



HUD's Preservation, Enhancement, and Transformation of Rental Assistance (PETRA) proposal - Expanding Resident Choice

Purpose

This document reviews why resident choice is needed, estimates the demand that the Resident Choice Option under HUD's draft legislation, the Preservation, Enhancement, and Transformation of Rental Assistance Act of 2010 (PETRA), would generate for moving vouchers in the first phase; compares that demand to the available supply of turnover vouchers; and examines the options of funding the Choice Option for the broadest number of residents.

Background

Today, 6 million households pay more than half their income for housing, and family homelessness is on the rise. But in the last 15 years, the country has lost 150,000 units from its stock of public housing through sale or demolition. At a time when budget deficits require the Federal government to tighten its belt, America's Public Housing program faces a backlog of unmet capital needs that could be as high as \$30 billion. And the challenge isn't limited to public housing; older programs that subsidize more than 45,000 units of privately-owned affordable housing lack any real strategy that would keep them affordable for the years to come. America needs these affordable homes more than ever. But if we don't act now, we will lose them forever.

In response, the Obama Administration has proposed the Transforming Rental Assistance (TRA) Initiative -- a major multi-year strategy to preserve America's public housing system, enhance resident choice, and transform the way the Federal government provides rental assistance to more than 4.5 million of our most vulnerable families. Funding for the first phase -- \$350 million -- is included with HUD's 2011 Budget. Under this first phase, about 300,000 public and assisted housing units would convert to long-term project-based Section 8 rental assistance contracts. HUD submitted PETRA to authorize these conversions and other components of the TRA initiative, to Congress on May 11, 2010.¹

Why Resident Choice Is Needed

Today, public housing and other programs lock residents into a specific location even if they need to move for a job, to access educational opportunities, or to address a family illness. Staying is the only option many families have to keep a roof over their heads. Indeed, because moving means giving up their assistance, these families often find themselves trapped in neighborhoods of concentrated poverty -- sometimes for generations. A full forty-eight percent of public housing residents live in neighborhoods of concentrated poverty

In contrast, nineteen percent of participants of HUD's Housing Choice Voucher (HCV) program live in neighborhoods of concentrated poverty.² HCV participants can take their housing assistance with them

¹ The Preservation, Enhancement and Transformation of Rental Assistance Act of 2010 (PETRA), and other related materials can be found at: www.hud.gov/tra

² Tabulations are derived from tract-level Census 2000 poverty data. Counts of Multifamily and Public Housing units and Section 8 Housing Choice Voucher households are as of 12/2009. High poverty neighborhoods are those with greater than 30% of its residents living below the poverty line.



when they move, and settle in locations of their choice, constrained mostly by the availability of units at prices they can afford.³ Strong evidence from the Moving to Opportunity demonstration and other research shows that parents and children experience marked improvements in physical and mental health as a result of moving from high poverty to low poverty, safer neighborhoods. If such moves also result in transferring to -- or remaining in -- schools serving predominantly non-poor children, significant educational benefits can be expected as well.⁴

PETRA would make public and assisted housing residents eligible to receive a Housing Choice Voucher after residing for two years in a converted property, allowing residents of Public Housing and other multifamily programs the access to opportunities that come with housing choice. The rental assistance contract stays with the unit. The units vacated when families move under the Choice Option would be rented to eligible low-income families from the waiting list.

Estimating Demand

To estimate the demand for choice vouchers from residents of properties converting under the first phase of TRA that would be funded under the 2011 budget, the Department examined the rate of moves within the HCV program.⁵ In the HCV program, about 13% of participants move each year with their vouchers, but with significantly different rates based on household type. Senior households have the lowest rate of moving (6.5%) and family households have the highest rate (16.4%). Disabled households and other households move at a rate of 11.7% and 10.5%, respectively.

For purposes of estimating demand, we assumed residents of converting public and assisted housing will move at the same rate as HCV participants of the same demographic group, or about 11% annually (if properties convert at their proportionate share of the stock).⁶ If 300,000 units convert in Phase I, TRA will generate an estimated demand for 35,000 choice vouchers annually.

³ The Department does not overlook the reality that some housing providers turn away HCV participants in some cases, in violation of Federal fair housing laws or State and local laws. The Department also recognizes the challenges of people with disabilities in finding accessible housing close to necessary services.

⁴ Xavier de Souza Briggs et al., "Why did the Moving to Opportunity Experiment Not Get Young People into Better Schools," *Housing Policy Debate*, 19:1, 53-91, 2008.

⁵ The Department considers the voucher move rate a reasonable proxy for the unconstrained demand for vouchers among converted TRA properties. In the initial years, it is possible that the demand for mobility vouchers may be higher than the 13% move rate found in the voucher program as a result of pent-up demand, particularly if occupancy in public or multifamily housing did not reflect a household's preference. On the other hand, using the voucher mobility rate may be upwardly biased if only the most mobile low-income households select into the voucher program.

⁶ The Urban Institute's June 2010 policy memo, "The Resident Choice Option: Reasons Why Residents Change from Project-Based Vouchers to Portable Housing Vouchers," examines how families living in PBV units exercise their existing resident choice option. Findings show a range of reasons for tenant moves including housing market conditions, local programmatic policies, access to better/bigger units, moving closer to family, services or schools or moving away from poor quality housing or unsafe neighborhoods.



Estimated Demand in TRA’s Initial Phase - Choice Vouchers by Program (in thousands)											
	Public Housing					Multifamily (RAP/Rent Sup)					Combined
	Senior	Disabled	Family	Other	Total	Senior	Disabled	Family	Other	Total	Total
Units	80	45	117	38	280	10	3	5	2	20	300
Estimated Move Rate	6.5%	11.7%	16.4%	10.5%	12.0%	6.5%	11.7%	16.4%	10.5%	10.3%	11.0%
Total Demand	5	5	19	4	33	1	0	1	0	2	35

Estimating Supply

Absent new (“incremental”) vouchers appropriated by Congress, PETRA would provide residents with choice by providing access to vouchers that become available for re-issuance to new families, as current participants leave the HCV program. When a voucher “turns over” in this way, the public housing agency currently passes the voucher on to the next person on the HCV waiting list. Approximately 11% of HCVs turn over each year and are available for re-issuance.

Nationally, there are approximately 2.2 million vouchers. With an annual turnover rate of 11%, about 242,000 vouchers become available each year through turnover.

Total vouchers	2,200,000
Turnover rate	11%
HCV Turnover (Annually)	242,000

As a result, about 14% of the national turnover vouchers would be needed to support housing choice under the first phase of implementation.

HCV Turnover (Annually)	242,000
TRA Demand for Vouchers	35,000
Estimated Demand	14%

Resource Options for Initial Implementation

The Department believes that, in order to provide valuable information for future phases, including actual rates of demand, it is important to provide full choice options in the initial phase of implementation, i.e., no



constraints on demand.⁷ In subsequent phases, demand can be constrained if necessary to meet available resources.⁸

As indicated, the initial phase of implementation is expected to generate a demand for 35,000 choice vouchers annually. Options for meeting this demand are discussed below. As a general matter of policy, the Department believes that no HCV-administering agency should be required to contribute more than one-third of its turnover vouchers for the PETRA Choice Option. PETRA sets one out of three turnover vouchers as the upper limit on the share of vouchers HUD could require to be made available as a condition of voluntary participation in the initiative.⁹

- **Vouchers contributed through conversion.** As part of the conversion process or the competition to convert, PHAs with voucher programs could be required or incentivized to agree to set aside a portion of their existing vouchers (but not more than one-third of their turnover vouchers) for this purpose.
- **Offsets and reallocations.** Future renewal funding formulas could allow HUD to offset a PHA's renewal funding allocation by the amount in a PHA's reserve (net restricted asset) account that exceeds a reasonable reserve level (the Section 8 Voucher Reform Act, SEVRA, uses six percent) and use the funds saved through the offset against excess reserves to fund resident choice vouchers.
- **Adjustment funds.** Recent Appropriations Acts have appropriated set-aside funding to make adjustments to PHA renewal funding for certain purposes (e.g., additional leasing, unforeseen circumstances, portability costs, project-based commitments, and HUD-VASH increased costs). In FY 2010, \$150 million was appropriated for this purpose. Use of the set-aside funding could be expanded to allow the Department to fund some resident choice vouchers from these set-aside funds, although in 2010 there was more demand for set-aside funding under the existing criteria than the total funds available.
- **Tenant protection vouchers.** The 2011 Budget includes \$125 million for tenant protection vouchers. These vouchers are used to assist families that are impacted by conversion actions in HUD's Multifamily Housing portfolio, e.g., Section 8 opt-outs and preservation prepayments or demolitions or dispositions of public housing. If PETRA succeeds in preserving more public and assisted properties, as intended, there should be reduced demand for tenant protection vouchers

⁷ The two-year residency requirement is intended to ameliorate the adverse effect of households moving into project-based housing simply as a means of accessing a voucher.

⁸ See PETRA, Section 8(m)(1)(A)(i): "The Secretary shall promote informed choice regarding housing opportunities by participants in rental assistance programs administered by the Secretary, by providing, **to the extent of available resources**, that each low income family lawfully residing in a unit converted...may move at any time after 24 months...and may continue to receive rental assistance."

⁹ See PETRA, Section 8(m)(1)(A)(i)(II): "a public housing agency administering a tenant-based voucher program under Section 8(o) whose property is selected for conversion or that is selected to administer a rental assistance contract pursuant to subsection (m)(2) shall make available to eligible families who choose to move under the Choice Option...**not more than one-third of the vouchers that become available each year as a result of turnover.**" It is unlikely that one-third of turnover would be required to meet the demand in any particular area. An agency unwilling to make vouchers available for the Choice Option can choose not to apply for conversion or to administer new rental assistance contracts.



(fewer properties opting out), and use of this account could be expanded to allow HUD to use the savings to fund choice vouchers.

Administrative Considerations

HUD recognizes that some of the properties that will convert in the initial phase of implementation are owned by private owners or by PHAs that do not administer a Housing Choice Voucher program or have insufficient vouchers to meet demand. In consultation with stakeholders, HUD will develop procedures to make voucher funding from one or more of the above sources available to these families.

Based on our estimates of the limited supply of vouchers that could fairly be made available for this purpose, and absent a substantial increase in the number of vouchers, HUD intends at this point to only apply the Choice Option to converted properties.¹⁰ After the initial few years of conversions, however, the Choice Option will require either additional vouchers, or administrative constraints placed on demand. PETRA would not permit the Secretary to require PHAs to provide more than one out of three available vouchers for purposes of the Choice Option. If demand exceeds the vouchers available, PETRA would permit PHAs to establish waiting lists for residents seeking to exercise the Choice Option.¹¹

If demand exceeds the available supply of vouchers in the future, PETRA permits HUD to modify the waiting period for eligibility for the Choice Option. HUD could use this discretion to increase the waiting period to longer than two years. Another option for constraining demand would be to limit participation to family households or to households currently living in higher poverty neighborhoods. While these options would help arithmetically, we do not find a compelling argument why one household type should be provided with greater options over others.¹² PETRA would allow HUD to establish other limitations on the Resident Choice Option if resources are insufficient.

It is important to note that HUD does not intend to have agencies shelve turnover vouchers for use by families seeking to move under the Choice Option. Rather, we will work with stakeholders to design a reasonable process that balances the importance of serving families on voucher waiting lists with making a Choice Option available to residents of converted properties. In addition, to the extent that the Choice Option opens more housing opportunities in converted properties, it will be important for PHAs to make voucher applicants aware of the alternative affordable housing options available.

¹⁰ PETRA would allow HUD to expand the Choice Option to non-converted properties if sufficient resources are available.

¹¹ See PETRA, Section 8(m)(1)(A)(i)(II): "A public housing agency may establish a separate waiting list for families eligible to exercise the Choice Option.

¹² If choice were only afforded to households with children, aggregate annual demand for choice vouchers would be reduced by roughly half. Limiting participation to households living in higher poverty neighborhoods would have a similar impact on demand.