMOND K. JAMES
CARL A. S. COAN, III
SHEILA C. SALMON

WILLIAM S. MOORHEAD (1923-1987)

October 6, 1995

Steve Redburn
Chief, Housing Branch
Office of Management and Budget
New Executive Office Building - Room 9226
Washington, DC

Dear Steve:

As you may recall, Leon Weiner and I met with you and Molly Brostrom at the National Association of Home Builders on August 17, concerning the Administration's proposals to convert all HUD project-based housing assistance to tenant-based assistance. At the end of the meeting, you indicated that underpinning the Administration's proposal was an analysis showing that vouchers are 50% less expensive than project-based assistance over the long run.

You promised to send me a copy of that analysis, but I have not yet received it. Could you please send it to me as soon as possible.

Sincerely,

Carl A.S. Coan, Jr.

CASCJR\szo

cc: Molly Brostrom, Domestic Policy Staff, The White House
Bruce Katz, Chief of Staff, HUD
Leon Weiner

Issue Brief
HUD Reinvention: *From Blueprint to Action*

May 1995

# FEDERAL RENTAL ASSISTANCE SHOULD PROMOTE MOBILITY AND CHOICE

The single most pressing problem facing America's cities today is the concentration of poor people, particularly poor minorities, in severely distressed neighborhoods. Between 1970 and 1990, the number of people living in concentrated poverty areas (neighborhoods in which over 40 percent of the residents are poor) grew from 3.8 million to 10.4 million. In these neighborhoods:

- More than 60 percent of families with children are headed by single women.
- More than half of all adults have less than a high school education.
- More than 40 percent of working age men are unemployed.
- Almost one in five youths (aged 16 to 19) are high school dropouts.
- One in three families receives welfare benefits.

Concentrated poverty causes all these problems to reinforce one another, perpetuating a vicious cycle of poverty, inequality, and despair.

One of the fundamental principles of HUD's reinvention is that Federal housing and community development resources should be used to end the physical and social isolation of low-income communities. Conditions in the poorest neighborhoods at the heart of our cities are undermining the Nation's social and economic well-being. Unless public policies intervene to reverse the concentration of poverty in America's central cities, efforts to revitalize our communities and expand economic opportunities cannot succeed.

As one component of a multifaceted attack on concentrated poverty, HUD is promoting mobility and choice in its tenant-based assistance programs. The proposed new Housing Certificate Fund (HCF), which builds upon the existing Section 8 Certificate and Voucher programs, will empower assisted families to choose moderately priced housing in the locations that offer opportunities for upward social and economic mobility.

## Concentration of Poverty

Although neighborhoods in America are roughly stratified on the basis of income and wealth, most poor white people live in non-poor neighborhoods. Among the metropolitan population, three-quarters of poor whites live in middle-class, mostly suburban neighborhoods, whereas three of four poor African Americans and two of three poor Hispanics live in poor, inner-city neighborhoods.

The concentration of poverty in U.S. cities today is a direct consequence of decades of racial segregation. Because of the stubborn persistence of discrimination in housing, American communities remain profoundly divided on the basis of race and ethnicity. Because minorities experience higher poverty rates than whites, racial segregation concentrates poverty and compounds its social costs.

Moreover, today's high levels of segregation were shaped by public policies. At their inception, Federal housing programs incorporated many of the prevailing practices of the private housing market and often exacerbated racial separation as a result. For example, public housing regulations originally encouraged the assignment of households to projects on the basis of their race. The earliest FHA programs enabled and encouraged middle-class white families to buy new housing in the burgeoning suburbs, whereas lenders denied financing to older, inner-city neighborhoods, and appraisal practices discouraged racial mixing.

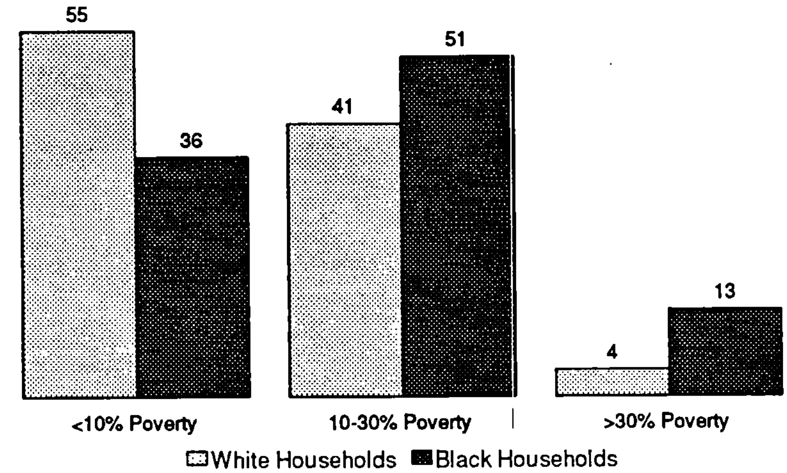
## Expanding Housing Mobility and Choice

Historically, Federal programs that have produced subsidized housing expressly for low-income renters have had the effect of concentrating poor households (especially minorities) in poor neighborhoods, limiting their housing choices and exacerbating segregation. Today, more than half of all public housing residents (59 percent)—and two-thirds of African-American residents (69 percent)—live in high-poverty neighborhoods. Most recipients of tenant-based assistance, on the other hand, find private rental housing in less distressed neighborhoods.

Tenant-based assistance is less likely than project-based programs to concentrate needy households in high-poverty neighborhoods. Data collected by the General Accounting Office (GAO) for four metropolitan areas indicate that fewer than 10 percent of Section 8 recipients live in high-poverty neighborhoods (neighborhoods that are more than 30 percent poor).

## Whites Are More Likely Than Blacks to Use Tenant-Based Assistance in Low-Poverty Areas

(Percent of Households)




Note: Data are for four metropolitan areas—Washington, DC; New Castle County, DE; King County, WA; and Oklahoma County, OK

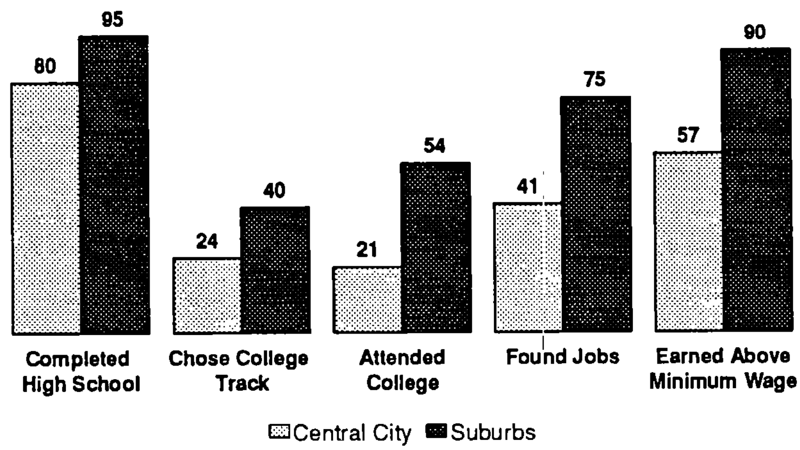
Whites are much more successful than blacks in using their Section 8 certificates outside poor and minority neighborhoods. For example, the GAO data show that 55 percent of white recipients but only 36 percent of black recipients live in neighborhoods that are less than 10 percent poor. Nevertheless, blacks who receive tenant-based assistance are far less concentrated in high-poverty, high-minority neighborhoods than those who live in public housing.

HUD's commitment to mobility and choice for tenant-based assistance recipients builds upon the success of the Gautreaux Program in Chicago, which has shown that the opportunity to move away from a distressed, high-poverty neighborhood can provide a route to economic independence for poor families. The Gautreaux Program began in the late 1970s as part of a court-imposed desegregation remedy.

Research by James Rosenbaum and others at Northwestern University has shown that the move out of the central city can have dramatic employment, earnings, and education effects. For example, young people whose families moved to the suburbs were more likely than their central-city counterparts to stay in high school, choose college track courses, attend college, find jobs, and earn more than the minimum wage.

## Children of Gautreaux Families Are More Successful Than Comparable Inner-City Youth

(Percent of Children)




Moreover, after operating for almost two decades and serving over 5,000 families, there is no evidence of negative consequences for the neighborhoods to which participating families have moved, and the Gautreaux Program has generated virtually no opposition from these neighborhoods.

### The Housing Certificate Fund

HUD's proposed new Housing Certificate Fund will empower assisted families to choose moderately priced housing in the location that best meets their needs. No families will be required to move, and no neighborhoods will be off-limits for assistance recipients. However, public housing agencies (PHAs) will have an obligation to reach out to property owners and to assist families in searching for rental housing throughout their market area. HCF will create strong incentives for PHAs throughout a metropolitan housing market to collaborate in making the widest possible range of opportunities available to certificate holders.

In addition, HCF will eliminate burdensome requirements that have discouraged some landlords from participating in the existing Section 8 program. Specifically, HCF does away with the "take one take all" rule and the prohibition against lease terminations for other than good cause. Moreover, HCF families who are evicted for serious lease violations will lose their eligibility for assistance, creating a strong incentive for responsible behavior by program beneficiaries.

### Conclusion

There is no single, one-dimensional remedy to the problem of concentrated poverty. Instead, long-term solutions will require a combination of initiatives that simultaneously revitalize distressed neighborhoods, promote job growth in the central city, link job-seekers to suburban employment opportunities, and open up affordable housing opportunities in low-poverty areas.

Moving to a low-poverty neighborhood is certainly not the right answer for all poor families, and helping families move is not the whole solution to the problems of segregation and concentrated poverty. But until all neighborhoods, regardless of income level, can provide their residents with real opportunities to live in safety, to attend decent schools, and to find employment, poor families should not be held hostage in our Nation's most distressed and isolated neighborhoods by their need for housing assistance.

Issue Brief

HUD Reinvention: *From Blueprint to Action*

May 1995

# TENANT-BASED HOUSING ASSISTANCE WORKS FOR THE ELDERLY AND FOR LARGE FAMILIES

HUD's Blueprint for reinventing Federal housing programs proposes to provide tenant-based assistance through the Housing Certificate Fund as the primary vehicle for meeting the housing needs of *all types* of very low-income families and individuals. Some have suggested that the elderly and large families will not be well served by reliance on tenant-based assistance. Specifically, critics claim that elderly people have difficulty searching for housing in the private market and that the supply of rental housing with three or more bedrooms is not sufficient to meet the needs of large families.

In fact, twenty years of experience and analysis have demonstrated that both the elderly and large families have high rates of success with tenant-based assistance. Furthermore, in the limited circumstances where particular types of housing may be in short supply—either because of tight housing markets or because people need special services along with housing—communities can use the Affordable Housing Fund (AHF) to fill the gap.

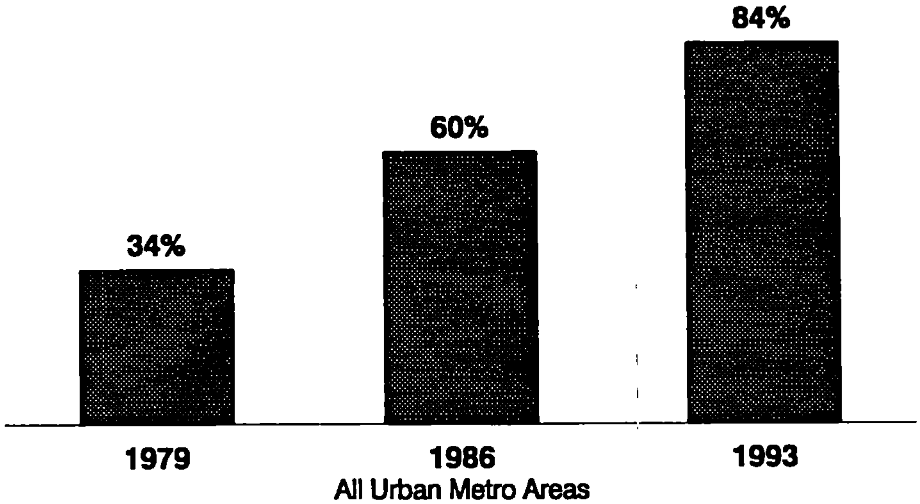
## The Elderly Have Always Been Very Successful in Using Housing Certificates

Tenant-based assistance is particularly well-suited to the housing needs of the low-income elderly, most of whom live in good quality housing but pay high proportions of their income for rent. Typically, elderly people can use tenant-based assistance to remain in their current house or apartment, and their landlords readily agree to participate in the program. Thus, tenant-based assistance protects low-income elderly people who are having difficulty paying their rent from the hardship of moving away from a familiar home. As of 1993, 86 percent of elderly recipients were successful in using their certificates; 62 percent used them to remain in-place and 26 percent used them by moving.[1]

## HUD Has Made Adjustments to Its Tenant-Based Assistance Programs to Address the Needs of Large Families

Unlike the elderly, most large families who are successful in using tenant-based assistance succeed by moving. Large families are more likely to live in overcrowded or physically deficient

## Success Rates for Families Needing Three or More Bedrooms




Sources: Stephen D. Kennedy and James E. Wallace, *An Evaluation of Success Rates in Housing Assistance Programs Using the Existing Housing Stock*, Cambridge MA: Abt Associates, March 1983, p.A–30; *Final Comprehensive Report of Freestanding Housing Voucher Demonstration: Volume I*, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, 1990, p.184; *Section 8 Rental Voucher and Rental Certificate Utilization Study*, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, 1994, p.28

housing than other types of low-income households. Thus, two-thirds of large families move in order to use their certificates.[2] When certificates were first introduced, large families did indeed have difficulty taking advantage of them. However, success rates among large families have grown steadily, so that by 1993, 84 percent of families who needed three or more bedrooms were successful in using their certificates.

These rising success rates resulted in part from deliberate HUD policies to make tenant-based assistance easier for large families to use. In the early 1980's, HUD began to make larger adjustments to three and four bedroom Fair Market Rent (FMR) levels so that a greater number of such units would be accessible for large families.[3] Also, the Department instituted a "hard-to-house" fee. PHAs now earn a fee of $45 each time a family with three or more minors successfully moves and begins to receive assistance.

Today, over 450,000 families use tenant-based assistance to rent houses and apartments with three or more bedrooms. Large families account for 31 percent of all tenant-based assistance,[4] compared to only 15 percent of all households with acute needs for housing assistance. Even in tight housing markets, tenant-based assistance is successfully used by significant numbers of large families.[5]

### Large Families Account for a Substantial Share of Tenant-Based Assistance Recipients

| Housing Authority | Percent of Recipients in Units with 3 or More Bedrooms |
|---|---|
| Boston | 53 |
| Los Angeles | 19 |
| Oakland | 32 |
| Portland | 25 |
| San Francisco | 31 |
| San Jose | 53 |
| Seattle | 29 |

**The Reinvented Housing Certificate Fund Will Make Tenant-Based Assistance Work Even Better for the Elderly and Large Families**

The Housing Certificate Fund proposes changes from the current Section 8 certificate and voucher programs that are expected to broaden landlord participation and make a wider variety of houses and apartments available to assistance recipients. Specifically, landlords will no longer be required to accept *all* qualified Section 8 applicants simply because they have accepted one. In addition, the prohibition against lease termination for other than good cause reasons will be eliminated, and families evicted for serious lease violations will lose their certificates altogether. These reforms should be particularly helpful to families with children, by opening up housing opportunities such as scattered rentals in single-family neighborhoods, where landlords may have been reluctant to accept certificate-holders in the past.

**Public and Assisted Housing Projects Will Remain an Important Housing Resource for the Elderly and Large Families**

When project-based subsidies are replaced with tenant-based assistance, many families and elderly people will choose to remain in their existing housing. Most public and assisted housing projects will remain as an important part of the affordable housing stock, available both for certificate recipients and for unassisted families and individuals with low or moderate incomes.

The vast majority of the public and assisted housing projects that were designed and built to serve elderly people are attractive, well-maintained, and rich with services. Therefore, most elderly residents are expected to remain in their current homes, using their certificates to pay the rent. Turnover will occur slowly, but as units become vacant they will be available to other certificate-holders or to elderly people seeking affordable housing. Usually, the market-based rents for these projects will be affordable for people who have modest—but not necessarily very low—incomes.[6] Therefore, as some elderly people use their certificates to move and others move in without assistance, the total resources available to meet the housing needs of low and moderate income elderly people will grow.

HUD's plans for the transformation of public and assisted housing include special provisions to avoid rapid turnover in housing for the elderly if a large proportion of residents want to move. Moreover, in the relatively rare cases when the market-based rent of public or assisted housing for the elderly turns out to be greater than the Fair Market Rents used in the Housing Certificate Program, "exception rents" can be made available for particularly high-rent neighborhoods.

Many families who currently live in public and assisted housing projects are also expected to stay in their current housing after project-based subsidies are replaced with certificates. Some, however, will take advantage of the flexibility of tenant-based assistance to choose modestly priced housing elsewhere in the community that better meets their needs.

In some cases, family housing projects are so poorly located and in such bad condition that they will not be able to attract other certificate holders or unsubsidized families, at rents high enough to cover costs. These projects do not provide decent housing or a suitable environment for children to grow up, and they should be closed. HUD is already moving aggressively to retire these projects from the housing stock, so that families who receive assistance from the Federal government can live in decent, safe and sanitary housing.

## Endnotes

1 *Section 8 Rental Voucher and Rental Certificate Utilization Study: Final Report.* U.S. Department of Housing and Urban Development, October 1994, p.28.

2 *Section 8 Rental Voucher and Certificate Utilization Study*, pp.20–22.

3 HUD sets Fair Market Rents (FMR) for larger units as a fixed percentage of the fair market rent for two-bedroom units. Before 1981, the large unit adjustment was 25 percent for three-bedroom units and 40 percent for four-bedroom units. Now, these FMR adjustments are up to 39 percent for three-bedroom units and up to 64 percent four-bedroom units.

4 Data from HUD Multifamily Tenant Characteristics System.

5 HUD Analysis of 1991 American Housing Survey data.

6 Very-low incomes are defined as less than 50 percent of area median income. This is the basic eligibility standard for housing certificates. Families and individuals above this cut-off who currently live in public or assisted housing will receive certificates if the market-based rent in their housing would be above 30 percent of their income.

Issue Brief

HUD Reinvention: *From Blueprint to Action*

March 1995

# TENANT-BASED HOUSING ASSISTANCE WORKS

HUD's blueprint for reinventing Federal housing programs relies heavily upon tenant-based assistance (modeled on Section 8 certificates and vouchers) as the primary vehicle for addressing the housing needs of low-income renters. Tenant-based assistance supplements the amount that very low-income families and individuals can afford to pay for housing in the private market, empowering them to choose moderately priced housing of the type and location that best meets their needs.

Opponents have claimed that tenant-based assistance does not work—that rental housing is in short supply and that needy people cannot find units in which they can qualify to receive assistance. The facts do not support these claims. Two decades of experience with the Section 8 certificate and voucher programs have proven that tenant-based assistance is an extremely effective mechanism for addressing the urgent housing needs of most low-income Americans. Where shortages exist—either in particular locations or for particular types of housing—they can best be addressed through local strategies supported by the new Affordable Housing Fund.

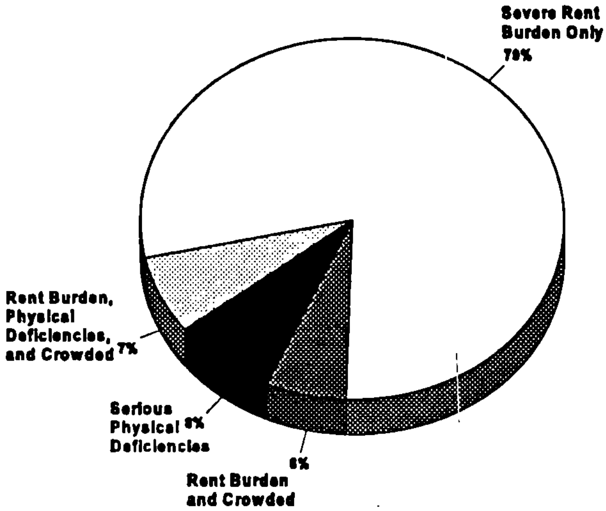
## Certificates Directly Attack the Core Housing Problem Facing Low-Income Americans: Affordability

The primary causes of severe housing problems in the U.S. today are lagging incomes and high housing costs, not broad-based housing shortages. Decent quality rental housing is widely available; some simply cannot afford it. In fact, the vast majority of people with acute housing needs live in adequate, uncrowded housing but pay too large a portion of their income for rent. Certificates give low-income families and individuals the purchasing power they need to obtain the housing that is available in the private market.

In 1993, 5.6 million households had "worst-case" needs, which Congress defines as paying more than 50 percent of income for rent or living in substandard housing. Four out of five of these households lived in homes or apartments that were both adequate and uncrowded; affordability was their only housing problem.

## Housing Affordability Is the Biggest Problem for Very Low-Income Renters With Acute Housing Needs

Total 5.6 Million Households (1993)



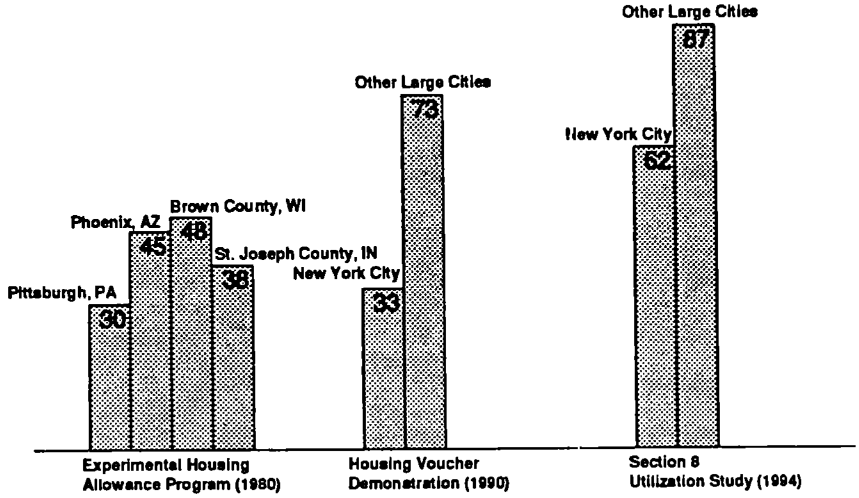

**Most Households That Receive Certificates and Vouchers Are Successful in Finding Units**

A nationwide study of Section 8 certificate and voucher utilization, completed in 1994, found that 80 percent of recipients in large cities were able to use them successfully. Among cities other than New York, success rates were even higher, averaging 87 percent. Fewer than one-third (31 percent) of all recipients qualified for assistance by remaining in their original house or apartment. Of those who did not remain, three-quarters were successful in finding another house or apartment in which they could receive assistance.

Success rates in the certificate and voucher programs have been increasing steadily over time, indicating that the program is becoming easier to use as housing authorities, landlords, and families become more familiar with it.

Certificates work well for the people who need help most. More than two-thirds (69 percent) of successful recipients had unaffordable rent burdens prior to joining the program; more than half (54 percent) were overcrowded and almost half (47 percent) lived in physically deficient housing. Minorities, families with children, disabled people, and the homeless all have the same high rates of success using Section 8 certificates and vouchers.

## Success Rates for Tenant-Based Assistance Have Been Rising




Percent of Recipients Who Are Successful in Finding Housing

### In Most Housing Markets, There Is a Substantial Supply of Housing at Rents Below the Fair Market Rent

There are, indeed, shortages of very low-cost housing in most urban housing markets, but these shortages generally occur at rents substantially below the Fair Market Rents (FMRs). FMRs determine the rents participants can afford to pay under the Section 8 program, and HUD adjusts them annually to correspond to the 40th percentile of rents for standard-quality, unsubsidized units that have been recently occupied. Because of these adjustments, more than 40 percent of a housing market's rental stock typically falls below this level.

Analysis of census data for 10 selected metropolitan areas shows that at least 40 percent of all two-bedroom units had rents at or below the FMR. In four of these metro areas, more than half of all two-bedroom units rent at or below the FMR. These data also show that units renting for less than the FMR are widely disbursed geographically, accounting for at least 30 percent of the rental stock in over two-thirds of all residential census tracts. In other words, certificate recipients have access to a significant portion of the rental housing stock in the majority of residential neighborhoods.

### Certificate Recipients Enjoy Much Greater Choice About Where to Live Than Residents of Public Housing and Are Less Likely to be Concentrated in Distressed Neighborhoods

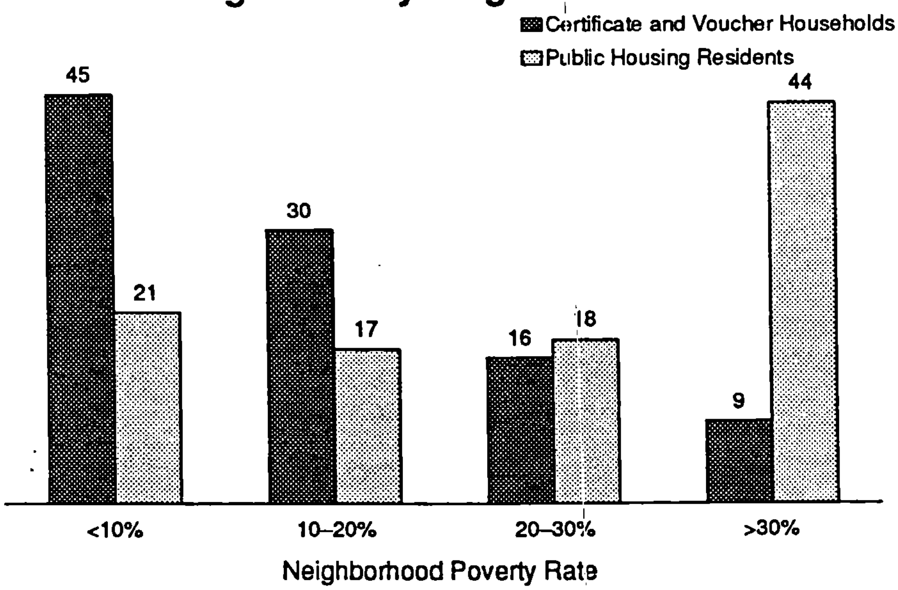
Tenant-based assistance is less likely than project-based programs to concentrate needy households in high-poverty neighborhoods. Data collected by the General Accounting Office (GAO) for four metropolitan areas indicate that fewer than 10 percent of Section 8 recipients live in high-poverty neighborhoods (more than 30 percent poor). In contrast, 44 percent of public housing residents in the same four metropolitan areas live in high-poverty neighborhoods.

## Housing That Rents for Less Than the FMR Is Widely Available

| Metropolitan Area | Percent of 2-Bedroom Rental Units Below FMR | % of Residential Tracts With at Least 30% of Rental Units Below FMR |
|---|---|---|
| Atlanta, GA | 45 | 71 |
| Davenport-Moline, Rock Island, IA-IL | 41 | 75 |
| St. Louis, MO-IL | 51 | 84 |
| Buffalo-Niagara Falls, NY | 52 | 90 |
| Detroit, MI | 52 | 71 |
| Houston, TX | 47 | 82 |
| Seattle, WA | 47 | 84 |
| Nassau-Suffolk, NY | 51 | 84 |
| Cedar Rapids, IA | 46 | 93 |
| Columbus, OH | 50 | 85 |
| Kansas City, KS-MO | 48 | 82 |
| New York, NY | 71 | 91 |

Whites are much more successful than blacks in using their Section 8 certificates outside poor and minority neighborhoods. For example, the GAO data show that 55 percent of white recipients, but only 36 percent of black recipients, live in neighborhoods that are less than 10 percent poor. Nevertheless, blacks who receive tenant-based assistance are far less concentrated in high-poverty, high-minority neighborhoods than those who live in public housing.

## Tenant-Based Assistance Recipients Are Less Likely To Live In High-Poverty Neighborhoods




Note: Data are for four metropolitan areas—Washington, DC; New Castle County, DE; King County, WA; and Oklahoma County, OK

**Participation Rates Can Be Increased and Location Choices Expanded Through Reforms to the Existing Program**

Recent experience indicates that tenant-based housing assistance can be effectively supplemented by landlord outreach and housing search assistance that expands opportunities for choice and mobility, particularly for minority recipients. Over the last two decades, special mobility programs for Section 8 recipients have been implemented in at least eight metropolitan areas. These programs have helped roughly 11,000 families (about half in Chicago) move to low-poverty, low-minority neighborhoods, demonstrating that it is possible to help families take full advantage of housing opportunities available in the private market.

Experience in Los Angeles following the Northridge Earthquake further confirms that effective landlord outreach and mobility counseling, as well as elimination of burdensome regulations such as the "take one-take all" requirement and the "endless lease" provision, can open up a wide range of housing opportunities to assistance recipients. A survey of people who received emergency Section 8 certificates as a result of the Northridge Earthquake indicates that finding a unit was not easy. About half (53 percent) reported some difficulty in finding a house or apartment they could afford. Nevertheless, the overwhelming majority of respondents (97 percent) were ultimately successful.

Attachment 3

U. S. Department of Housing and Urban Development
Washington, D. C. 20410-6000

January 17, 1995

ASSISTANT SECRETARY
FOR POLICY DEVELOPMENT AND RESEARCH

MEMORANDUM FOR: The Secretary

FROM: Michael A. Stegman

SUBJECT: Reaffirming the Principles of Public Housing Reinvention

## Overview

Several issues were raised during Friday's conference call with PHA directors about the impacts of the Department's vision to convert project-based subsidies to tenant-based assistance at the end of a transition period. This note clarifies some issues, disputes the directors' conclusions about the likely impacts of others, and offers some suggestions.

At the outset, let me state my greatest fear. The reinvention of public and assisted housing is grounded in two powerful principles: 1) resident empowerment through the exercise of choice; and 2) market competition disciplining the decisions of housing authorities and owners of HUD-assisted housing. *Should HUD (appear to) back off its clear, principled vision, we will lose our moral high ground of "putting residents first" over the interests of bureaucracies (PHAs) or real estate.* This perception would hurt our ability to defend our budget and our continued existence as a department.

As we proceed down the reinvention path, there will be plenty of time to refine our proposals, design the transition in its full complexity, and modify infeasible elements of our plan. The public housing and rental certificate working groups are already making real progress. They will analyze our proposal and raise many tough issues that need to be brought to the attention of the principal staff. Let's let them do their work, before making major changes. Premature capitulation to criticisms of the blueprint are neither in HUD's nor our customers' best interests.

The remainder of this memo will address six issues raised at Friday's conference call with PHA directors.

## I. Which costs more: the current public housing finance system or certificates?

Press reports and many in the PHA community have charged that a tenant-based subsidy system will be more costly than the current financing system for public housing.

PD&R has assessed the costs of both approaches, based on enacted FY 95 appropriations and 40th percentile fair market rents. The bottom line is that replacing all current project-based public housing subsidies with portable rental certificates is likely to cost less than the current public housing system.

- The current monthly subsidy per public housing unit (including operating subsidy, modernization and drug elimination grants) is $443 per unit. If total costs are allocated just to the *occupied* inventory, then the subsidy increases to $481 per unit per month.[1]

- A S.8 certificate subsidy, based upon a fair market rent at the 40th percentile, tailored to the actual household size distribution of the public housing population would cost an average of $436 per household. Thus, there are no aggregate budget constraints that would prohibit implementation of the reinvention vision. (Details of the cost comparisons are available from PD&R).

## II. Fat, thin or in between: what value will a portable rent certificate have?

During last week's discussions, four kinds of tenant-based rental certificates were identified, only one of which should be built into our reinvention plan. Those mentioned included:

1) *A thin certificate* that deducts average public housing debt service costs from the gross certificate value since HUD would have to continue paying outstanding debt service on the original bonds issued to build the public housing that is being "vouchered out." This portable rent certificate would have a lower value than a comparable S.8 certificate based upon prevailing fair market rents;

2) *A moderate priced certificate*, that would equal the per-unit sum of public housing operating subsidies, modernization costs and drug elimination grants. This certificate may be higher or lower than prevailing fair market rents in the PHA's local market area, depending upon local housing costs;

3) *A "fat" certificate* that would add to the above costs, the costs of financing an array of unspecified tenant services. While the value of such an enhanced rental certificate cannot be estimated without more information, on average it would be greater than FMR-based certificates.

[1] When averaged across all public housing units, the monthly cost of the modernization program ($249/unit) alone now exceeds the costs of public housing operating subsidies ($176/unit) by a substantial amount. In addition, the $500 million FY 95 appropriation for HOPE VI increases the average Federal subsidy for all public housing units by $34 a month.

4) *A fair market rent-based certificate* that would be indistinguishable from all other S. 8 portable rental assistance administered by the local PHA.

For both conceptual and operational reasons, we should be dealing only with option 4, an FMR-based rental certificate. If nothing else, we certainly want to avoid the administrative confusion of running two certificate programs based on very different FMRs depending on whether the family originated in public housing. But each of the alternatives have substantive problems.

Today, relatively few public housing projects have any outstanding debt, so the issue of whether to back out debt service from a tenant-based certificate, as was argued in the 1980s, is no longer of policy or budget consequence. A reinvention plan based on these thin certificates will not enable public housing residents to secure decent housing in the private market. Without the purchasing power of an FMR-based certificate, tenants will not have real choices about where to live.

Similarly, enhanced certificates whose values are increased above fair market rents to cover the PHA-cost of social services, will over-subsidize residents who choose to take their portable subsidy to the private market. Moreover, the quality and value of PHA-provided social services cannot be readily measured. We do not want to adopt a cost-based subsidy system for services because it will lead to inefficient delivery of those services.[2]

A moderate-priced certificate, based on the PHA's current costs for public housing, would on average provide families with the same level of subsidy as the FMR. But there would be large variations from place to place. In some cities families issued a certificate based on the costs of public housing would not realistically be able to afford private market housing, while in others they would be able to afford housing way above middle class standards. In either case this would lead to political problems.

Fundamentally, we should not have a certificate based on the *actual* costs of operating public housing, but on what families are willing to pay for that housing. Subsidies based on actual costs will inevitably reward inefficiencies. Under the reinvention blueprint, PHAs will not charge the FMR; they will charge certificate families *and other non-subsidized families* competitive rents reflecting the location and quality of the different public housing projects in their stock. A rent reasonableness test will be used to ensure that PHAs do not price their units above market levels.

---

[2] Where feasible, we should certainly allow tenants to use their certificates to purchase service-enriched housing, when such services can be delivered within the fair market rent structure. PHAs already have two significant competitive advantages over private landlords: most projects have no outstanding debt and they are exempt from local real estate taxes. Some PHAs may wish to utilize the savings from these advantages to offer social services, within the fair market rent structure.

## III. HUD cannot afford to project-base the public housing stock.

There are three fundamental problems with providing a substantial role for project-based public housing subsidies as part of the end state: affordability in the current fiscal climate, long-term federal financial exposure, and retreat from the twin principles of tenant empowerment through choice and disciplining the financial decisions of assisted housing providers through exposure to market competition.

First, it has become politically and financially infeasible to continue creating 10-15 year project-based certificates while maintaining an incremental rental assistance program. Since the inception of the S. 8 existing housing program in 1974, contract terms have steadily shortened, from 15 years, to 10 years, to 5 years and now all the way down to 2 years. HUD's FY 96 budget reduces the term for renewal of all S. 8 certificate and voucher to 3 years, while the 50,000 new incremental S. 8 units have 2-year terms.

The second fundamental problem with project-based assistance: Federal financial exposure. Project-basing carries with it an implied federal obligation to fund operating deficits over the contract term (and frequently beyond), even if the project is badly managed. When costs cannot be covered by the project-based subsidy, project owners demand additional assistance. HUD is forced to comply, because refusal could force the sponsor into foreclosure, abandonment or deterioration. This is why we have included nearly a billion dollars in the FY 1996 budget for S.8 amendments.

Finally, project-basing robs the tenants of their ultimate weapon in holding managers accountable: the power to move. This goes to the heart of our reinvention principles. Project-based subsidies, even if they could be held to no more than the real market value of the public housing, preclude families from pro-actively responding to bad management -- or seeking better life opportunities -- by moving.

## IV. So, what if Richmond were to lose 20% of its tenants due to portability?

In arguing against complete portability, Rick Gentry, executive director of the Richmond Housing Authority hypothesized that the full conversion to portable rental assistance could bad consequences for good housing. With an older but well-maintained stock, he estimated that between 10% and 30% of his tenants would opt to take their subsidies to better housing in the private market, leaving high vacancy rates, much lower rental income and the impossible job of maintaining the quality of the stock.

I believe we could minimize the magnitude of these reductions by refining our use of project-basing during our transition. Perhaps it makes sense to phase the portability of certificates project-by-project over a longer transition period. These kinds of refinements could easily be addressed as the details of the proposal get fleshed out by the working groups.

But if we accept Gentry's assumption about the noncompetitive nature of a sizable segment of Richmond's public housing inventory, it is useful to explore the implications of his recommended solution: continue project-basing subsidies, thus prohibiting residents who can do better in the private market from moving out.

First, let's look at what it means to be left with partially occupied buildings. Assume 20% of Richmond's public housing residents were to move out. If the PHA could neither attract other local certificate holders nor non-subsidized lower income families to fill the vacancies, we must conclude that there is no current demand in the Richmond housing market for the housing at the rents Gentry would propose to charge. Like other property owners facing a decline in relative housing demand, the PHA would face several options:

1) <u>lower rents in an effort to attract more tenants</u> -- The demand for housing is directly related to price and quality; lower quality housing in poorer locations should command lower rents. By reducing rents to market levels, including varying rents from one project to another, the PHA should be able to attract more business from among the region's low income population.

Lower rents would reduce his vacancies, but would provide less income than before tenants were given the option of taking their subsidies. There are several reasons why Gentry may be able to cover enough of his costs in its current condition to keep the project financially viable. His current cost structure, based on PD&R analysis, is about equal to the FMR, but this includes per unit expenditures of $215 per unit per month for modernization in 1995. Richmond will soon complete the comprehensive modernization of its public housing stock and will need considerably less per unit (perhaps half as much) for an ongoing replacement reserve.

2) <u>reduce overhead</u> to keep up property maintenance and services at somewhat lower operating cost levels. Competition for tenants and rental income will force property owners, including the PHAs, to reduce unnecessary overhead and become more efficient. To maximize occupancy and rental income, efficient property managers lower administrative overhead before reducing maintenance schedules and tenant services. By eliminating HUD's centralized command and control system, the deregulation of public housing should result in a substantial reduction in PHA overhead and a concomitant increase in their competitive market positions. Furthermore, entire functions, such as verifying tenant income and maintaining waiting lists, will no longer be carried out by the owners of public housing, but instead by the agency that administers the certificate program;

3) consolidate occupancy from the PHA's least desirable projects to better developments. Given Richmond's reduced need for modernization funds and the ability of a well-managed PHA to reduce overhead in a deregulated environment, consolidation may not be needed in Richmond. But it certainly will be needed for some PHAs, particularly for the large troubled PHAs for which HUD or another "conservator" will end up making these decisions.

Consolidating occupancy in better projects will further reduce overhead and management costs; withdraw the worst quality housing from the market, either temporarily by boarding it up or permanently through sale or demolition;

4) request more subsidy from administrators of the local Affordable Housing Fund. If a strong case can be made for covering the added costs of keeping high-cost public housing functioning at current or improved levels of maintenance, the potential availability of the AHF – the supply side element of HUD's housing reinvention plan -- is another element in the new dynamics of low income housing assistance. Rather than relying on additional Federal resources to bail out the PHA, local officials would have to trade off the value of using scarce AHF resources to prop up a partially occupied public housing project compared to supporting the creation of other affordable housing.

A number of the PHA directors argued that PHAs would not be capable of competing for these funds because mayors and other local officials are biased against the poor. While this may be true in some cities, it certainly doesn't hold true everywhere. This argument does an injustice to low income families, ignores the many cases of existing excellent PHA/local government financing partnerships and understates the critical point that too many housing authorities are poor performers and can't compete for funds within their localities based on past performance or the promise of better future performance.

The "partial occupancy" issue boils down to a key question: How much should the Federal government pay today to preserve the availability of poor quality public housing for which there is no current market demand in anticipation that it might be needed sometime in the future or to permit PHAs to operate inefficiently.

Holding the interests of PHAs over those of residents is neither sound nor desirable public policy. Moreover, too much public housing now sits abandoned, under-occupied and poorly maintained to argue that the elimination of project-based assistance will cause higher vacancy rates. In my judgment, exposing housing authorities to the powerful forces of consumer sovereignty and market competition are more likely to lead to improved housing conditions for public housing residents than a continuation of present arrangements.

V. Why should well-managed small and medium-sized authorities be forced to compete for tenants?

It is certainly true that many PHAs provide good housing to their communities. This is mostly the case in smaller PHAs. Why should we attempt to "fix" what isn't broken?

I believe there are three answers to this question: 1) to give families the freedom to move in response to jobs and educational opportunities; 2) to reduce the span of control that the HUD bureaucracy must oversee; and 3) and to give these same authorities the deregulated environment they desire, *without taking housing assistance away from the most needy families in the community*. In a reinvented system, the most vulnerable families can receive certificates while the PHA can operate mixed-income housing that attracts families both with and without certificates.

VI. You can do new (mixed income) development without project-basing public housing

I disagree with the argument that neither HUD nor PHAs can do creative development deals without project-basing assistance. States and localities and even PHAs will still have a variety of tools with which to do development, including the Low Income Housing Tax Credit, the Affordable Housing Fund, and state funding options including Housing Trust Funds and tax-exempt financing like Mortgage Revenue Bonds.

It is time for HUD to explicitly consider how the Federal Low Income Housing Tax Credit should fit into a reinvented national low income housing policy. More than 500,000 housing units have been created since 1986 through innovative public/private partnerships that are affordable to families with incomes at or below 60% of median income. It is currently generating an estimated 100,000 additional units a year. As long as tax credit projects are underwritten to have a rent structure under the Section 8 FMR, low income families with portable certificates can and do live in this housing. This production is often totally ignored by many housing advocates.

The bottom line here is that HUD should take the lead in formulating policies for how the Federal Low Income Housing Tax Credit program should be modified to support the reinvention of the national housing assistance system. PD&R is preparing a paper with specific options.

The argument for project-basing assistance in HOPE VI projects is somewhat different. Here the issue is how can we guarantee that a portion of this newly developed mixed income stock will be available to the public housing residents who currently occupy the project which the new housing will replace? Another way of doing this is to award each family a portable certificate and right of first refusal in the new development when it is completed. Development capital from the mod program or the new public housing capital fund could still be used to leverage tax credits in a joint venture deal to create mixed income housing. Project-based assistance is not the key to financing.

Creative use of the new Affordable Housing Fund can also produce long-term operating or project-based subsidies for which the locality, and not the Federal government, would have long-term responsibility. For example, AHF funds could be used to capitalize a sinking fund that would generate an annual annuity that could subsidize the operating costs of a fixed percentage of units in a new mixed income development. These units could be reserved for very low income families; another group of units could be reserved for certificate holders and the remaining rented at market rates.

HUD needs to break the mold in the thinking of how to do low-income housing development in the new environment without putting the Federal government in a long-term liability situation. But this does not mean we have to undermine the vision set out in our Reinvention Blueprint.

FROM:OMNIFAX TO:94567028 JUL 28, 1989 11:14PM #026 P.01

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

OFFICE OF THE ASSISTANT SECRETARY FOR
CONGRESSIONAL AND INTERGOVERNMENTAL RELATIONS

# FAX TRANSMISSION

DATE: June 13, 1995

NUMBER OF PAGES (including this page): 6

TO: Molly Brostrom

FAX# 456-7028

FROM: Choco Gonzalez Meza
Deputy Assistant Secretary
for Intergovernmental Relations

Room 10140

Office Phone: (202) 708-0030
Direct Phone: (202) 708-0215
Direct Fax: (202) 401-3991

MESSAGE:

First, two paragraphs of issue brief are perfect. I wanted you to see the entire paper!

= empower/freedom
= prob is affordability, not availability
= past success/effective
= efficient in times of budget constraints
= minorities less concentrated in hi-pov, hi-crime n'hoods