

To: Senator Brian Schatz, Subcommittee Chair
From: Jasmine Adams, Subcommittee Legislative Director
Subject: Affordable Rental Assistance Programs: Policy and Budget Concerns for 2023
Date: Thursday, March 24, 2022

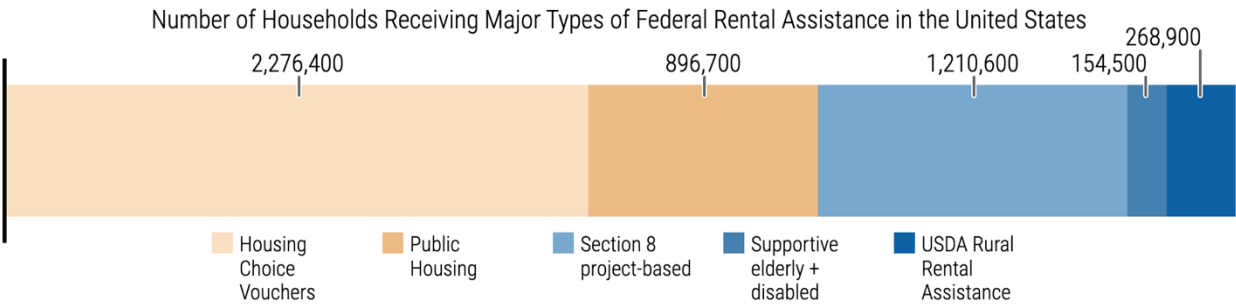
Objective: To assist Senator Brian Schatz in preparing for the Senate Appropriations Committee’s upcoming appropriations meetings, this memo addresses some of the key policy and budget issues associated with the current rental assistance programs administered under the Department of Housing and Urban Development (HUD) to be discussed by the Subcommittee on Transportation, Housing and Urban Development, and Related Agencies.

First, I review the three types of rental assistance programs covered under the HUD budget – those are public housing, project-based rental assistance (PBRA), and tenant-based vouchers (TBV). I then provide insight into the discourse around the benefits of mixed income housing programs. Finally, I offer supporting evidence for a key policy initiative that HUD may implemented to combat the current shortcomings of affordable rental housing policy.

Overview: HUD Rental Assistance Programs

Public housing, project-based rental assistance, and tenant-based vouchers comprise the three main categories of rental assistance programs supported by the HUD budget, as stipulated in the United States Housing Act of 1937 and subsequent amendments. Tenant-based rental assistance (TBRA) programs including Section 8 Housing Choice Vouchers (HCVs) make up the bulk of assisted rental housing units. HCVs have allowed almost 2.3 million households to choose their own housing in the private market by stipulating that local public housing agencies (PHAs) deliver HUD funded rental vouchers directly to landlords on behalf of tenants. Section 8 project-based rental assistance (PBRA) provides affordable rents for another 1.2 million households through public-private partnership contracts, which outline an agreement wherein HUD

Chart 1.



Source: The Center on Budget and Policy Priorities, January 19, 2022.

subsidizes private development owners who rent out some or all their units to low-income families for the duration of the contract. Likewise, project-based vouchers (PBVs) are operated and funded under the HCV budget but may be considered a form of project-based rental assistance given issued vouchers are tied to specific housing properties through Housing Assistance Payment (HAP) contracts with private landlords (National Housing Law Project, 2017). Finally, federally funded public housing is almost entirely operated within the public sector. For most properties, HUD supports planning, development, and the issuance of federal aid to PHAs, which manage properties for approximately 900,000 low-income households at affordable rents. Granted, a growing number of units utilize PBV and PBRA funding under the Rental Assistance Demonstration (RAD) program. RAD allows PHAs to convert publicly subsidized developments to project-based subsidized developments to illicit private funding for revitalization projects while maintaining ownership or control. Similarly, Choice Neighborhoods uses a separate budget to fund integrative income housing initiatives including mixed income public housing. The below chart outlines the portion of funds allocated to each program category under the 2021 and 2022 Final HUD Budget.

Table 1.

HUD Rental Assistance Programs (Set asides italicized); (In millions)	FY21 Final	FY22 Final
Tenant Based Rental Assistance	26,207	27,820
<i>Contract Renewals (Housing Choice Vouchers)</i> <i>*Includes Project-Based Vouchers</i>	23,080	24,095
<i>Tenant Protection Vouchers</i>	116	100
<i>Administrative Fees</i>	2,159	2,410
<i>Section 811 Mainstream Vouchers</i>	314	459
<i>Tribal Veterans Affairs Supportive Hsg. Vouchers</i>	5	5
<i>Veterans Affairs Supportive Hsg. Vouchers</i>	40	50
<i>Hsg. Opp. for Persons with AIDS</i>	430	450
<i>Family Unification</i>	25	30
<i>Housing Mobility Services</i>	0	25
<i>Incremental Vouchers</i>	--	200
Public Housing	7,881	8,527
<i>Capital Fund</i>	2,942	3,388
<i>Emergency/Disaster Grants</i>	75	75
<i>Operating Fund</i>	4,864	5,064
Project-Based Rental Assistance	13,465	13,940
Other rental assistance programs		
<i>Hsg. for the Elderly (202)</i>	855	1,033
<i>Hsg. for Persons w/ Disabilities (811)</i>	227	352
<i>Choice Neighborhoods Initiative</i>	200	350

Source: National Low Income Housing Coalition, March 9, 2022.

Mixed Income Subsidized Housing

As the context of affordable rental housing programs has shifted, so too has the connotation of mixed income public housing. During its inception, public housing advocates appeased skeptics worried about private market crowd-out by conceding that the program would only serve extremely low income households unable to participate in the private rental market. But as the program took hold, it became evident that a high concentration of impoverished tenants led to inadequate rents, poor management and upkeep, and an unfavorable living environment. Near the end of the 20th century, academic scholarship propositioned that mixed income housing would produce greater rental incomes, higher quality developments, and increase social capital and community resources for low income tenants. In response, HUD implemented HOPE VI, an initiative aimed at replacing dilapidated public housing developments with higher quality mixed income housing (albeit almost always with fewer units). More recently, funding for mixed income public housing has been consolidated under the Choice Neighborhoods program, which provides grants for a variety of income integrative housing initiatives including mixed income housing and dispersal programs aimed at relocating low income households to higher income neighborhoods.

A Positive Outlook for Mixed Income Public Housing

Whether the push for mixed income housing represents a positive or negative public policy development was difficult to ascertain until recently. The research that spurred the creation of HOPE VI was largely theoretical and continues to be so today. That is because vague, loosely unenforced policy regulations due to insufficient federal oversight continue to produce a lack of tenant-focused program data from which policy evaluations can be made. Still, the most pressing issue – decreased housing stock – has seen major improvements since congress essentially abandoned HOPE VI, which failed to ensure one-to-one rental unit replacements. Contrarily, HUD's most recent initiatives for revitalizing public housing, Choice Neighborhoods and RAD, prohibit the net loss of public housing units (Schwartz, 2021). Additionally, the Faircloth-to-RAD policy framework that HUD introduced last year incentivizes the construction of new public housing developments for the first time in decades. Given the reinvigorated interest in expanding and improving public housing, and the substantial increase in mixed income housing tenants' standard of living, it seems mixed income housing is a step in the right direction for affordable housing policy.

Improving HCV Acceptance Rate by Encouraging PHA Consortia

By endorsing sufficient voucher allowances and market rent caps in each jurisdiction, the Housing Choice Voucher program enables recipients to find high-quality housing in a wide range of low-poverty neighborhoods – that is, in theory (Cunningham et al., 2018). In reality, only about 70% of households provided with rental vouchers succeed in using them (Schwartz, 2021). Rates are particularly dismal in New York City (57%) and Los Angeles (47%), the most populous metropolitan cities (Finkel & Buron, 2001 as mentioned in Schwartz, 2021). Researchers attribute the underutilization of tenant-based vouchers to regulatory shortcomings

that undermine local housing authorities' managerial capacity. Such challenges include, (1) the fragmentation of metro-area voucher operations among numerous geographically constrained agencies; (2) a lack of regulatory policy promoting increased PHA support to voucher recipients during the housing search process; and (3) local operational issues, such as mandatory inspection delays, late monthly payments, and poor customer service; these contribute to landlords' heightened reluctance to accept rental assistance vouchers (Cunningham et al., 2018). As such, I recommend that the Subcommittee seek to improve the Housing Choice Voucher program's issuance-acceptance ratio by heeding appeals from the Bookings Institute, the Center on Budget and Policy Priorities, and several other nonprofit research organizations by enacting fiscal policy reforms designed to improve the operational efficiency of local housing authorities via the formation of regional PHA consortiums (Katz & Turner, 2013).

Cost-Benefit Analysis

Like most other affordable housing advocates, I support increasing the HCV budget to provide additional subsidies to income-eligible households and new HUD initiatives such as Housing Mobility Services, which assists HCV recipients currently seeking housing. Nevertheless, expanding housing authorities' organizational capacity by consolidating HCV oversight among neighboring agencies may be largely accomplished through regulatory budgeting reforms rather than increased subsidies. As such, allocations for consortiums may be determined by aggregating individual members' needs under the pre-existing market-adjusted formula. Other budgetary changes could rely on nudges whenever possible to facilitate a self-incentivizing policy system. Fortunately, policy promoting this opt-in structural system does not appear to contain any obvious downsides at present. On the contrary, the upside of PHA collaboration is quite robust. Benefits include decreased administrative costs, increased organizational capacity, better access to low-poverty and mixed-income housing properties, and higher voucher acceptance rates due to decreased service issues and seamless mobility between neighborhoods under joint regulatory supervision.

Legislative Recommendations

I recommend that the Subcommittee incentivize the formation of PHA consortia by allocating a small to moderate portion of the HCV budget to a consortia-exclusive funding channel within the tenant-based vouchers budget. The new sub budget would support newly formed PHA consortiums by subsidizing any administrative costs associated with PHA consolidation (e.g., database merges, system updates, etc.) However, given consortiums are expected to incur a net decrease in cost per PHA, the main purpose of sectioning off existing funding is to encourage consortia formation, rather than finance it. Secondly, I recommend that the Subcommittee require HUD to finalize its revised consortia rule to allow consolidated agencies the option to receive a single funding contract with HUD (Sard et al., 2018). Streamlined funding would maximize budget utility at the consortium level and further decrease administrative costs at the local and federal level. Lastly, I recommend that the Subcommittee require HUD to update the *24 CFR Part 943, Final Rule*, as well as the Section 8 Management Assessment Program (SEMAP) established thereunder such that regulations around consortia-wide performance

assessments mirror those outlined for individual PHAs assessments. HUD should also update SEMAP to include additional criteria that measures constituents' voucher acceptance rate and average neighborhood quality. Updating these PHA performance assessment regulations will hold all single-funded consortiums to the same standard as independently funded PHAs and allow HUD to continue to use performance results to determine PHA capital bonuses, albeit with more consumer-focused criteria.

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