



ADVANCING OPPORTUNITY THROUGH AFFORDABLE HOUSING

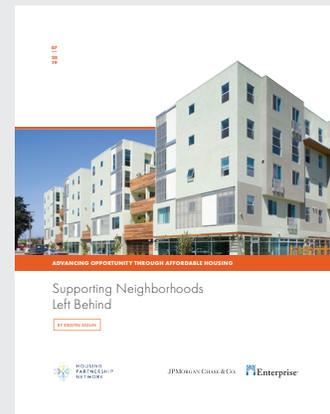
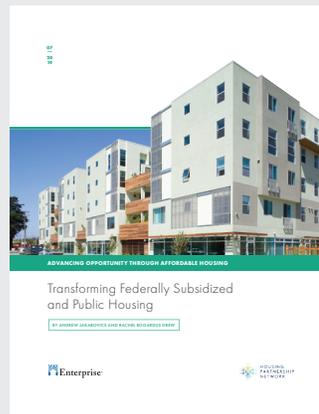
Transforming Federally Subsidized and Public Housing

BY ANDREW JAKBOVICS AND RACHEL BOGARDUS DREW



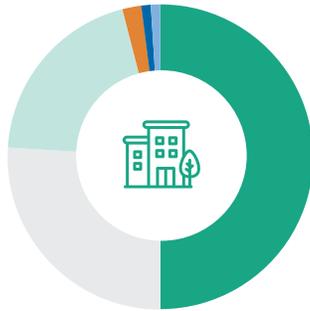
SERIES SUMMARY

Enterprise Community Partners and Housing Partnership Network are working together to launch a series of white papers Advancing Opportunity Through Affordable Housing. With contributions from the Turner Center for Housing Innovation at the University of California at Berkeley, the series focuses on accelerating promising ideas to address longstanding community development challenges in the current environment.



In 2018, the Department of Housing and Urban Development (HUD) subsidized over 5 million housing units, located in nearly every county and over 85 percent of Census tracts nationwide.¹ Half of the units are subsidized with housing choice vouchers (HCV), which are allocated to and administered by local public housing authorities to cover a portion of the rent on privately owned, market-rate rentals occupied by low-income households. Another quarter are covered by the Section 8 project-based rental program (PBRA), whereby HUD contracts with landlords to rent designated housing units for a multi-year period. Public housing developments represent an additional 20 percent of HUD-assisted units.

1. U.S. Department of Housing and Urban Development, 2018 Picture of Subsidized Households, Note that this does not include units assisted through the HOME Investment Partnership program, which provides block grants to states and localities for use in meeting a range of housing needs, including subsidized rental housing. Congress appropriated \$1.25 billion in funding for HOME grants in FY2019, up from \$950,000 in FY2017.



**HUD SUBSIDIZED HOUSING
UNITS BY PROGRAM (2018)**

Housing Choice Vouchers 2,527,803	Section 202/PRAC 125,753	Mod Rehab 21,107
Project Based Section 8 1,284,354	Section 811/PRAC 34,253	RentSup/RAP 1,233
Public Housing 1,015,505	S236/BMIR 25,816	

Source: U.S. Department of Housing and Urban Development, 2018 Picture of Subsidized Households.

Subsidized housing provides a vital lifeline to some of the nation’s most vulnerable populations, including many seniors, young children and people with disabilities. Affordable housing not only helps households meet other financial needs, but for many provides much-needed residential stability and a bulwark against homelessness. Yet for all the benefits that these programs deliver to low-income households, less than one-quarter of households eligible for and in need of housing assistance receive it.² This includes 6.3 million households with children under 18, 3.2 million seniors, and 1.2 million households headed by a disabled person.

More than 10 percent of households granted vouchers are unable to find suitable housing within their allotted time frame.

Nor are all housing assistance programs without problems. Households with housing vouchers should, in theory, be able to rent market-rate units in desirable neighborhoods with low crime, good schools, and other amenities. Yet many report difficulties finding landlords that will accept vouchers and other barriers to voucher utilization. As a result, more than 10 percent of households granted vouchers are unable to find suitable housing within their allotted time frame, depriving needy households of vital housing stability and affordability.³ Many voucher holders also remain in low-opportunity neighborhoods, due either to administrative limitations on voucher mobility, or a lack of support and information about higher opportunity options.

2. Center for Budget and Policy Priorities, “Three Out of Four Low-Income At-Risk Renters Do Not Receive Federal Rental Assistance”, Updated August 2017. <https://www.cbpp.org/three-out-of-four-low-income-at-risk-renters-do-not-receive-federal-rental-assistance>

3. Enterprise Community Partners, “Improving Housing Voucher Utilization”, September 2018. <https://www.enterprisecommunity.org/blog/2018/09/improving-housing-voucher-utilization>

Public housing properties, long beleaguered by insufficient funding for maintenance and repairs, are also not meeting the needs of the millions of assisted households for whom they are meant to provide a stable, affordable home. These properties are the most visible form of subsidized housing — and in the minds of many people in the United States, emblematic of all subsidized housing — despite no new construction of such housing since the 1970s. Most public housing is in significant need of repair; indeed, a 2010 report for HUD estimated the size of the capital backlog on these repairs at \$26 billion and growing by \$3.4 billion every year.⁴ Successive Congresses have not appropriated sufficient resources to keep up with basic maintenance of the properties, much less improvements and upgrading of aging systems. As a result, an estimated 10,000 public housing units are lost each year due to obsolescence and decay. Even if the need for current capital improvements were fully funded, it would take decades to eliminate the backlog, because additional units will continue to age and deteriorate.

To address ongoing concerns and provide necessary housing to the poorest individuals and families in the United States, as well as to protect the value of the public’s investment in the properties, it is necessary to innovate subsidized and public housing on both financing and programmatic fronts. Toward that end, we consider the following:



**Eliminating the Cap on Rental Assistance
Demonstration (RAD) Conversions for
Public Housing**



Increasing Housing Choice Voucher Utilization



**Identifying Additional Sources of Capital to
Finance Public Housing Renovations**



**Expanding Portability of Housing Assistance
and Mobility for Residents**

4. Finkel et al., “Capital Needs in the Public Housing Program”, Report Prepared by Abt Associates for the U.S. Department of Housing and Urban Development, November 2010. https://www.hud.gov/sites/documents/PH_CAPITAL_NEEDS.PDF

Eliminating the Cap on RAD Conversions for Public Housing

Rental Assistance Demonstration (RAD) was established in 2011 to help preserve the nation's crumbling public housing stock. RAD allows local public housing authorities (PHAs) to convert the funding for at-risk public housing properties from the traditional public housing funding stream into project-based vouchers (PBV) or project-based rental assistance (PBRA) contracts. The conversion gives the properties greater access to other private and public funding sources, such as the Low-Income Housing Tax Credit (LIHTC), private mortgage debt, and other sources of capital (e.g., HOME, CDBG and other public sources of gap financing). These funds can then be used to leverage capital financing to repair and upgrade the properties and preserve them for the long term, while remaining cost-neutral relative to existing public housing funding allocations.

When the program was first created, the number of units allowed to participate was capped at 60,000. Demand for the program from PHAs quickly exceeded this number, however, creating a waitlist of hundreds of thousands more units. As the

first wave of conversions demonstrated overwhelming success at leveraging non-public housing resources, the cap was lifted to 185,000 and then to 225,000. Each time the RAD cap increased and public housing developments were moved off the waitlist, more PHAs would apply for RAD approval. In 2018, the RAD cap was lifted for a third time, to 455,000 units, effectively eliminating the existing waitlist.

HUD also created a RAD2 program aimed at converting units with expiring subsidies under HUD legacy programs, including Section 8 moderate rehab, rent supplement and

rental assistance payment (RAP) programs, to PBV or PBRA units. Unlike the original RAD program, RAD2 has no caps on the number of units that can be converted, and its original expiration date (in 2014) was eliminated to allow continued use of funds for legacy program conversions.

A 2018 Government Accountability Office (GAO) report examined the RAD program and its progress, finding that through mid-2017 PHAs had raised more than \$5 billion in external funding, including more than \$3.5 billion through LIHTC (70 percent with 4 percent credits) and \$1.8 billion in new first mortgages. The GAO's calculations suggest the leverage ratio of all funds raised through RAD conversions is 7:1, though only \$1.23 in private dollars was raised per \$1 of RAD spending. The GAO also criticized HUD for



its lack of reporting on changes in affordability post-renovation and other ways that RAD conversions affected residents.⁵



RAD CONVERSIONS THROUGH 12/31/18

Applications	Closed
80,363 25.1%	110,699 34.6%
Fin. Plan Submitted	RAD2 Active/Pending
11,242 3.5%	5,848 1.8%
In Process	RAD2 Completed
77,262 24.2%	34,419 10.8%

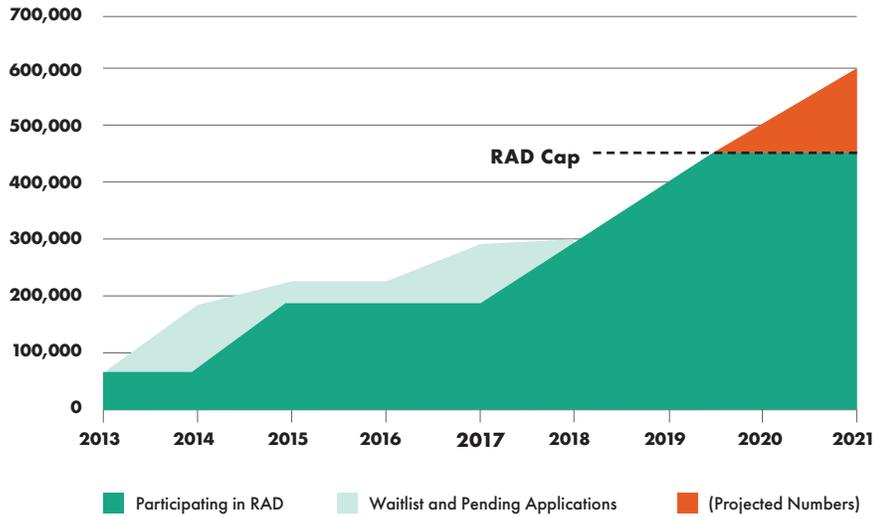
Source: U.S. Department of Housing and Urban Development, RAD Resource Desk.

Data through December 2018 show that over 110,000 units in over 1,000 public housing developments have closed their RAD financing and begun renovations, with many already completed and back to full operation. Another nearly 78,000 units in 630 developments have been approved and are in the process of securing outside funding for conversions. Combined, these two sets of RAD conversions by 467 PHAs cover more than the 185,000 units authorized under the former cap. Another 68 PHAs have submitted financing plans to convert over 11,000 more units in 123 developments, while conversions totaling 80,000 units have pending applications on file with HUD. RAD 2 conversions to date, meanwhile, include over 34,000 units closed and 5,800 more units in active or pending conversions.

To date, the program has received widespread bipartisan support in Congress because it funds necessary renovations and is nearly budget neutral. Each time HUD has asked to lift the cap, Congress has voted to do so. HUD Secretary Ben Carson is supportive of the program, as well as of other public-private partnership programs. There are some members of Congress who remain skeptical of the program. The new House Financial Services Committee Chair Maxine Waters (D-Calif.), for example, continues to voice concern over transferring publicly owned housing to private ownership. PHAs, for their part, continue to apply for RAD conversions, with HUD projecting demand for units will exceed the current 455,000-unit cap by mid-2020.

5. Government Accountability Office, "Rental Assistance Demonstration: HUD Needs to Take Action to Improve Metrics and Ongoing Oversight", GAO-18-123, March 2018. <https://www.gao.gov/products/GAO-18-123>

ACTUAL AND PROJECTED RAD APPLICATION TRENDS



Source: U.S. Department of Housing and Urban Development, RAD Newsletter, "RAD Hits 100,000 Homes Preserved", August 13, 2018.

In charting a course for the future of RAD, we pose the following questions for HUD to consider:

- » What are the drawbacks of eliminating the cap on the number of units eligible for conversion, given that demand for additional capacity is expected to exceed the cap, and leverage ratios show success at raising other sources of funding for rehabilitating these legacy investments?
- » How have RAD conversions affected residents? How many former public housing residents were able to return to developments post-conversion vs. remaining elsewhere? Did non-returning residents receive sufficient voucher or other subsidies to maintain similarly affordable housing?
- » What best-practice recommendations can be learned from prior conversions and be applied to future redevelopment efforts by PHAs?
- » Which public housing developments have been determined inappropriate for RAD conversions, and why? Would changes in the RAD program allow for more eligible properties, or are there functional limitations to the scope of the program?

Identifying Additional Sources of Capital to Finance Public Housing Renovations

For non-RAD-converted public housing developments, the primary source of capital used for maintenance and renovations is the HUD-administered Public Housing Capital Fund, whose funding level is determined by Congress. For years, the Capital Fund has been underfunded, resulting in an estimated \$26 billion backlog of repairs nationwide as of 2010 and growing at \$3.4 billion a year. For comparison, the funding level for the Capital Fund in fiscal year 2017 was \$1.9 billion, though Congress raised it to \$2.75 billion in 2018.⁶

While much of the focus on innovative capital for preservation has been on the RAD program, there are other successful examples of individual PHAs using existing authority under other programs to bring together external funding sources for necessary repairs and upgrades. Many PHAs have taken advantage of their participation in the Moving to Work (MTW) program to innovate and find other ways to finance renovations. A report by the Congressional Research Service about the MTW program highlights examples of how PHAs have used it to redevelop public housing, including the Chicago Housing Authority, the Atlanta Housing Authority, the Keene (NH) Housing Authority and the Housing Authorities of the County of Santa Clara and the City of San Jose.⁷

The Chicago Housing Authority used its merged funding stream to attract private investment to its Plan for Transformation, in which the PHA has replaced large parts of its deteriorating public housing stock with new developments, many of which are mixed-income communities. The fixed 10-year merged MTW funding stream was key in obtaining financing for the transformation plan from private investors.



For example, the committed funding stream allowed the PHA to use revenue bond financing. The Housing Opportunity Through Modernization Act of 2016 (HOTMA) authorized limited fungibility between capital and operating funds. It also increased both the percentage of budget and percentage of units in a building that could be project based, but the flexibility offered could be further expanded.

6. National Association of Housing and Redevelopment Officials, "Appropriations Analysis: FY2019 Appropriations Cycle". <http://www.nahro.org/appropriations#2>

7. Congressional Research Service, "Moving to Work (MTW): Housing Assistance Demonstration Program," January 2014. <https://crsreports.congress.gov/product/pdf/R/R42562>

In promoting additional financing methods for public housing preservation, the federal government should consider the following questions:

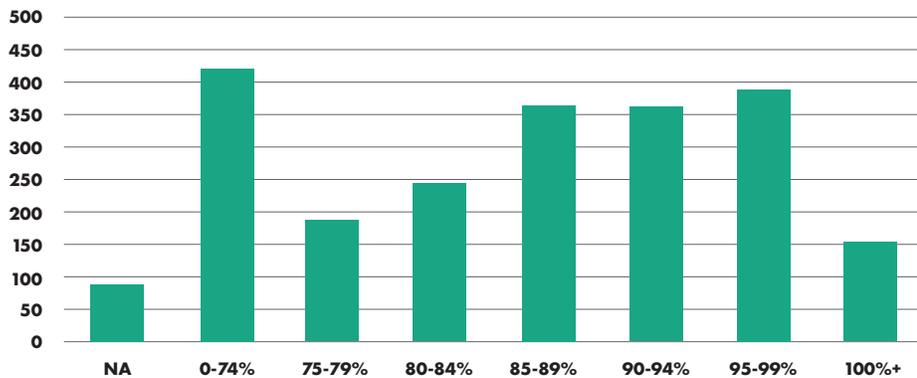
- » Are there other ways that MTW agencies have financed public housing redevelopment? Are the identified mechanisms broadly replicable across agencies or are they reliant on unique funding streams particular to their jurisdiction or state?
- » Are there programmatic limitations that make streamlining these processes a challenge or present a burden to accessing external funding sources?
- » How would increased flexibility at the building or portfolio levels allow more households to be served, or more units to be created or preserved?
- » Could costs be lowered or additional units preserved with more consistent ability to merge funding streams?
- » Similarly, should flexibility to adopt Fair Market Rents be granted? If the requirement to set RAD rents based on funding from PHAs' operating and capital budgets is waived, should additional appropriations be sought to hold other voucher recipients and properties harmless?
- » What alternatives might be recommended to allow for higher starting rents for RAD conversions to simplify the funding sources?

Increasing Housing Choice Voucher Utilization

On the programmatic side, addressing limitations in the Housing Choice Voucher (HCV) program presents one of the greatest opportunities for HUD to ensure access to affordable housing. The HCV program, unlike public housing developments in fixed locations, is tenant-based assistance that recipients can use to supplement rental payments on privately-owned units. Yet, despite eligibility for vouchers outstripping supply by a factor of four and years-long waitlists of millions of eligible low-income households, nationwide less than 90 percent of allocated HCVs are successfully used within their allocated time frame.⁸

Indeed, nearly 70% of all PHAs nationwide report underutilization of their vouchers, which is defined as rates below 95 percent (see chart). Note that utilization rates are not the same as voucher success rates, which are the share of all vouchers that are eventually used to secure affordable housing. PHAs often over-issue vouchers in anticipation of lease-up issues, which depresses utilization rates even when success rates are generally around 100 percent. Still, the added time and effort spent re-allocating unused vouchers represents an inefficient use of resources among already strained PHAs.

NUMBER OF PHAs BY UTILIZATION RATES (2018)



Source: U.S. Department of Housing and Urban Development, 2018 Picture of Subsidized Households.

Prior research on the voucher program has identified several reasons why recipients struggle to find applicable housing.⁹ PHAs place caps on the amount of time voucher holders have to identify and secure acceptable rental units, which is often as little as 60 days. Yet additional restrictions on rents and minimum quality standards limit the pool of acceptable units, likening a voucher recipient's search to finding a needle in a haystack. Many recipients also report discrimination and disparate treatment by landlords who refuse to accept vouchers as a source of income (SOI) when screening tenants.

8. Enterprise Community Partners, "Improving Housing Voucher Utilization", September 2018. <https://www.enterprisecommunity.org/blog/2018/09/improving-housing-voucher-utilization>

9. Poverty & Race Research Action Council, "Expanding Choice: Practical Strategies for Building a Successful Housing Mobility Program", June 2019. <https://www.prrac.org/pdf/AppendixB.pdf>

To address some of these barriers to full utilization of HCVs, affordable housing advocates at all levels of government are pursuing legislative fixes to protect and support voucher recipients. While several states and local jurisdictions have anti-SOI discrimination statutes, a bipartisan proposal recently introduced in the U.S. Senate would extend those protections to all voucher holders nationwide.¹⁰

On the landlord side, two recent HUD-commissioned studies found several elements of the voucher program that can limit landlords' willingness to accept vouchers as a form of rental payment.¹¹ Delays in inspections and payments from PHAs, conflicts over responsibility for maintenance and repairs, and dissatisfaction in dealings with PHA staff were all listed as disadvantages to participating in the HCV program. Market factors also contribute, with tighter conditions creating more competition for rental units and therefore more choice among landlords in tenant selection.

To address issues related to voucher utilization, officials from HUD in late 2018 held a series of listening forums with landlords around the country to hear suggestions for improving participation. A task force has been convened to make recommendations based on information gleaned in these sessions and plans to report its findings later in 2019. In the meantime, HUD can also evaluate other options for improving the HCV program. The following questions can help guide that evaluation:

- » What can PHAs do to help voucher recipients identify adequate housing? Would longer minimum times to find housing, more search assistance, or additional financial support for security deposits improve success rates?
- » Should voucher status be included as a protected class under the Fair Housing Act to reduce landlord discrimination against voucher holders?
- » Can the inspection process be streamlined and standardized to reduce the bureaucratic burden on landlords?
- » Should more be done to recruit and identify mission-driven landlords who are motivated to work with PHAs to increase affordable housing options within their communities?

10. National Low-Income Housing Coalition, "Bipartisan 'Fair Housing Improvement Act' Would Prohibit Discrimination Based on Source of Income and Veteran Status", February 2019. <https://nlihc.org/resource/bipartisan-fair-housing-improvement-act-would-prohibit-discrimination-based-source-income>

11. Cunningham et al., "A Pilot Study of Landlord Acceptance of Housing Choice Vouchers", Report Prepared by The Urban Institute for the U.S. Department of Housing and Urban Development, September 2018. <https://www.huduser.gov/portal/pilot-study-landlord-acceptance-hcv.html>; Garboden et al., "Urban Landlords and the Housing Choice Voucher Program: A Research Report", Report Prepared by The Poverty and Inequality Research Lab at Johns Hopkins University for the U.S. Department of Housing and Urban Development, May 2018. <https://www.huduser.gov/portal/publications/UrbanLandlords.html>

Expanding Portability of Housing Assistance and Mobility for Residents

One of the many purported benefits of the HCV program is the flexibility of recipients to use the vouchers in neighborhoods they choose. Tenant-based rental assistance thus can offer an important opportunity for enabling lower-income households to move from distressed, high-poverty neighborhoods into lower-poverty neighborhoods with ample educational, employment and social opportunities. Recent research by Raj Chetty shows that children in households that use housing choice vouchers to move into high-opportunity neighborhoods are more likely to attend college and earn more as adults.¹²

Yet according to an analysis by the Poverty and Race Research Action Council and the Center on Budget and Policy Priorities, 40 percent of voucher-holding families with children live in areas deemed to be low-opportunity, i.e., in the bottom 20 percent of census tracts based on a composite measure of school quality, economic opportunity, poverty rates, transit access and employment – despite the availability of voucher-affordable units in neighborhoods in the top 20 percent of tracts, which are considered to be high-opportunity areas.¹³

One option for increasing voucher use in high-opportunity areas is to replace metropolitan-wide fair market rents (FMRs) with small-area FMRs (SAFMRs) based on rents at the zip code level. Such a change would allow more flexibility in finding affordable rentals in high-rent areas, though it may decrease the total supply of voucher-affordable units overall by reducing rent thresholds in low-rent areas.

Indeed, an evaluation of a SAFMR demonstration programs with seven PHAs found that total voucher-affordable supply increased in two cities, decreased in two cities, and remained essentially unchanged in three. The study also found some increase in the share of voucher holders living in high-opportunity neighborhoods – especially among households with children and existing voucher holders who were made aware of the change in threshold rules – though not a statistically significant change overall.¹⁴

Another vehicle for improving voucher mobility is portability, i.e., allowing households with housing choice vouchers to rent a unit in any jurisdiction where there is a PHA operating a housing voucher program. However, administrative barriers to portability of housing assistance can inhibit using vouchers across jurisdictions.

12. Chetty et al., “The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment”, National Bureau of Economic Research, August 2015. http://www.equality-of-opportunity.org/images/mto_paper.pdf

13. Mazzara & Knudsen, “Where Families With Children Use Housing Vouchers: A Comparative Look at the 50 Largest Metropolitan Areas”, January 2019. https://prrac.org/pdf/where_families_use_vouchers_2019.pdf

14. Dastrup et al., “Small Area Fair Market Rent Demonstration Evaluation: Final Report”, August 2018. <https://www.huduser.gov/portal/sites/default/files/pdf/SAFMR-Evaluation-Final-Report.pdf>

Some programs to facilitate portability of vouchers have emerged in response. The Baltimore Housing Mobility Program, which is operated by the Baltimore Regional Housing Partnership (BRHP), combines mobility counseling with housing choice vouchers to increase their portability across the central Maryland region. This program provides housing choice vouchers that can be used regionally, helping lower-income households from the city of Baltimore access housing in high-opportunity neighborhoods across central Maryland, including Anne Arundel, Baltimore, Carroll, Harford and Howard Counties. In



recent years, HUD has also adopted policy changes that support the portability process of the housing choice voucher program. However, HUD's revisions to the portability regulations of the program did not address some barriers, such as requiring the initial public housing authority to transfer subsidy funds and a share of the related administrative fee to the receiving public housing authority.

Even when administrative barriers that theoretically ease the ability to transfer vouchers across PHAs are overcome, if voucher holders are not aware of the portability option

or potential opportunities to which they may have access – starting with available units in other communities – they will not take advantage of the voucher program's mobility options. It is also not clear what share of voucher recipients will take advantage of portability, even when fully implemented, given local knowledge and existing friendship and support networks.

Pilot mobility programs like HUD's Moving to Opportunity demonstration (MTO) show that the offer of MTO housing vouchers enabling households to move into lower-poverty neighborhoods led to sustained reductions in neighborhood poverty rates and generated improvements in housing conditions, safety and other neighborhood attributes beyond economic segregation.

Closely related to the issue of mobility is the consideration of PHA coordination or consolidation. Nearly 3,800 PHAs receive funding from HUD to operate public housing and/or administer housing choice vouchers. Yet 2,800 of those PHAs administer 550 or fewer public housing units and/or housing choice vouchers, and half have fewer than 100 units. In addition, most metro areas are served by multiple PHAs. A recent analysis by the Center on Budget and Policy Priorities found that the housing choice voucher program in 35 of the 100 largest metro areas is

administered by 10 or more agencies.¹⁵ The large number of PHAs can increase the administrative barriers to portability of housing assistance across jurisdictions, limiting the utilization of housing choice vouchers for moving into high-opportunity areas. By covering a wider service area under a single entity or consortium, the administrative challenges of implementing a robust mobility program are reduced. Consolidation also offers potentially significant cost savings to be realized from reducing the administrative costs of PHAs in the aggregate.

Funding for a new mobility demonstration program was approved in the FY19 final budget, reflecting a renewed congressional commitment to address housing affordability and opportunity needs.

To help facilitate the greatest degree of mobility for voucher holders, we would recommend the federal government consider the following:

- » Are there additional ways of removing administrative barriers to portability of housing assistance across jurisdictions, and incentivizing regional and state housing choice voucher administration?
- » What are leading practices for counseling lower-income households who are interested in moving into high-opportunity neighborhoods? How can those practices be widely shared?
- » Do rent caps reflect market conditions for acceptable housing, or would smaller market-area rents provide more support for recipients to access better housing in high-opportunity neighborhoods?
- » Can existing policies that guide the voluntary transfer or consolidation of housing choice vouchers and public housing programs and units between PHAs within the same metropolitan area, the same non-metropolitan county, or the same state be expanded?

15. Sard & Thrope, "Consolidating Rental Assistance Administration Would Increase Efficiency and Expand Opportunity", April 2016. <https://www.cbpp.org/sites/default/files/atoms/files/4-11-16hous.pdf>

Conclusion

Public and federally subsidized housing provides a vital resource for the over 10 million people it serves across the United States. A stable and affordable home represents more than just shelter; it can be a pathway to opportunity, offering residential security and financial flexibility to cover other basic needs like food and health care. Yet for all their benefits, HUD-supported housing programs remain consistently undersupplied relative to the need. Moreover, issues with housing quality, availability and location fail to maximize the potential that assisted housing can offer to low-income households. By considering some of the broad changes described above, HUD has an opportunity to both improve the reach and quality of housing assistance nationwide.



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