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Time for a New Model

Income-Based Rental Programs Are Flawed

By Tim Sciacqua

The standard approach of providing subsidized rental housing in this country that ties rent to the percentage of income is flawed, because it ignores basic human nature resulting in under-reported incomes. Families should be encouraged to pay their fair share, but should not be penalized for success. The government needs to look at its basic rent structure again.

The government contends that HUD makes overpayments in subsidized housing programs of massive proportions. "Overpayments" is code for "under-reported income," because most subsidized housing programs require tenants to pay 30 percent of their adjusted household income for rent. HUD's solution is to ferret out discrepancies reported as income through a match of tenant data and Social Security Administration and Internal Revenue Service income data. HUD calls this an "income-discrepancy resolution process." Even as HUD and the GAO improve at identifying discrepancies, it is just the tip of the iceberg. "Missed income" is potentially much higher. Missed income is the income that never shows up on SSA and IRS data bases, or can't be tied to a particular unit because no one can verify the number of household members or the effect of the underground economy on the real income of the household.

It is obvious to any practitioner that the government is right about under-reported income, but the solution is not better technology. The devil is in the design of income-based rental programs that are conceptually flawedand provide incentives to hide income.

The local housing agency is required to estimate future earnings from all income sources (which are verified by agencies using past income data), and then establish a rent. When reported incomes increase or decrease, rents are usually adjusted. Rent decreases go into effect sooner than rent increases. Many increases never take effect, because rather than pay higher rents, tenants will decrease income by one of several methods: quitting jobs, indicating family members with incomes are no longer part of the household, or furnishing information that other sources of income are gone. This is no surprise to housing managers who see the frequent maneuvering of clients to negotiate lower rents.

The rent structures are also considered unfair by the working poor, and send the wrong message. Consider the following: Two families live next to each other in identical units. One family has an employed head-of-household, or perhaps two working parents; the other family is on Temporary Assistance to Needy Families. Assuming the working family reports all its income, it pays much higher rent. Is this the right message? Isn't it natural to assume the working family feels unfairly treated? It certainly doesn't encourage the family to be forthright in reporting income increases.

If both families were charged the same rent, the working family would be rewarded for its efforts by being able to spend or save its hard-earned dollars, rather than being penalized for its efforts. But it doesn't work that way on income-based rental programs.

Congress needs to eliminate incentives for under-reporting income, and it can't do that by tinkering with the programs through excluding some earned income for a period of time, or by fixed-rent options where tenants can choose to go back and forth from fixed-rents to income-based rents, as it serves their interests. These adjustments only serve to further complicate the programs without getting to the root of the problem.

By the way, the solution is also not advanced by increasing the percentage of income that tenants pay, as suggested by "Citizens Against Government Waste," a government watchdog. That will do more to further erode reported income, at least among the working poor who already feel that the system discriminates against them.

In the ever-changing environment of subsidized housing, the rulebook is thicker all the time. Income that was once counted is now excluded for a period. Exclusions are changed to deductions, and vice versa. Since rents are tied to income, re-determinations may be required repeatedly as income fluctuations are reported. It is not only an irritation to the tenant who finds this process intrusive and demeaning, but it is costly to the taxpayer who ultimately foots the bill for the additional administrative burden. The irony is there is little to show for the effort.

For all these reasons, when the Moving to Work Demonstration programs were announced in 1997, the Housing Authority of the County of Tulare (HATC) decided to design its own program that would attempt to address the fundamental problems in the income-based rental programs.

We designed a program of flat rents in public housing and fixed-Section 8 voucher subsidies, rather than income-driven subsidies. Our system is fairer to all tenants, takes away incentives to under-report income, and is much simpler to administer.

In addition, we imposed five-year time limits because we felt that every qualified household should be able to access the program, instead of those who were first in line. We also imposed a 120 percent cap on income. Families reporting income in excess of 120 percent are given six months in which to vacate. They are also congratulated and wished well for their success. Further, we established partnerships with our local health and human services agency, and non-profit agencies, for training and employment services for MTW families.

We started enrolling families in the MTW program in May 1999. Existing tenants had a choice whether to convert to the new flat-rent/fixed-subsidy program or continue on the income-based program. Approximately half the existing families have converted in both programs. All new tenants, with the exception of the elderly and disabled, are on flat rents in conventional public housing, or fixed subsidies in the voucher program. We have eliminated utility allowances, so increases in energy costs are borne by the tenant; but are more than offset because, as income increases, rent does not. The upside for the tenant is obvious. They get to save money, or consume it – their choice; and they no longer have any incentive to under-report income.

The Urban Institute, Abt Associates, Inc., and Spectrum have all been involved in some aspect of the program evaluation or implementation under a HUD contract.

Abt Associates issued reports to the Office of Policy, Program and Legislative Initiatives in September 2000 and to the Office of Public and Indian Housing in September 2001. These reports were largely based upon interviews and meetings of evaluation teams, and from a database provided by the HATC. There was also a report completed by Abt in 2002 and a draft report categorizing all the MTW programs, including Tulare's that was recently completed by the Urban Institute. This is by way of indicating substantial evaluations of the methods and results of the rental changes.

Table 1 is from our data compiled over the first four years of the program. The table shows actual numbers of households in the various public housing programs by rent type, but only reflects those that have had at least one annual examination of income since move-in. That is why the numbers of families reflected in the table are fewer than the 2,000 families currently in the MTW program.

INCOME INCREASE COMPARISON
May 1999 - October 2003

Section 8:

Type	Number of Households	Increase in Family Income	Number of Households	Increase in Elderly/Disabled Income
Income Based	298	13%	562	17%
Welfare to Work	363	9%	n/a	n/a
Moving to Work - Conversion	665	50%	108	51%
Moving to Work - New Move-Ins	547	51%	52	49%

Public Housing:

Type	Number of Households	Increase in Family Income	Number of Households	Increase in Elderly/Disabled Income
Flat Rent-HUD Style	39	36%	27	40%
Income Based	83	10%	118	10%
Moving to Work - Conversion	148	36%	18	35%
Moving to Work - New Move-Ins	157	49%	16	28%

In the four years from inception, reported incomes have increased dramatically in both the conventional public housing and voucher MTW programs, and lagged behind in the traditional income-based programs.

It is not surprising that among the income-based rent payers, incomes increased only minimally over the period (although among the 298 income-based voucher holders incomes increased by 13 percent), and among the 363 for welfare-to-work, also income based, 9 percent, respectively. This may be primarily due to increases in TANF grants and other public sources.

Nor is it surprising that among those choosing to convert to the MTW fixed rents or flat subsidies that incomes would increase, because we expected families to do what was in their own best interests. Such families would typically be those whose incomes were increasing and who would see the value in the conversion option.

What surprised us was that in the move-in categories where families were housed from the waiting lists, and had no choice but to be housed with flat rents and fixed subsidies or forego assistance, incomes have skyrocketed – 51 percent in the voucher program, and 49 percent for the conventional public housing program, respectively. Fourteen families have exceeded the 120 percent limit and have received notices to vacate. We've had interviews with each of them and are offering suggestions for future housing or home purchases, if appropriate. If there are demographic differences that would account for the income disparity between the income-based and flat-rent/subsidy groups, we haven't been able to discern them. There is a large database in addition to the Multifamily Characteristics System (can't remember the acronym – need to look up) data that Abt and the other evaluators have available to analyze these numbers.

Perhaps it's the pressure of time limits that has caused the increased incomes among MTW families, or the social intervention of the non-profits, or maybe even the pressure of welfare reform (TANF sanctions). The truth is we don't know, but are inclined to believe the data suggests it's the rent structure itself. It is the simplest explanation, and usually that's the correct one.

Increased reported incomes mean taxpayers pay less subsidy and the number of potential homeowners increase. Increased incomes may also mean that the concern expressed by opponents of this approach related to the percentage of rent burden may be overstated. Table 2 shows the rent-to-gross income comparison and rent-to-net-income comparisons for MTW families as of October 2003. You'll note that 88 percent of the families in the MTW voucher program as of that date were at or below 30 percent of gross income. Eighty-four percent were at or below 30 percent when their income was adjusted, as would be the case in the voucher income-based programs.

Moving to Work

As of 10/2003 (Excluding Elderly/Disabled Tenants)

Section 8 Tenants			
Rent to GROSS Income Comparison			
	Number	Percent	At or Below 30%
10% and Below	452	36%	
11% - 20%	453	36%	
21% - 30%	203	16%	
31% - 40%	92	7%	
41% - 50%	33	3%	
Above 50%	30	2%	
Grand Total	1263	100%	88%

Public Housing			
Rent to GROSS Income Comparison			
	Number	Percent	At or Below 30%
10% and Below	35	3%	
11% - 20%	175	14%	
21% - 30%	95	8%	
31% - 40%	43	3%	
41% - 50%	18	1%	
Above 50%	14	1%	
Grand Total	380	30%	80%

Section 8 Tenants			
Rent to NET Income Comparison			
	Number	Percent	At or Below 30%
10% and Below	406	32%	
11% - 20%	438	35%	
21% - 30%	213	17%	
31% - 40%	107	8%	
41% - 50%	53	4%	
Above 50%	46	4%	
Grand Total	1263	100%	84%

Public Housing			
Rent to NET Income Comparison			
	Number	Percent	At or Below 30%
10% and Below	34	3%	
11% - 20%	159	13%	
21% - 30%	101	8%	
31% - 40%	35	3%	
41% - 50%	27	2%	
Above 50%	24	2%	
Grand Total	380	30%	77%

With respect to conventional public housing, 80 percent of current tenants are at or below 30 percent of gross median income, while 77 percent are at or below 30 percent of median income after adjustment.

Our experience suggests that the standard approach of providing subsidized rental housing in this country is more complicated than it needs to be, resulting in higher administrative costs. It is generally viewed as unfair by the working poor. A simpler, fairer approach to subsidized housing would be to go back to flat rents and fixed-payment subsidies. It's time to re-examine the Brooke Amendments in light of our demonstration program.

Tim Sciacqua is Executive Director of the Housing Authority of the County of Tulare in central California. The agency owns, manages or administers 5,000 housing units for families, seniors and the disabled. Programs include public housing and section 8 vouchers, as well as extensive farm labor housing, tax credit syndications, locally owned and operated projects, and homeownership programs. Tim is on the Board of Directors of several non-profit corporations, and serves as the real estate broker of record for Kaweah Management Company and Kingsco Development Corporations, both 501(c)3 corporations specializing in the development and management of low-income housing. He has done extensive training for the National Association of Housing and Redevelopment Officials (NAHRO) and other organizations on a national basis.