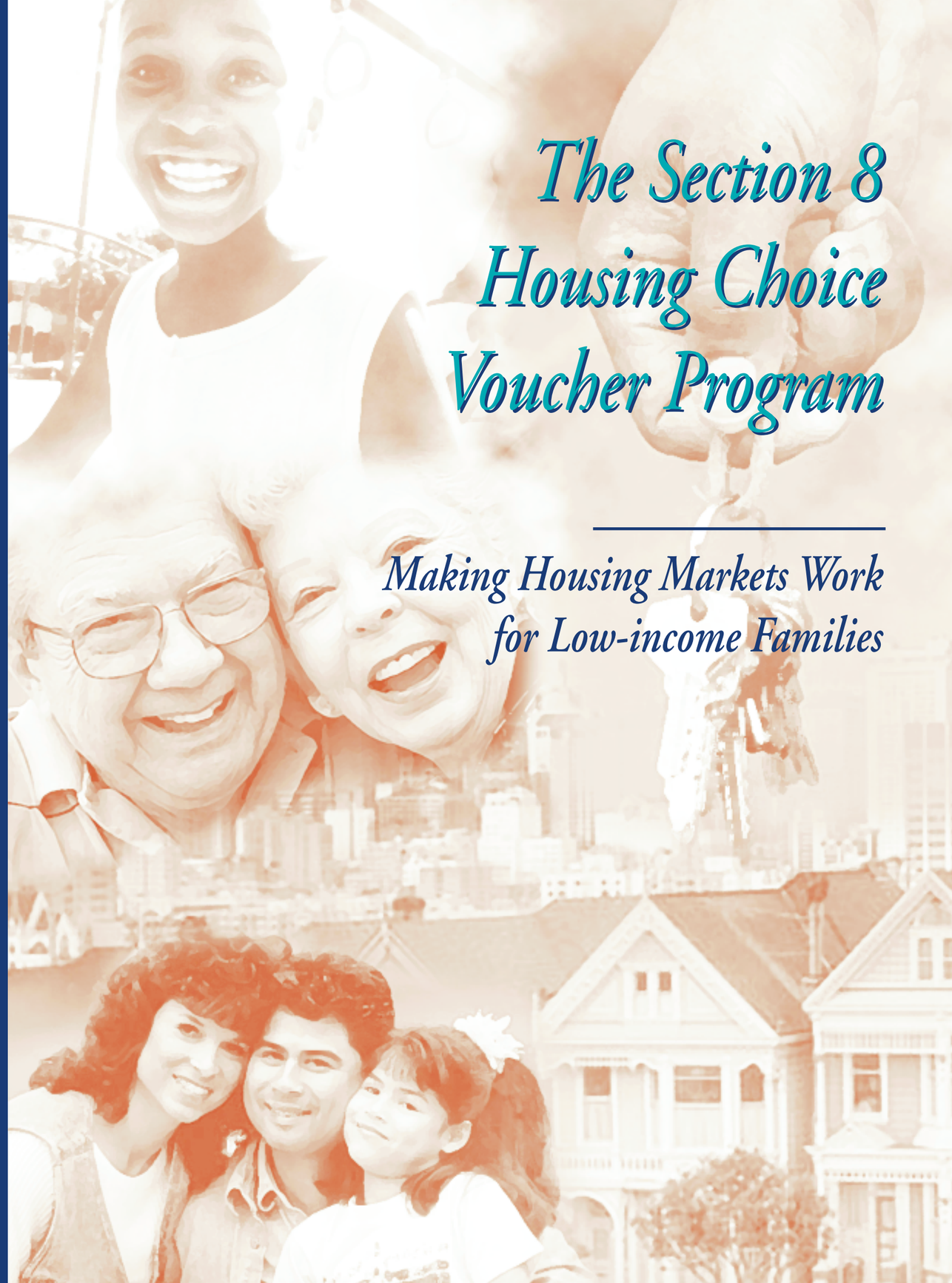
The Section 8 Housing Choice Voucher Program

Making Housing Markets Work for Low-income Families



CLPHA NAHRO PHADA NLHA

March 2002

The Council of Large Public Housing Authorities (CLPHA), National Association of Housing and Redevelopment Officials (NAHRO), National Leased Housing Association (NLHA), and Public Housing Authorities Directors Association (PHADA) join together in issuing this publication to inform policy-makers of the successes and challenges of the Section 8 Housing Choice Voucher Program. Our collective memberships represent virtually every program administrator in the country. Since its inception nearly thirty years ago, our members have successfully managed the program through wide-sweeping social, political and regulatory changes and always with the needs of the low-income families we serve most in mind.

The Housing Choice Voucher Program has become a key part of the federal government's efforts to address an ongoing national housing crisis through the private housing market. As a result, millions of low-income parents can afford a decent and safe home for their children. Yet, there are still millions of children who do not have a decent and safe place to call home. Our national goals of improving healthcare and education cannot be accomplished if basic housing needs go unmet.

The Housing Choice Voucher Program has much to commend it - most especially, a proven track record of successfully housing and expanding opportunities for the lowest-income families. However, continued success depends on facing the challenges of providing housing assistance in very diverse local housing markets. We offer this publication as a demonstration of our commitment to the continued success and improvement of the Housing Choice Voucher Program.

Executive Summary

Managed by local public housing authorities (PHAs), the Section 8 Housing Choice Voucher Program helps more than 1.7 million low-income families afford decent housing in the private rental market. There is much evidence that the Housing Choice Voucher Program has been highly successfully in meeting its two main goals: housing low-income families and expanding housing opportunity.

A major reason for the success of the voucher program is its flexibility. Within subsidy limits, voucher holders may select housing of their choice in neighborhoods of their choice and the rent subsidy stays with the family during any subsequent move. This program feature allows participants to choose housing in desirable neighborhoods where jobs or educational opportunities may be more plentiful, giving families a real chance to move toward self-sufficiency. Capable and efficient management is another reason for the success of the voucher program. PHAs have a long history of administering the voucher program in a way that supports families, ensures accountability and protects the public interest. PHAs know the local housing market and have long-established relationships with both rental property owners and local social service providers — relationships that are essential to the success of the program.

Despite this success, however, Section 8's private-market orientation has known limitations. Today's tight rental markets have meant more competition for housing, and even greater difficulty for the very low-income families served by the Housing Choice Voucher Program. While national utilization rates have increased slightly to 94%, a recent HUD study found that national voucher success rates have dropped to 71%, down from 87% in 1994 so that, nationwide, about 30% of all vouchers are now returned to the PHA unused because families cannot find housing within the voucher subsidy and time limits. For these families, the program has become increasingly ineffective.

The Housing Choice Voucher Program is designed to work in the private housing market, but as the recent years have shown, voucher success can be limited when market conditions are less than ideal. For maximum success, the voucher program requires:

- An adequate and well-distributed supply of rental housing units.
- A sufficient number and distribution of units renting below the HUD-established subsidy limit – the fair market rent (FMR).
- Housing units that meet HUD's housing quality standards (HQS).
- Local landlords willing to participate in the Housing Choice Voucher Program.
- Applicant families with sufficient skills, experience and knowledge to be successful in the search for private market housing.

Housing agencies that administer the voucher program are best able to meet the challenges presented by less than ideal market conditions when they have sufficient flexibility and local discretion to manage the program to the unique constraints and opportunities present in the local market.

Efforts to improve voucher effectiveness must acknowledge that Section 8 has evolved into an administratively unwieldy and cumbersome program. As the Section 8 program has expanded in size, so too has the complexity of its regulatory framework and program administration. Regulations now overlay virtually every aspect of program administration providing little room for locally designed solutions to local problems.

If the Section 8 program is to remain a viable resource for families, efforts must be made to streamline the program and give local agencies more useful tools to adapt the program to local markets. This will require simplification of the regulatory structure, reduced number of program rules and greater flexibility in the determination of rents and leasing terms. Recognizing that housing markets have unique features and cannot be painted with a "broad brush" of federal regulations is a critical first step in designing effective solutions to the program challenges that lie ahead.

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Basics of the Housing Choice Voucher Program

What is Section 8 housing?

Section 8 housing is subsidized by the federal government under programs authorized in Section 8 (o) of the U.S. Housing Act of 1937, as amended. Several housing assistance programs exist under Section 8 and generally fall into two broad categories: project-based assistance and tenant-based assistance. ***Section 8 project-based assistance*** ties the housing subsidy to specific units in specific properties (projects) for which eligible families may apply for residency. The project-based assistance program is generally viewed as a housing production program, in that the commitment of federal subsidy is commonly used as a method of financing the construction of new affordable housing units. The second broad program category is ***Section 8 tenant-based assistance***. In this form of assistance, the housing subsidy is tied to the tenant so that eligible families are guaranteed federal assistance for any housing unit that meets with general program requirements. Currently, the ***Housing Choice Voucher Program*** is the primary Section 8 tenant-based assistance program, and the federal government's major program of housing assistance for low-income families.

Photo by Elliott Bronstein & Ed Kromer of NEIGHBORHOOD HOUSE

Why is the Housing Choice Voucher Program needed?

Families desperately need and seek voucher assistance. In times of recession, rent subsidies provide crucial stability to families affected by job loss and uncertainty. As the 1990's have shown, even in periods of unprecedented economic growth, millions of families still struggle to secure decent and affordable housing. HUD reports that, ironically, the strong economy can be a key factor in pushing rent levels to new record highs. Rather than benefiting from a surging economy, low-income renters are left to compete for a dwindling supply of affordable rental housing available on the private market.

Photo by Elliott Bronstein & Ed Kromer of NEIGHBORHOOD HOUSE

The U.S Census Bureau's *American Housing Survey* (AHS) showed that by 1999, there were almost 1 million fewer units with rents affordable to those households with incomes below 30 percent of area median income (AMI) than there had been in 1991. The number of units affordable to households with incomes between 31 and 50 percent of AMI declined sharply between 1997 and 1999, falling by 400,000. Affordability is the most prevalent "worst-case" housing need. Four out of five households with worst-case housing needs live in units that are physically adequate and overcrowded, but pay more than half of their monthly income for rent. The Section 8 Housing Choice Voucher Program is one tool in the affordable housing arsenal that can help meet the housing needs of low and extremely low- income households.

How does the Housing Choice Voucher Program work?

Photo by Elliott Bronstein & Ed Kromer of NEIGHBORHOOD HOUSE

In general, the program works as a rent subsidy to families – allowing families to pay a reasonable share of income for rent with the government making up the difference up to a specific limit.

The subsidy paid to the landlord, or housing assistance payment (HAP), is usually the difference between 30 percent of household income and the payment standard, which is set by statute and tied to a fair market rent (FMR). The U.S. Department of Housing and Urban Development (HUD) sets the FMR annually for each metropolitan and non-metropolitan area of the country, based on census information or similar data on rental housing prices. Units selected by voucher families must be within the subsidy limit established by the payment standard and the FMR. In addition, the rent must be reasonable for comparable housing in the area and must meet housing quality standards (HQS) set by HUD. A family may choose a unit with a higher rent than the subsidy limit allows and pay the landlord the difference, but cannot generally pay more than 40% of income in moving to a new unit.

What distinguishes the Housing Choice Voucher Program from other forms of federal housing assistance?

Assistance under the Housing Choice Voucher Program is distinct in two ways. First, within limits, the program allows for families to select housing of their choice in neighborhoods of their choice and the subsidy stays with a family during any subsequent move. Second, the program is oriented to the private rental market so that the housing provided under the program is, for the most part, privately owned and operated.

Who is eligible for housing assistance under the program?

Eligibility for assistance under the Housing Choice Voucher Program is limited to U.S. citizens and some categories of non-citizens and is determined based on total annual gross income and family size. In general, the family's income may not exceed 50% of the median income for the metropolitan area or county in which the family chooses to live. By law, 75% of available vouchers each year must go to families with income at or below 30% of the area median income. Median income levels vary by location and are published annually by HUD.

Tenant selection and occupancy policies permit landlords and PHAs to examine an applicant's history, including criminal background, to ensure selection of a responsible tenant. PHAs have the power to deny admission or to terminate assistance to individuals with a history of use or abuse of drugs or alcohol, or of criminal behavior that interferes with the peaceful enjoyment of the premises by other residents. Criminal background checks are permissible.

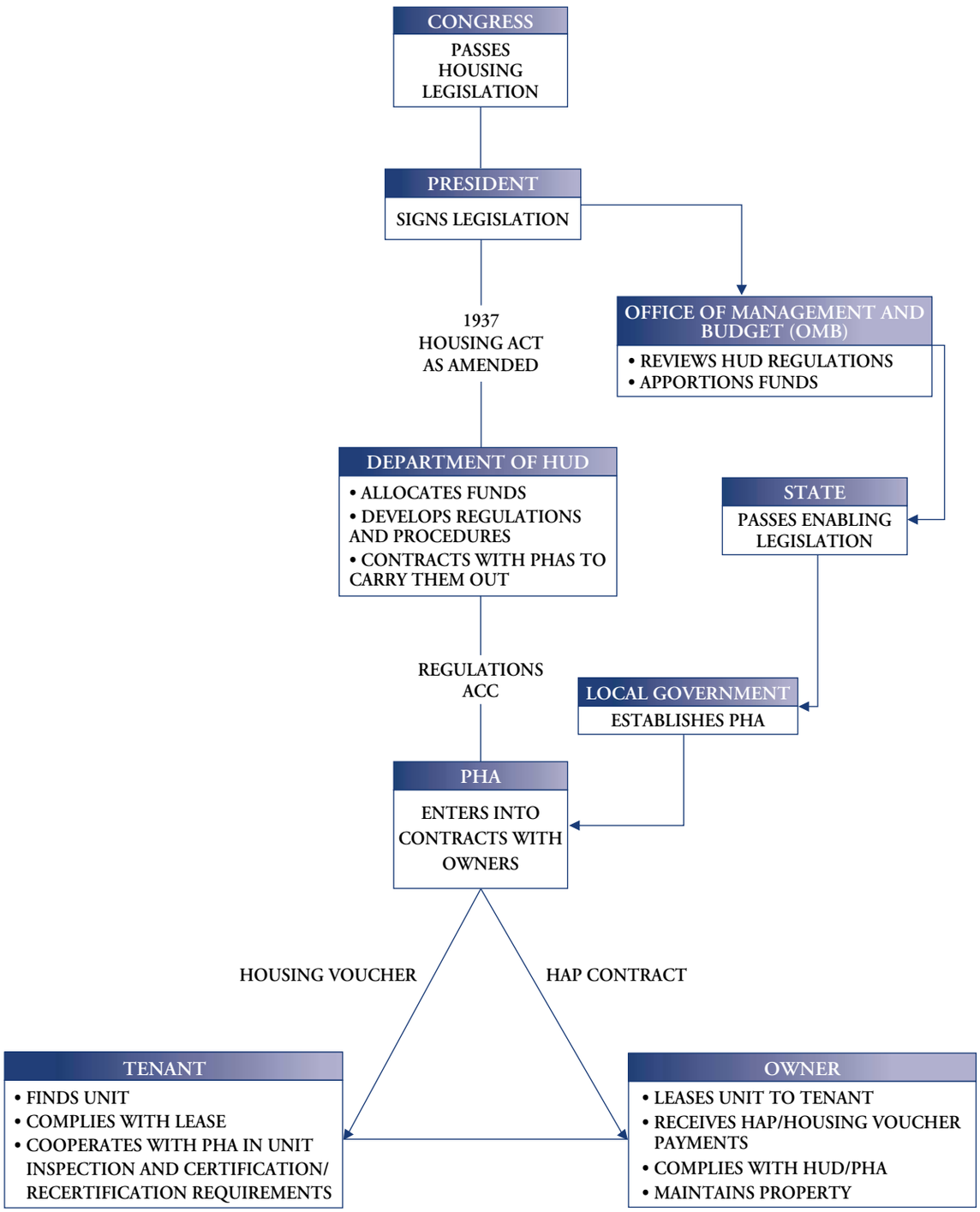
What are the key roles and responsibilities of the program?

The main participants in the Housing Choice Voucher Program include Congress, HUD, public housing authorities (PHAs), private landlords and assisted families. The key roles and responsibilities are illustrated in Chart 1 and summarized below:

Participant	Duties
Congress	• Pass housing legislation • Appropriate funding
HUD	• Develop policy and regulations that interpret housing legislation • Allocate housing assistance funds • Provide technical assistance and training to PHAs • Monitor PHA compliance with program rules and goals
PHA	• Determine family eligibility and suitability for assistance • Explain program requirements to families & assist with housing search • Encourage landlords to participate in the program • Inspect and approve units for rent • Approve contract rents and determine subsidy amount • Pay housing subsidy to owners • Comply with federal and local rules
Landlord	• Screen, select and lease to tenants • Perform customary landlord functions • Maintain the housing quality standards set by HUD • Comply with the housing assistance payment contract and lease
Family	• Provide PHA with information to determine subsidy eligibility • Locate housing that meets quality and cost standards • Comply with lease and program requirements • Pay its share of the rent on time • Maintain the unit in good condition • Notify the PHA of any changes in income or family size

Chart 1.

Key Roles and Responsabilities
Section 8 Existing Housing Program



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Who Lives in Section 8 Housing?

Most tenant-based Section 8 housing serves families with children, who comprise 53% of all voucher households. Disabled and elderly households make up an additional 40% and the remaining 7% of households consist of other families without dependents. The average voucher household has fewer than three persons, comparable to the national average.

Data show that race and ethnicity varies for Section 8 households. Among heads of household, 54% are white, 42% are black, 3% are Asian/Pacific and 1% are American Indian or Alaska Native. About 16% of households are Hispanic.

Despite racial and ethnic differences among Section 8 participants, they share one thing in common; they are all poor. In fact, Section 8 families are among the poorest in the nation, with almost 60 percent of households earning less than 30% of the area median income. Another 20 percent of families earn between 30% and 50% of the area median income, with the balance earning 50% - 80%.

Section 8 vouchers are a valuable form of housing assistance for families with children

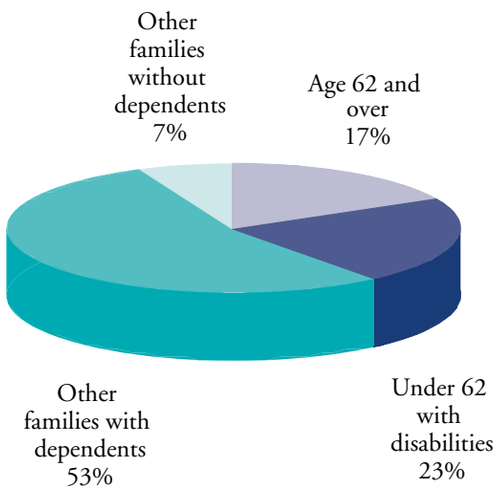
The tenant-based Section 8 program provides a home for over two million children, who comprise just over 50% of all household members.

Voucher assistance is a valuable resource to families with children and offers new opportunities to low-incomes families that, otherwise, would be closed to them. The flexible nature of the voucher subsidy means that housing assistance will adapt to changes in family circumstances – for example, a change in family income or family size. Most notably, the housing assistance is mobile so that a family may move to gain access to better jobs, better schools or safer neighborhoods and the family's housing subsidy will not be lost. This characteristic of the voucher program has yielded positive outcomes, reducing the geographic isolation of low-income families with children. Research shows that over one-half of voucher households live in neighborhoods with over 80% of the metropolitan statistical area (MSA) median income and more than one-fourth of all voucher families live in low-poverty (<10%) census tracts.

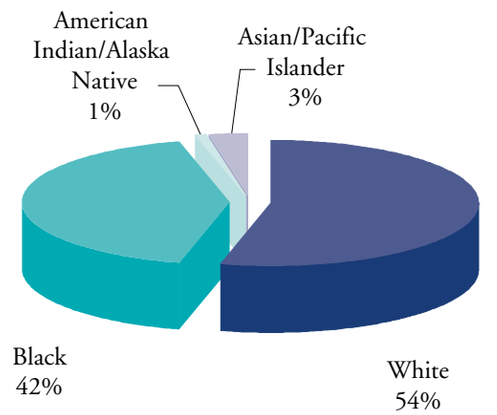
Voucher assistance can be an important vehicle for helping to strengthen families, to improve their skills, education and economic status and, ultimately, to reduce their dependence on government programs

While 40% of all voucher families earn wages, over 20% continue to receive some form of public assistance. The average annual income of all voucher holders is $10,745 and more than three-fourths of all voucher families have annual income below $15,000. This compares to the national poverty level for a family of three of $13,874. Clearly, even the added income that is evident among working families is still not enough to lift them out of poverty.

Section 8 Distribution by Family Type

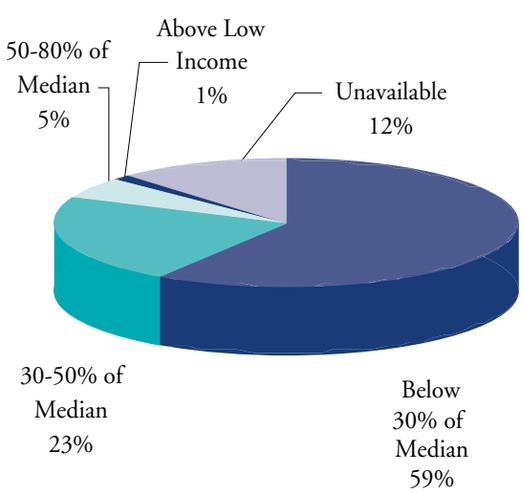


Section 8 Distribution by Head of Household Race

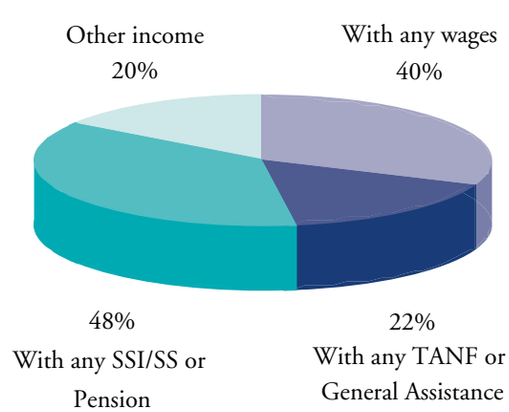


Hispanic: 16% of total

Section 8 Distribution by Average Annual Income



Section 8 Distribution by Source of Income



Source: HUD MTCS, April 2001

Toward that end, the Family Self-Sufficiency (FSS) Program and the Welfare-to-Work Rental Voucher Program are two of the major initiatives designed to link housing voucher assistance with other services, with the goal of moving assisted families toward economic independence.

The **Family Self-Sufficiency (FSS) Program** is a principal asset-building tool for low-income families, who strive to become economically independent from government services within a five to seven year period. The two keys to the FSS program are case management and an escrow account. FSS coordinators provide case management and help connect participants to needed services in the community. The program assists families in becoming and remaining employed and obtaining higher-paying jobs by enhancing their skills. As the participant's earnings rise, their increased rental payments are deposited into interest-bearing escrow accounts. In order to be eligible for escrow funds accrued during periods of their increased income, FSS households must meet established employment goals. When FSS households increase earnings enough to be economically independent from Section 8 assistance, families leave the program, enabling a new eligible household to receive FSS assistance. In this way PHAs can recycle precious resources to serve more low-income families. Upon graduation from the program, FSS families use their accrued escrow accounts for employment and educational expenses, down payments on a home, to create savings or to deal with unexpected financial emergencies that may otherwise have put them at-risk of homelessness. Of the families that were considered to have successfully completed the FSS program between the fall of 1999 and November 2000, 45 percent received escrow funds averaging nearly $5,000 per family.

For example, HUD reports that the Montgomery County's (MD) Housing Opportunities Commission has seen dramatic results for their 150 FSS graduates in the past two years. While average earned income at contract signing was $8,100, at graduation it was $27,130 – an increase of 335% over five years. The average escrow savings was $9,000 and 30% of graduates have purchased homes, even though a quarter of these new homeowners began the program unemployed or on welfare.

The **Welfare-to-Work (WtW) Rental Voucher Program** is another major initiative intended to help eligible families transition to economic independence. In 1999, HUD provided 50,000 Welfare-to-Work vouchers to 121 administering agencies that successfully competed for voucher funds. Under the program, housing agencies are required to partner with State or local entities administering assistance under the TANF (or welfare) programs to assure that the rental assistance is coordinated with other essential services to assist families in moving from welfare to work. Families eligible to participate in the program must be eligible to receive, be currently receiving, or shall have received public assistance within the preceding two years. The WtW vouchers can be used to help families obtain job training, educational opportunities or community services, as well as move to areas with better job opportuni-

ties. The program can also provide housing stability to families making the transition from welfare to work or, in combination with the FSS program, to create incentives for families to increase income. The flexibility in the program regulations enables PHAs and their partners to design locally relevant programs by allowing a variety of unique eligibility criteria, referral and intake procedures, and termination policies. Partnerships between PHAs and TANF organizations, as well as other service providers, help fill gaps in service delivery systems.

Research over the last several years, suggests that government housing subsidies can help to promote work among long-term welfare recipients, when they are combined with well-designed welfare reform programs.

The evaluation of the Minnesota Family Investment Program (MFIP) by the Manpower Demonstration Research Corporation (MDRC), found that employment and earnings increased far more among residents of Section 8 assisted housing than among poor families *not* receiving housing assistance. The evaluation also found that MFIP participants living in Section 8 assisted housing outperformed residents of private housing on an absolute basis, exceeding by more than 40 percent the average earnings of participants not residing in such housing.[1] Studies of two different Job Opportunities and Basic Skills (JOBS) training interventions in Atlanta and Columbus similarly indicate that the programs' impacts over a three-year period were concentrated among families in Section 8 assisted housing.

Analyzing data collected in four California counties (Alameda, Los Angeles, San Bernardino, and San Joaquin), UCLA researchers found that, on average, families receiving both Aid to Families with Dependent Children (AFDC) benefits and Section 8 housing subsidies worked significantly more hours than AFDC families living in unsubsidized housing. The study concluded that the most "plausible explanation [for these results] is that Section 8 housing offers recipients residential choice and mobility that improve opportunities for employment."[2]

Additional research is needed to confirm the applicability of these preliminary findings to other welfare reform programs. These findings suggest, however, that Section 8 housing subsidies may be useful in helping families make the transition from welfare to work.

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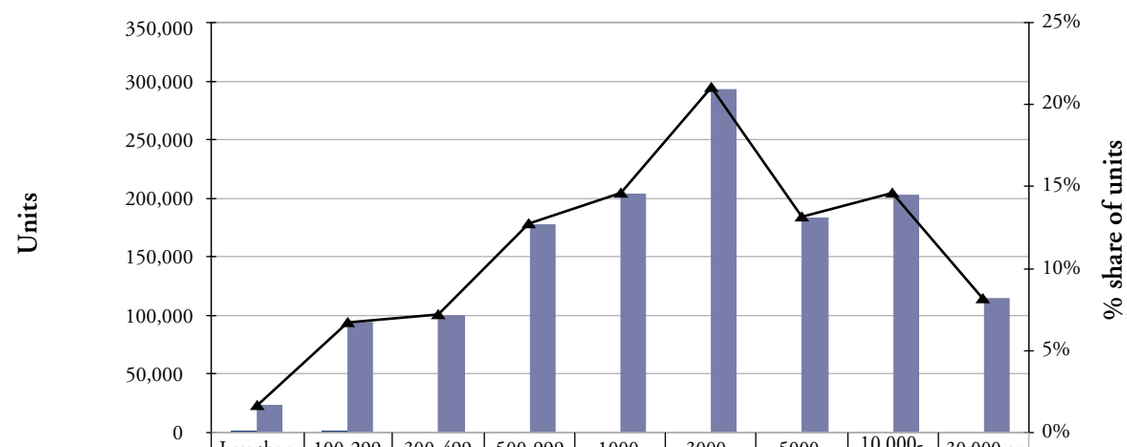
[1] *Cynthia Miller, Explaining MFIP's Impacts by Housing Status, Unpublished Paper, Manpower Demonstration Research Corporation (MDRC), 1998.*
[2] *Paul Ong, "Subsidized Housing and Work Among Welfare Recipients," Housing Policy Debate 9:4 (1998), p. 775.*

The Essential Role of PHAs in Administering the Housing Choice Voucher Program

As the primary administrators of the Housing Choice Voucher Program, local public housing authorities (PHAs) play an essential role in delivering housing assistance to millions of families. Nationwide, over 2,500 housing agencies operate voucher programs ranging in size from less than 100 units to more than 70,000 units. In addition to PHAs, many states and counties also administer a voucher program.

Distribution of Section 8 Units, by PHA Size



	Less than 100 units	100-299 units	300-499 units	500-999 units	1000-2999 units	3000-4999 units	5000-9999 units	10,000-29,999 units	30,000 or more units
# PHAs	885	807	317	301	214	40	31	5	2
Total Units	23,235	93,631	100,208	177,520	203,303	293,075	183,446	203,098	114,010
%Share of Units	1.67%	6.73%	7.20%	12.76%	14.61%	21.06%	13.18%	14.60%	8.19%

Source: Picture of Subsidized Households, 1998

Administration of the voucher program is governed by a set of complex regulations that require both expert knowledge of the program, as well as the local housing market. Administering a voucher program generally involves the following major activities:

Funding	Involves securing program resources for the jurisdiction by applying to HUD for available monies that have been appropriated by Congress. PHAs apply for funding by responding to a Notice of Funding Availability (NOFA) published by HUD in the *Federal Register*. Each NOFA identifies allocation areas, amounts of funds available per area, and the selection criteria for rating and ranking applications.
Leasing	Leasing involves a wide range of activities that starts with available funding and ends with a leased family in occupancy. The leasing phase generally requires the most time and administrative resources, and both are magnified in tight rental markets or where the supply of units meeting housing quality standards is insufficient. Key steps in the leasing process are illustrated in Chart 2.
Occupancy	Occupancy involves corrective action and the ongoing monitoring and reporting of leased families to ensure compliance with program requirements and goals.

Keeping in mind their primary mission and purpose, it is important to recognize that PHAs often play a role that goes well beyond the basic implementation of voucher program requirements. PHAs are also active members of the community in which they operate and they are actively involved in improving the lives of the residents they serve.

PHAs play an important role in the community.

- In securing voucher funding, PHAs contribute an extremely valuable affordable housing resource to the locality. Vouchers are a critical component of affordable housing in every state and region - *see insert to this publication on distribution of vouchers by State*. And because PHAs often provide a wide range of housing services, they can administer the voucher program cost effectively.
- The community benefits from a voucher program that is locally based and responsive to the needs and priorities of the local citizenry. As public institutions, PHAs are open and accountable to the public. With governing boards typically appointed by elected local officials, PHAs are subject to democratic principles of governance.
- PHAs are recognizable institutions. The community looks to the housing authority for housing services and knows where to turn to for assistance. Since housing authorities also own and operate public housing, voucher applicants can also be placed on the waiting list for public housing, increasing the chance of receiving housing assistance in a timely manner.
- Membership in the local community allows PHAs to develop strong relationships with local property owners and managers where they have a detailed knowledge of local rental markets and submarkets. And having worked with landlords for so long, PHAs can administer housing quality standards effectively – encouraging them to improve housing quality and to participate and remain in the program.
- Close ties to local government can give PHAs favorable consideration in the zoning and placement of affordable units to expand opportunities for the voucher population.

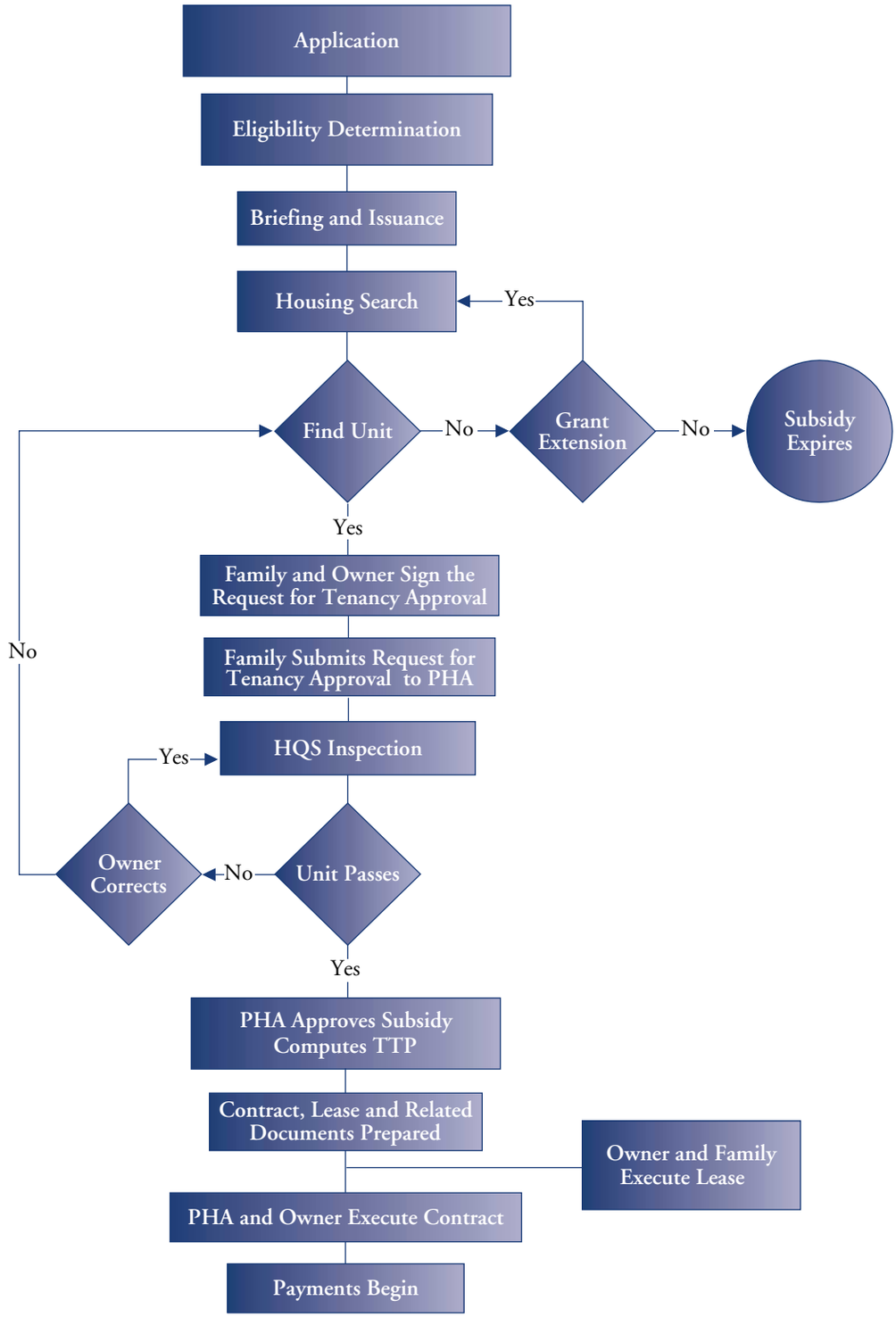
PHAs play an important role in the lives of residents.

- Nearly all PHAs have spent years developing strong partnerships with social service providers who furnish voucher families with a wide range of support services. They have close working relationships with local providers such as food banks, emergency shelter programs, housing search agencies, renters organizations, credit unions, credit counseling services, educational and instructional programs — such as those for displaced workers, or women entering the workforce, and English as a Second Language.
- PHA resources can be effective in leveraging other public and nonprofit services for recipients of housing, including public safety and transportation systems.
- The structure and longevity of PHAs allow specialized program staff to work with individual families over many years, if necessary, to encourage them toward self-sufficiency and independence. Similarly, housing authorities are best suited to manage the Section 8 homeownership program, which favors long-term relationships between the new homeowners and the administering agency.

Finally, PHAs have a long history of managing federal housing programs, including over thirty years of administering Section 8 programs. PHAs are well acquainted with HUD, able to interpret and adapt to regulatory changes, and equipped with the staff and material resources to implement and monitor the expanding voucher program. In many ways, PHAs are the best organizations to administer the Housing Choice Voucher Program.

Chart 2.

Section 8 Key Steps in Leasing



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Evaluating Program Performance

Public Housing Agency Plans

Section 511 of the Quality Housing and Work Responsibility Act of 1998 (QHWRA) created the *Public Housing Agency Plans* — a 5-year plan and an Annual plan. The 5-year plan describes the mission of the Agency and the Agency's long-range goals and objectives for achieving its mission over the subsequent 5 years. The Annual plan provides details about the Agency's immediate operations, program participants, programs and services, and the Agency's strategy for addressing the needs of the community in the upcoming fiscal year. Both plans are created with input from residents of HUD-assisted housing, as well as the local community and local government. These groups monitor PHA performance and progress against the plans and make recommendations for future policy and program changes.

The Section 8 Management Assessment Program

The Section 8 Management Assessment Program (SEMAP) is a HUD-established performance evaluation system whose purpose is to objectively measure, on an annual basis, the performance of all housing agencies that administer the Housing Choice Voucher Program. Under SEMAP, HUD assesses housing agency performance based on 14 key indicators to show whether eligible families are receiving rental assistance at a reasonable subsidy cost as intended by Federal housing legislation and by Congress' appropriation of Federal tax dollars.

SEMAP indicators cover the following key performance areas:

#1 Selection from the waiting list
#2 Rent reasonableness
#3 Determination of adjusted income
#4 Utility allowance schedule
#5 Housing Quality Standards (HQS) quality control inspections
#6 HQS enforcement
#7 Expanding housing opportunities
#8 Fair market rent (FMR) limits and payment standards
#9 Annual reexaminations
#10 Correct tenant rent calculations
#11 Pre-contract HQS inspections
#12 Annual HQS inspections
#13 Lease-up
#14 Family self-sufficiency (FSS) enrollment and escrow accounts
Bonus Deconcentration

Telling the Whole Story

While, it is appropriate to assess the management performance of PHAs – particularly the adherence to program statutes and regulations and the efficient use of available voucher resources – at the same time, it is important to recognize that numbers don't tell the whole story. Although not as simple as a "one-size-fits-all" assessment system such as SEMAP, true performance evaluation can only take place in the context of the local housing market and the actual families served by the program.

For example, consider the current SEMAP indicator on "lease-up" of units. This indicator, which is intended to measure a PHA's use of available resources, carries 20 points – the most of any indicator. Lease-up is also a performance measure widely monitored and discussed by Congress, HUD and housing advocates. And yet, it is possible for a PHA to achieve a high lease-up rate – earning the maximum number of points under this indicator – but, at the expense of other critical program goals. The following table captures this point:

Strategies that increase lease-up rates	Possible consequence
Less stringent enforcement of housing quality standards (HQS)	Lower quality of housing, potentially contributing to neighborhood decline
Less screening of voucher applicants	Problem tenants, resulting in landlords and communities opposed to the program
Over-issuing vouchers (flooding the market)	Increased competition for housing, lower success rates for families, and higher rents
Directing families to housing submarkets (areas) where vouchers are widely accepted	Concentrations of assisted households or voucher holders in high-poverty areas
Increasing payments standards or using "exception payment standards" authorized by HUD	Increase in rents, the subsidy cost of vouchers and, on a large scale, overall program costs
Suspend terminations and relax enforcement of program rules, such as those governing occupancy by leaseholders only, or full reporting of all household income	Reduced program integrity and taxpayer accountability

Similarly, other individual indicators intended to measure performance may fail to take into account the fact that there are often tradeoffs associated with adapting the voucher program to externalities of the local market. One goal may be accomplished at the expense of others. Successful voucher administration requires expert skill in striking a delicate balance among competing priorities. This reality is difficult to capture in a standard "one-size-fits-all" assessment system.

Strengths and Limitations of the Voucher Program

Section 8 is a valuable housing resource for millions of low-income families across the country - *see insert to this publication on the distribution of vouchers nationwide*. Voucher families, including those living in census tracts with median household incomes below $10,000, compare well with all rental households on several measures. Overall, Section 8 households live in better quality housing, pay more affordable rent burdens, and live in less poverty concentrated neighborhoods than comparable unassisted households.

Furthermore, among the 1.7 million families currently served by the program, studies show that voucher success rates are almost equally high regardless of the racial or ethnic group, the age or disability status, or the primary source of income. (HUD/PD&R)

Tenant-based Section 8 vouchers can offer advantages over other forms of housing assistance in that families retain the ultimate choice of housing and neighborhood. In addition, the voucher subsidy is both mobile and

flexible – able to change with a family's changing needs. The Section 8 voucher program can also support self-sufficiency efforts, homeownership and the move to economic independence.

Despite the advantages of the Housing Choice Voucher Program, however, there are considerable challenges that can limit the effectiveness of the program. These include an overwhelming need for housing assistance, market conditions that are less than ideal, and regulatory obstacles that interfere with local management of the program.

Lengthy Section 8 Waiting Lists

HUD's report entitled, "Waiting in Vain: An Update on America's Rental Housing Crisis" found that the average wait for voucher assistance has increased significantly in recent years, with the largest public housing authorities experiencing the longest waits and greatest growth in waiting times. Where waiting lists had not been closed, they increased in size, typically 10 to 25 percent from 1998 to 1999.

City	Wait for Section 8 Housing
Los Angeles	Up to 10 years
New York City	Up to 8 years
Washington, DC	Up to 8 years
Houston	Up to 7 years
Chicago	Up to 5 years
Oakland	Up to 4 years
Syracuse	Up to 4 years

Source: "Waiting in Vain," HUD, 1999

According to a new survey released at the end of 2001 by the U.S. Conference of Mayors (USCM), homelessness rose sharply in major American cities over the last year, along with increased waiting periods for public and Section 8 assisted housing. Among the findings of the 27-city survey, the USCM report found applicants must wait an average of 16 months for public housing, and the wait for the Section 8 Housing Choice Vouchers is 22 months.

The average waiting time for a housing voucher is more than 10 years in Los Angeles and Newark, 8 years in New York, 7 years in Houston, and 5 years in Memphis and Chicago.

Barriers to Leasing and Utilization

The Section 8 program is a market-based program. When housing markets are in a state of flux, or where market factors of supply and demand are out of balance, the ability of low-income families to secure housing – even with vouchers – will be constrained. Many factors impact the ability of voucher holders to lease units in the private market, and many studies support the fact that PHAs face barriers in making full use of Section 8 Housing Choice Vouchers. These barriers include, but are not limited to families' financial barriers (cost of public transportation, credit checks and security deposits) and lack of experience in the private rental market (poor landlord references or credit history, lack of communication skills). In addition, voucher program success can be limited where the local market lacks:

- An adequate and well-distributed supply of rental housing units.
- A sufficient number and distribution of units renting below the HUD-established subsidy limit – the fair market rent (FMR).
- Housing units that meet HUD's housing quality standards (HQS).
- Local landlords willing to participate in the Housing Choice Voucher Program.

Regulatory Impediments to Successful Local Section 8 Programs

Finally, it must be acknowledged that Section 8 has evolved into an administratively unwieldy and cumbersome program. As the Section 8 program has expanded in size, so too has the complexity of the HUD regulatory framework and program administration. Regulations now overlay virtually every aspect of program administration providing little room for locally designed solutions to local problems.

It is important to understand that, though they might be well intentioned, these regulations add considerably to the cost of housing low-income families, often with no benefit to the families themselves. In addition, regulations prevent PHAs from using management discretion to respond quickly to market fluctuations. Finally, standard "one-size-fits-all" regulations often limit the effectiveness of the voucher program when administered in unique local markets that do not conform to some ideal national market model.

Improving on Success

Housing agencies that administer the voucher program are best able to meet the challenges of immense housing need and less than ideal market conditions when they have sufficient flexibility and local discretion to tailor the program to the unique constraints and opportunities present in the local market. Recent initiatives that move in this direction include the Quality Housing and Work Responsibility Act of 1998 (QHWRA) and the Section 8 Project-Based Assistance provision.

The **Quality Housing and Work Responsibility Act of 1998 (QHWRA)** is a major piece of housing legislation intended to consolidate multiple programs, streamline program requirements and deregulate PHAs that perform well, giving them the maximum feasible authority, discretion and control with appropriate accountability to residents, localities and the general public. QHWRA brought welcome changes and new flexibility to the Section 8 voucher program, including more flexibility in rent setting, better lease terms for landlords, local preferences for admission, and more discretion in tenant selection. *The new flexibility offered by QHWRA has enabled PHAs to maintain effective voucher programs despite significant program growth and tight rental markets.*

The **Section 8 Project-Based Assistance** provision allows PHAs to attach up to 20 percent of their voucher program funds to particular buildings. Such "project-basing" of vouchers has been shown to be effective in promoting new construction or substantial rehabilitation of rental housing, or in simply securing landlord participation by committing a set number of voucher units to an existing property. PHAs can combine project-based vouchers with Low Income Housing Tax Credits, HOME funds, or other sources to further expand development, asset management and revenue diversification opportunities. *The Section 8 Project-Based Assistance program, if properly streamlined, holds great promise to deconcentrate neighborhoods, improve utilization rates, and increase affordable housing development.*

These initiatives provide concrete examples of the fact that additional flexibility in program administration can allow PHA administrators to overcome significant obstacles to voucher effectiveness in certain markets or for certain families. Industry advocates encourage further movement in this direction. Specific recommendations on improving voucher success are contained in the insert to this publication.

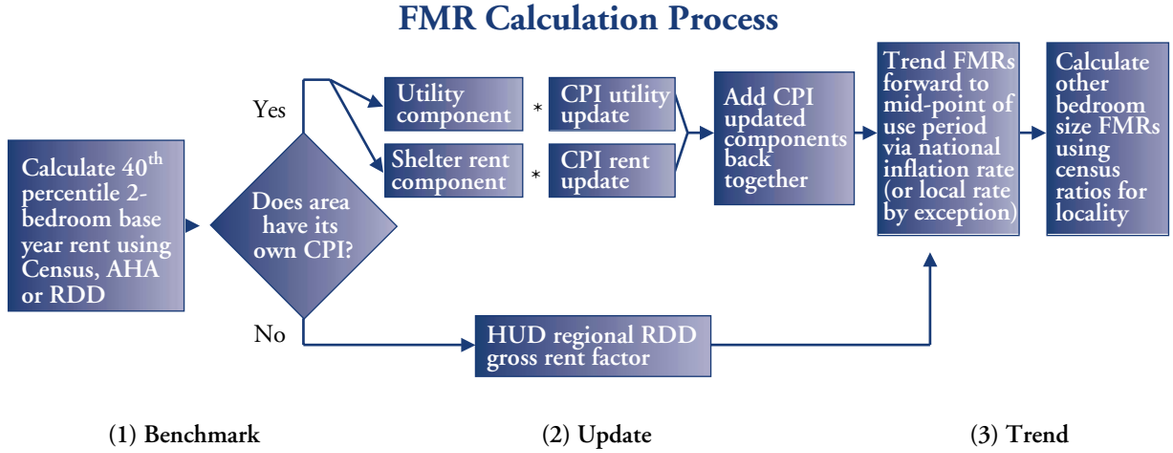
Special Issues

Fair Market Rents (FMRs)

- Fair market rents (FMRs) determine the payment standard used to calculate subsidies under the Housing Choice Voucher Program. The U.S. Department of Housing and Urban Development (HUD) annually estimates FMRs for 354 metropolitan areas and 2,350 non-metropolitan county areas.
- FMRs are gross rent estimates. They include the shelter rent plus the cost of all utilities, except telephones. Because they set the subsidy limits, FMR levels will determine the supply of rental housing that is available to voucher program participants. To ensure an adequate supply of housing is available, FMRs must be high enough to permit the voucher holder to compete effectively with other renters in the private marketplace and to allow for a selection of units and neighborhoods.
- The level at which FMRs are set is expressed as a percentile point within the rent distribution of standard-quality rental housing units. The current definition used is the ***40th percentile rent***, the dollar amount below which 40 percent of the standard-quality rental housing units are rented. The 40th percentile rent is drawn from the distribution of rents of all units occupied by recent movers (renter households who moved to their present residence within the past 15 months). Public housing units and units less than 2 years old are excluded.
- HUD's methodology for setting FMRs is quite complicated and, adding to this complication, FMRs across jurisdictions are benchmarked to, updated by, and (occasionally) trended by different data sources. The process is illustrated in Chart 3. Under the current 40th percentile rule for FMRs, many voucher families fail to find rental units that have rent and utility costs low enough to lease under the program, even when the local PHA has used its flexibility to establish payment standards above the FMR as allowed by statute. In some communities, voucher families are able to find a limited selection of units, but only in higher poverty areas where the rents are lower that the average rent for the area.
- In a recent survey of large public housing authorities, ***76% of all survey respondents cited low FMRs as a factor in the under-utilization of tenant-based Section 8 vouchers***. In the worst circumstances, families unable to find qualifying units within the cost limits are forced to return their vouchers unused to the PHA.

Chart 3.

FMR Calculation Process



- Many voucher program administrators have called for HUD to increase the FMR standard to the 50th percentile of rent distribution – a standard previously used by HUD. In FFY 2000, HUD raised the FMR from the 40th to the 50th percentile for 39 jurisdictions where voucher holders were concentrating, possibly due to low subsidy standards. HUD's own data shows that this change added 1.2 million affordable rental units to the supply available to voucher holders. ***If the FMRs were raised to the 50th percentile in all areas the number of rental units available to voucher holders nationwide would increase by 3.8 million units.***

FMR Methods Don't Keep Pace with Local Real Estate Markets

Rental housing real estate markets are driven by local dynamics and often change suddenly. Meanwhile, HUD-determined FMRs are typically published and/or implemented approximately two years after the rental cost data is collected. While an inflation factor is applied to the data to account for the time lag, HUD's own "1999 Report to Congress on Worst-Case Housing Needs" showed that rents rose faster than inflation. In fact, increases in home prices have outpaced overall inflation for six years, totaling 11.1 percent between 1994 and 1999. As a result, even when PHAs exercise their discretion to set payment standards above the FMR (within limits), the subsidy if often not enough to match market rents.

Studies Show the FMR is Tied to Voucher Success

According to the 1999 American Housing Survey, between 1997 and 1999, the number of units with rents below the FMR dropped significantly. Vacancy rates for units renting at or below the FMR fell in every region of the country except the Midwest. Suburban areas, which are most likely to have the greatest job growth, had the lowest vacancy rates for units renting at or below the FMR. Increasing the supply of Section 8 vouchers without increasing the supply or availability of affordable housing can create increased demand, which in turn drives up rents. This strains the system so that, today, the turn back rate of households who cannot find housing with their vouchers is at an all-time high.

Costs Associated with Increasing FMRs from the 40th to 50th Percentile

HUD has the discretion to increase FMRs from the 40th to the 50th percentile. Because the difference between 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 — such a change would not result in a dramatic dollar increase in voucher payments. ***But it should result in approximately a 25 percent increase in the number of area rental units that would be 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.) 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.

Voucher Utilization and Success Rates

Section 8 voucher utilization measures the actual use of vouchers over a specific time period compared to either the number of housing vouchers available or/ to the voucher funding available. The number of vouchers in use is measured by the ***lease-up rate***, which generally compares the number of units leased to the number of units authorized by HUD to a PHA or other voucher administrator. The amount of funding in use is measured by ***budget authority utilization***, which generally compares the amount of funding used to the amount of funding authorized by HUD. Since the cost per voucher can increase in a given funding year for many different reasons, it is possible for a housing agency to use all available voucher dollars yet not be fully leased according to the number of voucher units under contract with HUD. *(See Special Issue on the need for Section 8 reserves.)*

In recent years, some voucher administrators have experienced increasing difficulty in fully utilizing all voucher units and funding. This situation is often referred to as "underutilization" and its extent varies significantly from location to location. In 2000, the Council of Large Public Housing Authorities surveyed large PHAs to determine the extent and causes of underutilization. The results showed that for survey respondents:

- *The average lease-up rate was 90%*. This average increased to 92% when "special purpose", litigation, and recently issued vouchers (within 4 months) were excluded.
- *On average, respondents utilized 93% of available budget authority*.
- *The average voucher turn-back rate was 19%.* This reflects the percentage of vouchers that are ultimately returned (unused, despite time extensions for the housing search) to the agency and then re-issued to new families.
- *The average actual time needed to find housing was 85 days*.
- When asked to list *the major reason that vouchers went unutilized*, the most frequent response (cited by 30% of respondents) *was that not enough landlords are participating in the program*. Respondents also cited *low FMRs* (25% of respondents) and *personal obstacles facing voucher holders* (25%) as major reasons.
- Survey responses indicate that *"special purpose"; litigation and conversion vouchers can have a large negative impact on utilization rates*.
- Respondents also cited *the 40% cap on initial rent burden* and the *lack of funds for security deposits as contributing to utilization problems*.
- Finally, *the HUD budget process may significantly contribute to its own reporting of unused funds* to the extent that funds are not allocated according to a realistic lease-up schedule established by the PHA.

In summary, the survey results clearly show that the causes for underutilization vary from market to market and often, a myriad of factors combine to limit voucher use. As a result, improving utilization rates can be expected to encompass variable solutions and it is reasonable to expect that access to a variety of "utilization tools" will allow local agencies and communities to address utilization issues most effectively. PHA administrators have cited the following measures as those most likely to contribute to improved utilization:

- Increase the FMR from the 40th to the 50th percentile of rent distribution;
- Allow PHAs to set payment standards up to 120% of the FMR;
- Allow PHAs to make use of unutilized program dollars to counsel families and assist in the housing search and;
- Allow PHAs to waive the 40% cap on total tenant payment under limited circumstances or for families renting in place.

Voucher success rates refer to the percentage of families receiving housing choice vouchers that actually succeed in finding suitable units and becoming program participants. Currently, low success rates in many markets across the county negatively impact both families with serious housing needs and voucher administrators who cannot meet program objectives. Consequently, improvement of voucher success rates has become a key issue for Congress, HUD, PHAs and resident advocates. The goal of improved success rates assumes that voucher holders, after years on waiting lists, should be able to find decent housing at a reasonable price within a reasonable timeframe.

A HUD study conducted in 2001 found national success rates had dropped to 71%, down from 87% in 1994. The results reflect the fact that, currently, about 30% of all voucher recipients do not succeed in leasing a unit and becoming a program participant. The study also found that the length of time needed to find housing is considerably higher today than in 1994 and that housing search time directly correlates with rental housing availability, or vacancy rates, in a particular market. The study found that families requiring larger units are also less likely to succeed in leasing their unit. In addition, if they are handicapped or working, which are both negatively related to success, they will have less ability to search for apartments.

Despite market forces that often drive such results, strategies aimed at improving success rates can be successful in some cases. Such strategies often include increasing payment standards or fair market rents, providing incentives for landlords to rent units to voucher families, allowing families additional search time, or assisting families with the housing search through direct counseling or other support services.

Housing Mobility and Portability

What is housing mobility?

While housing mobility is generally understood to mean the ability of families to move to desirable neighborhoods of their choice, it is often interpreted to mean the incidence of voucher families residing in low-poverty neighborhoods. In this context, the theory behind mobility is that living in such neighborhoods will provide better employment and earning opportunities to adults, better educational opportunities to children, a safer environment for families and an overall higher quality of life. In five locations over a ten-year time period, HUD continues to study this theory of mobility in its Moving to Opportunity (MTO) demonstration program. Early MTO results vary, but some sites show positive effects on adult employment and welfare receipt, as well as on children's educational, health and social outcomes.

How can the voucher program support housing mobility?

Because it is a tenant-based program, the housing subsidy in the Housing Choice Voucher Program is tied to the voucher family. When a family moves, the voucher subsidy moves as well. Because of this feature, families can use their vouchers to find housing in desirable neighborhoods of their choice. Studies have shown that in most of the nation's metropolitan regions, the Housing Choice Voucher Program has an excellent record of allowing families to locate housing in healthy neighborhoods.

In addition, the Housing Choice Voucher Program offers **portability** - or the ability of voucher holders to move across local, regional or even state jurisdictions. Essentially, families may use their vouchers to find housing anywhere in the nation. Available data supports the contention that Section 8 families exercise their portability rights freely. Nationally, in FY 2000, 305,000 households were either newly admitted to the Section 8 program or moved while on the program. Of these families, 51,000 – or 17 percent – exercised their ability to move from the jurisdiction in which they were living (HUD 1999).

What can PHAs do to support housing mobility?

While it is the voucher holder that ultimately chooses the housing and neighborhood, PHAs can – and do – play a role in ensuring that voucher families have real choices in locating housing. PHAs can raise payment standards, or seek higher housing subsidies from HUD, so that families have access to a wide choice of units in a variety of neighborhoods, particularly low poverty-neighborhoods. PHAs implement comprehensive landlord outreach programs to encourage program participation by landlords in low-poverty areas. PHAs advise voucher families on participating landlords and the range of units and neighborhoods available – providing detailed maps and descriptions of neighborhood amenities. Finally, many PHAs provide direct search assistance to families, or help in linking clients with the transportation, childcare and social service resources they need to be successful in the search for private rental housing.

What limits housing mobility for voucher holders?

Despite this record of success, the ability of the voucher program and PHAs to promote housing mobility can be limited by several factors, including:

1. The location and availability of rental housing, and in particular, affordable rental housing. A jurisdiction's zoning requirements and planning approvals impact the development and location of rental housing. Community concerns about rental housing often lead jurisdictions to impose requirements, e.g. parking ratios, design elements, project amenities, etc. that increase cost and discourage construction thereby reducing affordability and supply and creating rental housing concentrations. If rental housing, and particularly affordable rental housing, is concentrated then renters will be concentrated.

2. The adequacy of fair market rents (FMRs). The PHA payment standards – used to determine the amount of the voucher subsidy – are tied to HUD's FMRs. For housing mobility to be possible, FMRs must be set high enough to allow voucher holders to afford the rents in desirable neighborhoods. In a report to Congress on Section 8 mobility (HUD 1995), HUD underscored this point by stating, "The most fundamental limitation on mobility opportunities for rental assistance recipients is the availability of modestly priced housing. Areas with a shortage of units renting at or below the local fair market rent will be effectively closed to most assisted households."

3. Program targeting combined with restrictions on total tenant payment (TTP). The tenant-based Section 8 program requires income targeting, whereby 75 percent of all new voucher contracts must be for extremely low-income families (those with incomes less than 30 percent of the area median). In addition, the program limits the family rent contribution on any new Section 8 contract – regardless of whether the family was new to the Section 8 program or just moving to a different Section 8 unit – to 40 percent of the family's income. Consequently, families must find units renting within the PHAs payment standards *and* where their rent contribution does not exceed the 40 percent limit. The combined impact of limiting the family's rent contribution and, at the same time, requiring that the vast majority of new Section 8 families be those with extremely low income, may contribute to the concentration of Section 8 families in less desirable neighborhoods.

4. Discriminatory rental practices. The existence of discriminatory renter selection practices based on race and ethnicity, the presence of children and source of income is an established fact that has led to the passage of fair housing laws that specifically address these unlawful acts. Given the socioeconomic characteristics of Section 8 renters, it is not surprising that they would encounter discrimination in their search for housing. Such discrimination can have a significant negative impact on family housing choice, effectively excluding voucher families from some neighborhoods.

5. Landlord willingness to participate in the Section 8 program. In HUD-conducted surveys of private property owners and managers (HUD and Census Bureau 1996), it was made clear that owners want the management

differences and the economic consequences of renting to a Section 8 family, as opposed to an unassisted family, to be minimal. They also want good tenants. When those differences become significant – that is, when Section 8 voucher holders have poor rental and credit histories or when the availability of housing is tight, property owners will simply choose not to participate in the Section 8 program. The fewer owners participating in the program, the more likely it is that families will be concentrated in neighborhoods where Section 8 families are similar to the other renters and where the economic benefits of the Section 8 program outweigh any negatives.

Would regional administration of the voucher program improve housing mobility?

Some have proposed this as an experiment to see whether it would result in more families moving to better neighborhoods. However, there are several problems with this approach. First, HUD does not recommend this as a solution to issues of mobility. When asked by Congress to report on the feasibility of competing out the administration of vouchers, HUD was unequivocally opposed. HUD argues that such a change would require an elaborate and costly administrative effort, require a new and extensive staff of government employees and result in disruptions in assistance to families. HUD has also expressed concern about a significant trend of state and regional administrators dropping out of the voucher program.

Second, it is a solution that does not match the problem. Changing the voucher administrator does not eliminate any of the major obstacles to mobility that are well known and cited above.

Third, the fact is that real estate is essentially a local operation. As housing administrators know, metropolitan areas encompass multiple, distinct housing markets. Geographic barriers (such as rivers, railroads, highways etc.), transportation networks (public rail, buses, highways), location of employment centers, and other factors create housing sub-markets. These smaller housing markets vary in type of available housing, rent structure and other features. They do not exist in the form of a single region-wide market.

In addition, the majority of Section 8 property owners are small local landlords who likely reside in the community where they own the units. These owners may well prefer working with an agency that has an understanding of the local rental market and who is also locally accountable for its decisions rather than a regional entity that is far removed from the community. Changing the administration of the program from local communities (towns, cities and counties) to a regional authority runs counter to the current strong support for local governance and local solutions. For many communities, it would not be acceptable to have local decision-making replaced by a remote, regional entity.

What strategies would help to improve mobility for voucher holders?

Most voucher administrators agree that obstacles to mobility vary from place to place, with some factors more or less prevalent than others. The key to improving housing mobility lies, first, in accurately assessing the specific constraints of the local housing market. Successful strategies to improve mobility should be tailored to local circumstances and may include:

- Efforts to expand the supply of affordable rental housing that meets HUD housing quality standards, especially in low-poverty areas
- Efforts to expand the number of landlords participating in the voucher program, especially landlords in low-poverty areas
- Increasing the value of rent subsidies (HUD's fair market rent or the PHA's payment standard) to allow families to pay market rents in low-poverty areas
- Counseling and search assistance to families to promote and encourage moves to low-poverty areas
- Enforcement of housing discrimination laws

In considering housing mobility it is important to note that it is the voucher holder that ultimately selects a housing unit and, in effect, a neighborhood. Apart from ensuring housing quality and rent reasonableness, the PHA is generally prohibited from restricting this choice.

Finally, it is important to acknowledge that greater mobility is only ***one*** of the many goals inherent to the Section 8 program and that – while each goal in and of itself holds value – these goals can sometimes work against each other in the marketplace. Experience has shown that greater efforts to promote voucher moves to low-poverty areas can have the unintended effect of lowering success rates, reducing lease-up and utilization rates, and/or increasing program costs. In this sense, it is important to recognize there can be significant trade-offs in outcomes when policy goals collide.

Administrative Fees

Section 8 administrative fees are paid by HUD to program administrators, such as public housing authorities (PHAs), and are intended to cover a variety of staff and other costs associated with the implementation of the Housing Choice Voucher Program. Administrative fees are paid monthly for each unit under lease and vary by metropolitan region.

Currently, administrative fees are based on a formula that uses a percentage of either the 1993 or 1994 FMR. The fees range from a low of $32.24 per unit per month (PUM) under contract in the Cumberland, MD-WV area to a high of $69.60 PUM in both the Bergen-Passaic, NJ area and the Middlesex-Somerset-Hunterdon, NJ area. For the purpose of illustration, consider the average of these two fees, $50.92, although it is actually higher than what most PHAs receive. This monthly administrative fee reflects an equivalent annual fee of $600 per unit under contract per year. Considering the (March 2000) national average total compensation for state and local government workers of $29/hour, ***the administrative fee only covers approximately twenty (20) hours of administrative time per unit per year***.

Meanwhile, administrative requirements of the program include:

- Application processing
- Initial and annual verification of family income and composition
- Screening applicants
- Maintaining and purging the waiting list
- Monitoring income targeting provisions
- Briefing families on how to use the program and how to find housing
- Initial and annual inspection of rental units selected for occupancy and enforcement of housing quality standards
- Initial and annual determination and negotiation of rent with owners
- Establishing and updating the rent reasonableness survey
- Initial and annual re-determination of tenant subsidies and utility allowances
- Coordination of family moves between units
- Assisting landlord-resident disputes, enforcing the HAP contract and conducting grievance hearings
- Tracking success rate, utilization rate and forecasting voucher issuance
- Maintaining and updating the administrative plan
- Complying with SEMAP quality control provisions
- Financial record keeping and drawdowns
- Payment of monthly subsidies to landlords, and
- Annual program reporting and monthly tenant reporting to HUD.

In addition, recently added requirements and new expectations of program administrators now include:

- Planning and implementation of special programs, such as homeownership programs and family self-sufficiency programs,
- Coordination with and development of partnerships with local service providers and public agencies,
- Landlord outreach and incentives to encourage owners, especially those in low poverty areas, to participate in the program, and
- Special assistance to families to promote housing mobility, including housing search assistance – such as help in identifying available housing in low-poverty areas or providing transportation, security deposit assistance and family or credit counseling.

Today's tight rental markets have meant more competition for housing. A recent HUD study found that national voucher success rates have dropped to 71%, down from 87% in 1994 so that, nationwide, about 30% of all vouchers are now returned to the PHA unused because families cannot find housing within the voucher subsidy and time limits. ***Under the current fee structure, PHAs do not receive payment for any administrative time devoted to voucher applicants that do not eventually find housing***. Larger families and those with disabilities often find the housing search to be especially difficult. Also, deeper income targeting has meant that voucher holders are increasingly poor and often require additional counseling and assistance to be successful in the private rental housing search. Finally, the added responsibility for coordinating social services and self-sufficiency and for counseling families to promote mobility has added to program costs. ***Today many housing agencies find it difficult to administer the program and meet all its requirements within the existing fee structure and many have called for an increase in fees, especially for hard to house families and in hard to house markets***.

Basic Facts about Leasing

- Fewer families lease units under the Housing Choice Voucher Program than are invited from the waiting list to participate in the program.
- At each step from waiting list to lease-up some families drop out of the program.
- The workload handled by housing authority employees includes processing for many more families than the number that eventually lease units.
- Administrative fees are earned only **after** a unit becomes leased and start with the first full month under lease.
- Any pre-leasing costs incurred for voucher holders that do not succeed in finding/leasing a unit are not reimbursed by HUD.

Example of actual leasing experience for one PHA:

Applicants invited to participate	100
Invited who attend interview	60
Interviewed who are eligible	56
Eligible who are issued voucher	53
Issued who submit request for lease	40
Submit request who actually lease a unit	28

Reserves

What are Section 8 program reserves?

Section 8 (Annual Contributions Contract, or ACC) program reserves are special funds set aside to cover unexpected cost increases in the Housing Choice Voucher Program. Reserves play an important role in the program; ensuring PHAs the ability to meet increased program costs without reducing the number of families served or even terminating current rental assistance.

Why are program reserves necessary?

It is important to remember that the Housing Choice Voucher Program is a ***flexible subsidy system*** intended to function in the ***private rental market***. These characteristics, which many find favorable, also carry certain drawbacks. Once such drawback is the inability to predict the precise funding level that will be needed for a given year in order to serve the baseline number of families – that is, the number under contract between HUD and the PHA.

The ***flexible subsidy system*** means that the housing subsidy is not a fixed amount, but rather the subsidy adjusts to the particular needs and requirements of each family. Specifically, the subsidy fluctuates, depending on family size and family income, as well as any changes in these variables. When new voucher increments become available, or when assisted families leave the program, PHAs must offer the available voucher to the next family on the waiting list. Larger families and/or lower-income families generally require higher subsidies than smaller or higher-income families. But these factors, and the attendant cost changes, cannot be predicted in advance. ***Reserves allow the PHA to absorb cost increases that result from changes in family composition and income without reducing the number of families served.***

The ***private rental market*** orientation of the program can also affect program costs in unpredictable ways. Required subsidies increase or decrease depending on rental market changes or changes in utility prices. The length of time a family spends in search of housing, as well as the location and rent charged for the specific unit selected by a family also affect program costs. In a rising rental market, the fact that a housing authority's budget authority will be based on its actual expenses up to two years earlier means that it will not have kept up with current market prices. ***Reserves allow the PHA to absorb cost increases that result from changes in rental and utility prices or other factors attributable to the local rental market without reducing the number of families served.***

How can reserves serve other program goals?

Reserves can contribute to the goal of housing mobility by allowing PHAs to increase payment standards, or set higher payment standards for rental units in low poverty areas. Additionally, reserves can contribute to the goal of full utilization by allowing PHAs to draw on reserve funds to temporarily support units leased over the contract number (over 100% lease-up) until the number can be reduced through attrition.

What happens when reserves go unused?

Amounts accumulated by a PHA in the ACC program reserve account above the approved reserve level are considered excess reserves and are subject to annual recapture by HUD. HUD typically uses any recaptured reserve funds to offset program costs in the following budget year.

What happens when reserve levels are insufficient?

In accordance with the Quality Housing and Work Responsibility Act (QHWRA) of 1998, HUD revised its methodology for allocating funding for the renewal of expiring contracts in the Housing Choice Voucher Program. The change puts PHAs at a greater risk of having to reduce housing assistance to some families if cost increases exceed projections in a given year. Early indications in FFY 2002 have already shown that voucher renewal funding is not keeping pace with actual market changes in many communities. A lack of adequate reserves leaves no alternative but to serve fewer families – paradoxically, at the very time when rising rental prices mean that housing assistance is most needed.

The Council of Large Public Housing Authorities (CLPHA) is a national non-profit organization dedicated to the preservation and improvement of public and assisted housing. CLPHA represents 60 of the largest housing authorities that collectively own and manage approximately 40% of the nation's public housing stock and administer approximately 30% of the tenant-based Section 8 program. Since its beginning in 1981, CLPHA has been a recognized and respected advocate for public and assisted housing and the residents they serve. CLPHA has been a leader on many critical issues facing large public housing authorities including securing adequate funding; initiating public housing reform; improving public housing management; revitalizing distressed neighborhoods; and developing innovative and creative housing solutions. CLPHA's widely disseminated reports and research have played a central role in shaping major public housing policies. For more information on CLPHA and it's membership, visit CLPHA online at www.clpha.org.

National Association of Housing and Redevelopment Officials (NAHRO) is the nation's oldest and largest organization representing the interests of housing and community development agencies seeking adequate and affordable housing and strong, viable communities for all Americans-particularly those with low- and moderate-incomes. Since its inception NAHRO has helped to influence every piece of federal legislation affecting housing and community development. NAHRO offers an array of services to its members including training and technical assistance. www.nahro.org

The National Leased Housing Association (NLHA) is widely recognized as the only national association serving all major participants - public and private - in the multifamily rental housing field. This unique coalition is committed to public and private sector interaction as the most pragmatic means of meeting this nation's rental housing needs. NLHA has been at the forefront of issues impacting the Section 8 tenant-based and project-based assistance programs for nearly 30 years. For more information contact www.hudnlha.com

Founded in 1979, the Public Housing Authorities Directors Association (PHADA) represents the professional administrators of approximately 1,900 public housing agencies from all over the United States. PHADA works closely with Members of Congress in efforts to develop sensible and effective public housing statutes, and obtain adequate funding for low-income housing programs. The association also serves as an advocate before the U.S. Department of Housing and Urban Development on a variety of regulations governing pubic housing agencies nationwide. Members may access the latest news and information impacting public housing agencies through the Advocate, the association's acclaimed bi-weekly newsletter. PHADA also educates its members on new developments in the low-income housing arena and offers innovative approaches to housing management through its various conferences and training programs, including the successful PHADA-Rutgers University Executive Director Education Program. For more information, see www.phada.org.