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Public Housing Agency Deregulation Poses Major Risks for Housing Mobility

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In July 2015, the Senate Appropriations Committee voted to expand the Department of Housing and Urban Development's Moving to Work (MTW) demonstration to cover as many as 35% of the nation's housing vouchers and public housing units by extending MTW to 300 additional state and local housing agencies. The bill, which funds HUD and the Transportation Department for fiscal year 2016, would also block a set of important reforms HUD planned for the 39 current MTW agencies.[1]

Despite its name, MTW isn't focused on mobility or employment. Instead, it's a broad deregulation initiative that allows housing agencies to obtain sweeping waivers of federal statutes and regulations, receive voucher funds through special block grant formulas, and shift program funds to purposes not normally permitted. While some MTW agencies have taken steps to broaden the housing choices available to low-income families, a large expansion of MTW without major reforms—as the Senate bill would mandate—would pose significant risks to low-income families and to the goal of creating more integrated and inclusive communities.

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Few MTW Agencies Have Adopted Significant Mobility Initiatives

Some advocates for housing mobility may see MTW expansion as an opportunity, given promising efforts by MTW agencies such as those in Chicago, Baltimore and King County (WA) to help families move to higher-opportunity neighborhoods. These initiatives, though, are not solely the result of MTW. Many of the policies these agencies have implemented are also permitted at non-MTW agencies, some are driven by settlements of fair housing lawsuits unrelated to MTW, and a number of non-MTW agencies have also undertaken significant mobility initiatives.

MTW isn't focused on mobility or employment - it's a broad deregulation initiative.

MTW does allow agencies added flexibility to adopt certain policies that support mobility. For example, MTW waivers can permit agencies to raise their voucher subsidy caps—called "payment standards"—in high-opportunity areas beyond the levels normally allowed by the U.S. Housing Act and HUD regulations. MTW also allows agencies to provide vouchers to fewer families and use the savings for a range of activities, some of which help families move to higher-opportunity areas. These include, for example, mobility counseling for voucher holders, outreach to landlords in high-opportunity areas, incentives for landlords or tenants, and acquisition or development of affordable housing projects in high-opportunity areas.

Only a few MTW agencies, however, have used their flexibility to support significant mobility initiatives. A recent PRRAC listing of all the substantial mobility programs across the country included only 7 of the 39 MTW agencies.[2] Similarly, a review of MTW policies commissioned by groups affiliated with state and local housing agencies found that only a few MTW agencies had implemented key pro-mobility policies. For example, just six agencies had revised their voucher payment standards to reflect rents in particular neighborhoods.[3]

As a result, there is no reason to expect that expanding MTW in its current form would significantly promote pro-mobility policies. And any benefits of those policies would likely be swamped by other effects of MTW that *narrow* housing choices for low-income families.

Agencies Also Use MTW Flexibility to Restrict Housing Choice

MTW flexibility (as currently interpreted by HUD) permits agencies to adopt policies that restrict housing choice in addition to those that support mobility, and many agencies have done so. At least nine MTW agencies have obtained waivers allowing them to place broad restrictions on "portability"—the right of voucher holders to move outside the jurisdiction of the agency that issued their voucher. More than a dozen other agencies are considering portability restrictions or have limited housing choices for certain groups of voucher holders.

It is easy to see agencies' motivation for instituting these restrictions, since portability places some administrative burdens on agencies and they

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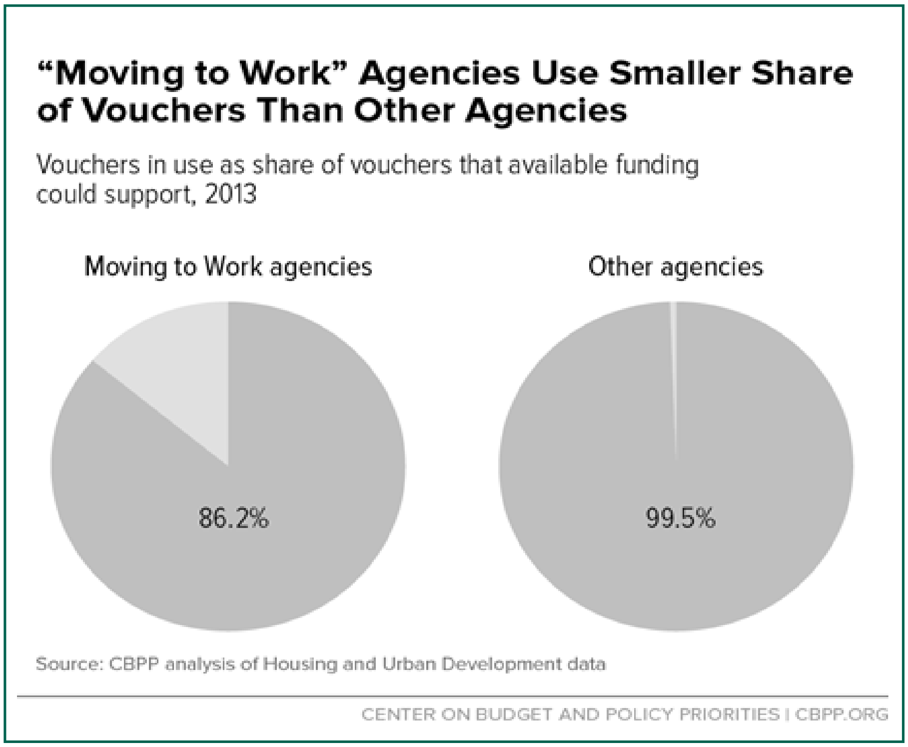
may see their main mission as assisting families living within their jurisdiction. But the restrictions are major impediments to voucher holders' ability to move to lower-poverty areas, particularly for families that wish to move to suburban neighborhoods but received their voucher from a central city agency. Several MTW agencies specifically prohibit moves to places with higher voucher payment standards than the issuing agency uses, even though these tend to be precisely the neighborhoods with low crime and strong schools that would deliver the greatest benefits to voucher holders and their children.

The MTW expansion in the Senate bill would allow new MTW agencies to obtain waivers restricting portability only if the waivers are "necessary to implement comprehensive rent reform and occupancy policies subject to evaluation" by HUD and only if they allow exceptions due to employment, education, health and safety. But these conditions could be less significant than they first appear. An MTW agency could claim that portability restrictions are necessary to prevent families from moving to jurisdictions where rent rules are more favorable than the rules the agency has adopted under MTW. There is a strong chance HUD would accept such claims, since it has approved the portability restrictions in place today. And even if MTW agencies allow broad exceptions to portability restrictions (as a few do today), requiring families to qualify for an exception by demonstrating why they wish to relocate still would likely reduce the number of portability moves substantially.

In addition, the Senate bill would place no limits on other waivers that restrict housing choices for low-income families. For example, all housing agencies today can enter into agreements that require some vouchers to be used in particular developments. Normally, agencies may only use 20% of their voucher funds for such "project-based" vouchers, and families that have lived in a project-based voucher unit for a year have the right to move to a unit of their choice in the private market with the next regular "tenant-based" voucher that becomes available. Under MTW, however, agencies can project-base an unlimited share of their vouchers, even if the projects are located in low-opportunity areas, and can eliminate the right of project-based voucher residents to move with a tenant-based voucher after a year. In effect, MTW agencies can sharply curtail the potential of housing vouchers to expand access to neighborhoods that provide greater opportunities, rather than using their flexibility under MTW to fulfill such potential.



MTW Sharply Reduces Number of Families with Housing Vouchers

Even more fundamentally, MTW results in many fewer families receiving vouchers than could be assisted with available funds. In 2014, MTW agencies shifted $590 million — 19% of their total voucher subsidy funding — from the voucher program to other purposes or accumulated the funds as reserves. More than 63,000 families were left without vouchers as a result. The Senate bill's MTW expansion could raise the number of families left without vouchers by as many as 55,000. And, because the bill would also block HUD reforms that could require current MTW agencies to put 30,000 vouchers back to use, the net loss of vouchers could reach 85,000.

There are no comprehensive data on how MTW agencies use transferred voucher funds, but only a very small share appears to go for items like mobility counseling, outreach to landlords, or financial incentives for mobility. Much larger amounts go for activities that have little or nothing to do with mobility, including program administration, public housing operations and repairs, and non-mobility services. Agencies spend substantial amounts on housing development, which includes some projects in low-poverty areas, but they also fund major development projects in high-poverty neighborhoods, and there is no indication that MTW development expenditures overall expand access to high-opportunity areas.

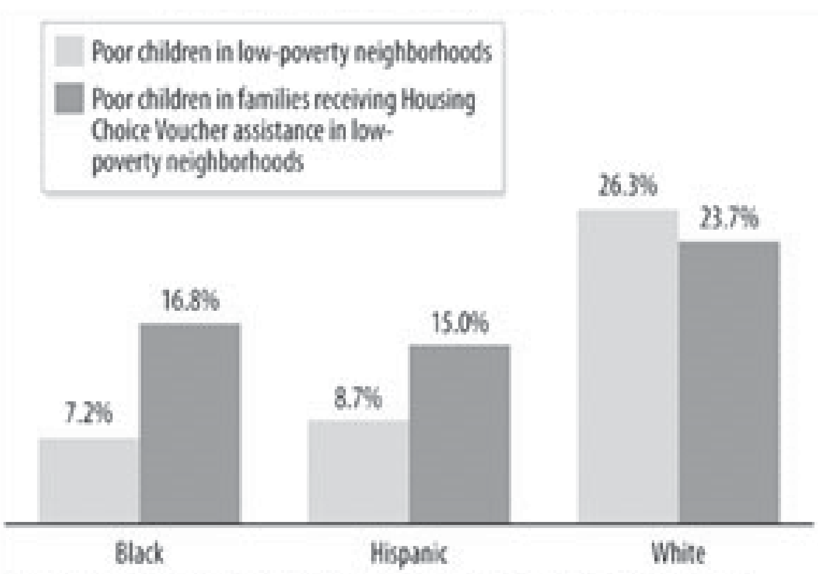
The activities funded by transfers of voucher funds often address significant local needs. But they do little or nothing to extend rental assistance to additional families, and their benefits are unlikely to offset the loss of vouchers for 63,000 low-income families — and the resulting weakening of any mobility agenda that builds off the voucher program.

While vouchers are not as effective as they could be in helping families move to high-opportunity neighborhoods, they make a major difference for some portions of the population they serve. For example, 17% of poor black children in the voucher program live in low-poverty neighborhoods, compared to 7% of all poor black children; 15% of poor Hispanic children live in low-poverty neighborhoods, compared to 9% of all poor Hispanic children.

Moreover, a series of policy changes described below could make vouchers more effective in improving low-income families' neighborhood environments without expanding MTW. Research shows that when families use vouchers in low-poverty neighborhoods, young children in those families earn 30% more as adults and are much more likely to attend college and less likely to become single parents.[4] By reducing the number of families with vouchers, MTW expansion would reduce the program's potential to bring about those kinds of transformative improvements.

In addition, while this article focuses on mobility, it is important to note that vouchers play a vital role in helping low-income families meet their basic need for shelter and that reducing the number of vouchers will expose additional families to severe hardship. Rigorous research shows that vouchers sharply reduce overcrowding and housing instability and are by far the most effective way to reduce homelessness among families with children.[5]

Housing Vouchers Increase Ability of Poor Black and Hispanic Families to Raise Children in Low-Poverty* Neighborhoods



*Low-poverty neighborhoods=less than 10 percent of residents have incomes below the poverty line.
Source: CBPP analysis of HUD 2010 administrative data and 2009 Census data.

MTW Would Raise Risk of Future Voucher Cuts

In addition to its other drawbacks, a strategy of tapping voucher subsidy funds to pay for expenditures in other areas (as MTW rules allow) is unlikely to be sustainable. Congress has provided steady increases in funding for the voucher program in large part because the consequences of underfunding are clear: Fewer families would receive vouchers to help keep a roof over their heads. Non-MTW agencies receive voucher renewal funding based on the actual cost of their vouchers in the prior year adjusted for inflation, so it is straightforward to determine how much funding is needed to fully fund the program and avoid cuts. The program has seen shortfalls in some years, but overall it has fared well compared to other programs funded through annual appropriations—particularly other housing programs. Since 2001, funding for Section 8 (including vouchers and the separate project-based rental assistance program) has grown by 26% in inflation-adjusted terms.

But this would likely change if MTW were expanded to cover most of the voucher program. Under MTW, agencies receive voucher funding through block grants that are adjusted for inflation regardless of how agencies use the funds. As noted, MTW agencies spend nearly 20% of their funds on activities such as program administration, public housing operations and repairs, and affordable housing development. Agencies have shifted funds to these purposes in large part because Congress has cut—or inadequately increased—the funding streams designed to support them, such as voucher administrative fees, the public housing operating and capital funds, and the HOME and Community Development Block Grant (CDBG) programs. If a substantial share of all voucher funds went to these purposes, Congress could reduce voucher funding or allow it to erode in inflation-adjusted terms, and argue

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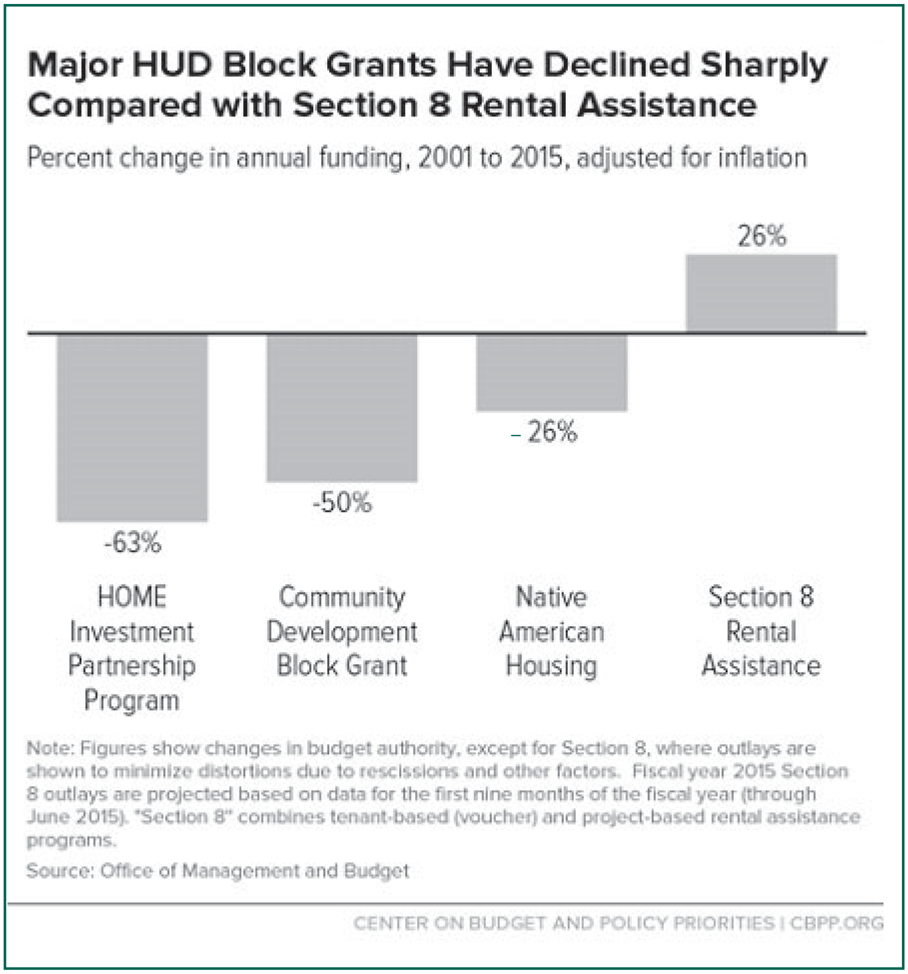
that housing agencies could implement the cuts by reducing administrative expenditures or canceling development projects rather than cutting rental assistance to vulnerable families.

The experience of other low-income programs funded as block grants highlights this risk. Since 2001, funding for most such programs—both in housing and other areas—has eroded greatly in inflation-adjusted terms. For example, the Native American Housing Block Grant has lost 26% of its value, while CDBG and the HOME Investment Partnerships program have lost 50% and 63%, respectively.

MTW has not led to deep voucher cuts so far, but today the share of voucher funds that goes to MTW agencies is relatively small. Under the Senate bill's expansion, as much as 40% of voucher funding could be provided through MTW block grants— enough to increase markedly the chance of deep voucher cuts. If MTW were expanded more in later years to cover the bulk of the voucher program, the likelihood of such cuts would grow further. If voucher funding eroded over an extended period at anywhere near the rates experienced by other block grants, the loss of vouchers would be enormous, sharply diminishing the program's potential to support mobility.



Better Ways Forward

How can we extend promising mobility practices to more parts of the country without the restrictions and voucher cuts that have accompanied MTW? Two alternative approaches offer far more promise than the Senate bill's approach of expanding MTW without reforming it.

First, there is much that HUD, state and local housing agencies, and others can do to support mobility independent of MTW expansions.[6] HUD has initiated or is considering a series of important regulatory changes that would broaden housing choices for voucher holders. These include expanding HUD's "Small Area Fair Market Rent" policy linking voucher payment standards more closely to neighborhood rents, streamlining the voucher portability process, making it easier for housing agencies to form consortia that can support moves across jurisdictional boundaries, and changing the voucher administrative fee formula and performance measurement systems to encourage agencies to adopt effective mobility policies. It will be important that HUD finalize as many of these changes as it can—and advance those it can't finalize as far as possible—during the current administration.

At the state and local levels, housing agencies can do much more to help families move to lower-poverty areas. This includes ensuring that the lists of properties provided to voucher holders include units in high-opportunity neighborhoods and giving voucher holders looking for homes in those areas adequate time to search before their vouchers expire. Agencies may be able to fund mobility initiatives from a range of sources, including federal HOME and housing counseling funds, voucher administrative fees freed up by recent changes made by Congress and HUD to streamline program administration, and state, local or philanthropic funds.

A second approach would be to expand MTW while reforming it at the same time, including by requiring more MTW agencies to undertake major mobility initiatives, prohibiting most waivers that restrict housing choice, limiting large reductions in the number of families with vouchers, and providing most voucher funding for MTW agencies through the formula used for non-MTW agencies today. These changes would ensure that MTW flexibility is used to broaden housing choice. They also would limit both near-term voucher cuts and the risk that MTW would lead to much deeper cuts down the road.

There is a growing recognition that reforms like these are needed. On July 29, 2015, House Financial Services Committee Ranking Member Maxine Waters introduced the Moving to Work Reform Act, which would apply all of the reforms outlined above to future MTW agreements. In addition, most were included in a version of the Affordable Housing and Self-Sufficiency Improvement Act circulated by the Republican leadership of the Financial Services Committee in 2012, as part of a compromise MTW expansion proposal negotiated with a range of stakeholders.

Nonetheless, the inclusion of the MTW provision in the Senate appropriations bill makes clear the serious risk that MTW will be expanded sharply without meaningful reform—which would likely narrow housing choices for many low-income families, including those left without vouchers. It will be critical that policymakers understand that MTW expansion isn't necessary to broaden low-income families' access to high-opportunity communities, and that major reforms are needed to transform the demonstration so that it supports housing mobility rather than threatens it. ❑

[1] For additional information on the Senate bill's MTW provisions, see Will Fischer, "Senate Expansion of 'Moving to Work' Block Grants Would Sharply Cut Number of Families with Housing Vouchers," Center on Budget and Policy Priorities, July 29, 2015, http://www.cbpp.org/research/housing/senate-expansion-of-moving-to-work-block-grants-would-sharply-cut-number-of.

[2] Poverty and Race Research Action Council, "Housing Mobility Programs in the United States," *Conference Program: More Choices for More Families: 6th National Conference on Housing Mobility*, July 15, 2015.

[3] Jill Khadduri et al., "Innovations in the Moving to Work Demonstration," Abt Associates, Dec. 2014 http://www.pahrc.org/studies/Innovations_in_the_Moving_To_Work_Demonstration_Full_Report.pdf.

[4] Raj Chetty, Nathaniel Hendren & Lawrence F. Katz, "The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment," May 2015, http://scholar.harvard.edu/files/lkatz/files/mto_manuscript_may2015.pdf.

[5] Will Fischer, "Research Shows Housing Vouchers Reduce Hardship and Provide Platform for Long-Term Gains Among Children," Center on Budget and Policy Priorities, March 10, 2014, http://www.cbpp.org/research/research-shows-housing-vouchers-reduce-hardship-and-provide-platform-for-long-term-gains; Daniel Gubits et al., *Family Options Study: Short-Term Impacts of Housing and Services Interventions for Homeless Families*, prepared for Department of Housing and Urban Development, July 2015, http://www.huduser.org/portal/sites/default/files/pdf/FamilyOptionsStudy_final.pdf.

[6] For more information on what agencies can do under current law, see M. M. Scott et al., "Expanding Choice: Practical Strategies for Building a Successful Housing Mobility Program," Urban Institute and Poverty & Race Research Action Council, 2013. For more detail on these policy proposals, see Barbara Sard & Douglas Rice, "Creating Opportunity for Children: How Housing Location Can Make a Difference," Center on Budget and Policy Priorities, Oct. 15, 2014, http://www.cbpp.org/research/creating-opportunity-for-children

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products related to the development and maintenance of affordable housing at all income levels and design needs, ICFIs could be a financial resource for a range of products and services designed to assist low-income families to fully and successfully access the benefits of communities high in market-driven opportunity. This opportunity is reflected in the quality of the schools, the safety of the neighborhoods, the quality and diversity of retail services, the availability of adult education and employment opportunities, the quality of the environment, and the availability of diverse social and recreational facilities.

For example, ICFIs could:

1. finance mixed-income development proposals in gentrifying areas designed to prevent displacement of low-income residents while attracting middle- and upper-income residents who value and agree to be a party of a truly inclusive community.

2. finance development of mixed-income rental housing, which includes affordable units that reach very-low-income families located in areas where such housing has historically been excluded.

3. provide low-interest loans, grants, or other financial assistance to low-income families seeking to access housing in higher-cost areas, either through rental or purchase, to assist in combating the "segregation premium" often hidden in the costs of residing in such areas.

4. provide financial assistance to community-based organizations or employers offering employment-related services and opportunities to low-income families seeking such opportunities in more affluent or job-rich communities.

5. provide funds to community-based organizations that work with low-income families that have chosen to locate in lower-poverty/higher-opportunity communities to assist them in getting the full benefit of that choice through counseling, financial assistance and advocacy.

6. provide financial assistance to entrepreneurial, low-income individuals and groups seeking to establish micro-enterprises that address identified gasps in services for low-income residents in more affluent areas, such as affordable daycare services, niche

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