

TESTING PUBLIC HOUSING DEREGULATION: A SUMMARY ASSESSMENT OF HUD'S "MOVING TO WORK" DEMONSTRATION

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Started as a depression-era initiative intended to contribute to economic recovery, slum elimination, and the provision of safe, decent, low-cost housing, the nation's premier low-rent public housing program has evolved and changed in various ways over its almost seven-decade history. Yet there have been two overriding constants throughout this period. Public housing properties were not expected to be built or operated using private-market principles, nor was it intended that they be controlled independently by the housing agencies responsible for developing and managing them. Subject to neither market nor local standards, public housing program rules and practices have been the province of extensive federal directive and regulation.

Although controversial throughout its history, by the 1990s the public housing program had become subjected to tremendous fiscal and political pressures and demands for fundamental program change. One reform option proposed by some program advocates involved devolution and increased deregulation. In part to test the consequences of such an option, a small-scale demonstration initiative called Moving to Work (MTW) was enacted. This is a summary of a more extensive report on the experiences of the first several years of that demonstration, concentrating on the activities and experiences of the initial cohort of 18 participating housing agencies.¹

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¹ See *Housing Agency Responses to Federal Deregulation: An Assessment of HUD's "Moving to Work" Demonstration*, U.S. Department of Housing and Urban Development, January 2004, <http://www.hud.gov/utilities/intercept.cfm?/offices/pih/prgrams/ph/mtw/evalreport.pdf>.

Origins, Purposes, Structure, and Limitations of "Moving to Work"

Throughout the 1990s, several notable changes in the way key stakeholders began to envisage public housing, as well as significant changes in national social welfare policy, called into question the sustainability of the public housing program as it had been historically constructed. Included was a gradual shift in sentiment among policy makers and housing practitioners in favor of adopting more market-oriented strategies for providing housing assistance, as well as a growing interest in finding ways to deregulate and devolve the program to allow it to be better attuned to local market variations. This reconsideration was occurring at the same time that the social welfare system was being overhauled through term limitations and a work-first approach to reducing poverty. This welfare policy shift was perceived to be an especially significant development affecting public housing, given the overlap in beneficiaries between the welfare and public housing programs.

The genesis of MTW. Concern about the sustainability of public housing was driven by numerous forces, not the least of which was increasing Congressional reluctance to accept the high financial costs, the adverse human costs, and the increasing public disapproval of supporting a small but visible fraction of the public housing inventory that had become severely distressed. These were generally high-rise, family developments located in areas with heavy concentrations of very low-income households and elevated levels of physical and social pathology, but which stigmatized the entire public housing program.

Although funds were available for modernizing as well as demolishing and redeveloping public housing properties, negative sentiment about the inventory was

widespread. Combined with an increasingly budget-conscious Congress, it was widely acknowledged throughout the decade that adequate federal funding for operating 1.3 million units of public housing was no longer guaranteed. At the extreme, there was even the possibility that persistent proposals to privatize or eliminate the public housing program could actually occur. Indeed, at the time, the federal agency responsible for administering public housing, the U.S. Department of Housing and Urban Development (HUD), was itself under siege for this and unrelated reasons, and threatened with elimination.

As a result of multiple challenges facing public housing by the mid-1990s, program supporters saw themselves being squeezed at both ends, with no escape possible under then-current rules. They considered the flow of needed tenant-paid rent to be potentially jeopardized as a consequence of welfare reform, and the flow of HUD subsidies to be potentially jeopardized as a consequence of declining Congressional support for the program and for HUD itself. Moreover, federal policy and regulatory requirements prohibited local housing agencies from lowering costs or increasing income in very substantial ways, and HUD—the only agency of the federal government to have been designated “high-risk” by the U.S. General Accounting Office—had responsibility for regulating those agencies. This, then, was the policy and organizational environment in which the MTW demonstration was proposed and enacted.

Demonstration proposal.

Looking for a solution to the growing dilemma faced by public housing agencies, some program supporters lobbied Congress for a massive deregulation of the program. Their intention was to remove many Congressional and HUD requirements, substitute for them local choice and initiative, and provide housing assistance funds to local agencies as block grants to be used at their discretion. However, many of the most significant federal requirements that had been imposed on public housing over the years had been the result of coalitions that had supported or protected various interests, and these requirements were unlikely to be given up without

significant controversy. To open these issues to renewed debate would have involved a major legislative undertaking.

Strategically, therefore, a faster and easier resolution was for deregulation advocates to propose a demonstration, and use the Congressional appropriations process—rather than the lengthier authorizations process—to create it. Still, supporters of deregulation intended that such a demonstration be done on a fairly large scale, permitting several hundred local agencies to experiment with statutory and regulatory relief and block grant funding.

Clinton Administration officials at HUD were neither enthusiastic about, nor especially supportive of, large-scale deregulation or block granting of public housing funds, believing that some federal regulation was essential to ensure the achievement of major federal program objectives. But, if proponents of deregulation were to prevail, these policy officials preferred to see it happen on a more limited scale and, furthermore, given the welfare reform tide, to use the opportunity to experiment with new ways to promote the goal of enhanced resident self-sufficiency. Accordingly, Administration officials recommended that the proposed demonstration be called “Moving to Work” to emphasize this purpose.

Clearly, however, encouraging work was not what was being advocated by deregulation proponents in response to the conflicting pressures housing agencies were under. They were not so much focused on resident self-sufficiency as on housing management, operations, and control issues. In the end, the demonstration initiative that resulted involved a compromise—a hybrid. It represented neither the first choice of deregulation proponents, on the one side, nor of the Administration, on the other.

Legislative basis. Section 204 of the Omnibus Consolidated Reversions and Appropriations Act of 1996 established MTW.² Its compromise nature was reflected in the Act’s language, which allowed a small

² Pub. L. 104-134, 110 Stat. 1321, enacted on April 26, 1996.

number of participating housing agencies the opportunity and flexibility to design and test their own approaches to (a) reducing program costs and achieving greater cost effectiveness, (b) giving incentives to families to seek or prepare for work in order to become more economically self-sufficient; and (c) increasing the housing choices of low-income families. As a means of achieving these ends, the demonstration allowed participating agencies to request waivers of the 1937 Housing Act, as amended, HUD regulations pertaining to the Public and Indian Housing or Section 8 Housing Assistance Payments programs, and combine HUD-supplied operating assistance funds, modernization funds, and funding for the Section 8 program into one fungible pool. It left the choice of which approach or combination of approaches to be tested up to each participating agency.

Implementation. Up to 30 housing agencies that had had been performing well under HUD's Public Housing Management Assessment Program were initially permitted to participate in the demonstration.³ Prospective participants were required to identify specific federal rules they believed to be impediments, request waivers of such rules, and have such waivers approved by HUD. The requirement for HUD approval was intended to ensure that only provisions of the 1937 Housing Act, as opposed to other federal rules, would be waived, and that HUD rules pertinent to monitoring and evaluating the impacts of deregulation (such as information submission requirements) would not be waived. MTW was time limited, and participants were expected to return to a course of business consistent with regular HUD regulations at its conclusion.

In March 1997, 43 housing agencies applied to participate in MTW, and 24 were selected.⁴ Included were 20 city and county Public Housing Authorities (PHAs), two state housing agencies, one Indian Housing Authority (IHA), and one consortium of five

PHAs. While individual plans contained similarities across agencies, in fact each constituted a unique combination of actions, activities, policies, or procedures—many of which required waivers of federal rules but some of which did not.

There then followed a protracted period (extending into early 2000) during which discussions and negotiations took place between each agency and HUD. The purpose was to reach agreement on the precise terms of each participant's plan. The negotiations process was neither a trivial exercise nor simply a formality, as it took a considerable amount of time to work out the details and reach and sign agreements with all of the agencies.

The negotiations process proved difficult because it involved undoing a system of rules and administrative procedures that had been established over many years. Multiple offices within HUD reviewed the waiver proposals to assess their potential impacts on other federal laws and regulations not subject to waiver under the demonstration—such as fair housing law, labor law, and government-wide procurement regulations. Some of the most complicated negotiations concerned waivers that had an impact on agency funding levels, requiring HUD to develop a new and separate funding methodology and procedures for those MTW agencies that chose to merge multiple sources of funding assistance.

Throughout the negotiations process, local agency officials looked for assurance that the waivers and funding levels they were to receive would stand up in what was then believed to be a fluid legislative environment, and HUD officials looked for assurance that the waivers they were granting and the funding system they were devising would not result in untoward outcomes. In fact, the protracted negotiations period contributed to a loss of momentum for some agencies and, for a few, a loss of strategic vision for their participation in the demonstration. Six agencies chose to drop out of the demonstration at this point, either before or immediately after they had reached agreement with HUD as to the terms of their participation. For one thing, in the interim,

³ Congress required that the relative performance of agencies be taken into account when selecting MTW demonstration participants.

⁴ HUD set aside six of the 30 possible MTW slots for another demonstration: the Jobs-Plus Community Revitalization Initiative for Public Housing Families.

Congress had enacted the Quality Housing and Work Responsibility Act (QWHRA) of 1998 that overhauled public housing and itself provided for some amount of program-wide federal deregulation.

Participating agencies. By the end of the negotiation period and the start of MTW activities, in the spring of 2000, the demonstration consisted of 18 participants.⁵ These agencies ranged in size as well as program mix. The Massachusetts Housing Agency, for example, which does not manage public housing properties, administered 16,498 Section 8 vouchers statewide in the year 2000; only 183 of them, however, were included in the MTW demonstration. The remaining agencies administered both the public housing and Section 8 programs, in different proportions, with Portland, Oregon being the largest and Keene, New Hampshire, the smallest (see Exhibit 1).

Twelve agencies proposed to make ‘systemic’ changes to their programs and operations—altering basic practices and systems that affected whole classes of residents or operations. There was considerable variation, however, with respect to the scale and scope of changes, ranging from relatively modest alterations of certain program rules or procedures to modifications of basic mechanisms for subsidizing properties or assisting households. Six of these agencies also merged their funding systems in a way that allowed for increased fungibility across multiple funding streams. The remaining ‘non-systemic’ agencies proposed to make

changes that affected only a small number of households or only parts of their programs or operations, without fundamentally altering their systems or significantly changing the profiles of their assisted housing stock or resident populations. These changes, in effect, constituted mini-demonstrations within the context of a standard public housing or Section 8 framework.

Limits on what can be learned. While MTW tests the effects of public housing deregulation, there are significant limits to what can be learned from the experience for several reasons.

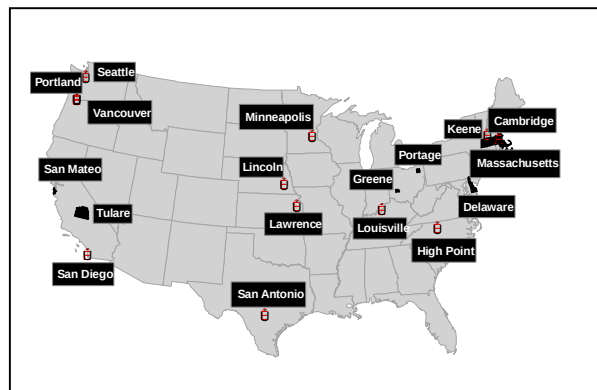
Individual components of agencies’ MTW initiatives cannot always be analytically separated out or untangled. Hence, it is generally not possible to establish the independent effects of each. Because they are organized differently, it is likewise problematic to aggregate experiences across agencies to evaluate collective results. While the statutory language establishing MTW called for its evaluation, it encouraged experimentation in ways that did not support impact measurement. And, appropriate controls

were not built in with respect to selection of participating agencies or design of alternative policies or procedures.

Federal welfare reform and QWHRA-initiated public housing reform occurred at

about the same time as MTW. This added to the difficulty of attributing changes that may be observed in, say, tenant demography, to waivers of federal rules under MTW.

Information was not available to track and assess changes in tenant characteristics. Because HUD’s standard Multifamily Tenant Characteristics System was not adapted to incorporate the unique, non-standard rent and income policies established by each agency, critical data on the characteristics of public housing



⁵ Since then, Congress or HUD permitted other agencies to participate—Chicago IL and Pittsburgh, PA (in 2000); New Haven, CT (in 2001); Philadelphia, PA (in 2002); Atlanta, GA, King County, WA, and Washington, DC (in 2003); and Oakland, CA (in 2004)—some of which are significantly different in size and performance histories from the first cohort of MTW agencies that were all considered high performers using the assessment criteria HUD applied in the 1990s. Charlotte, NC has also been permitted to participate.

residents and Section 8 households were never collected in a consistent and uniform fashion for the demonstration sites.

MTW did not involve total or complete federal deregulation of public housing. That waivers were limited to provisions of the 1937 Housing Act and housing agencies were constrained by other federal regulations complicates assessment of broader devolutionary effects.

MTW agencies were required to make individual, waiver-by-waiver requests to HUD for approval. This communicated to some agencies that deregulation was limited in ways that were not necessarily evident. Not knowing exactly what was and what was not subject to waivers sometimes led them to be conservative in deciding what to request.

By statute, MTW agencies were required to assist substantially the same total number and mix (by family size) of low-income households as would have been served had they not participated in MTW. In addition, housing units assisted under MTW were expected to meet housing quality standards established or approved by HUD. Done out of concern that lifting federal regulations might result in service to fewer or different types of households or poorer quality housing, these requirements nonetheless had the effect of rendering it impossible to determine if devolution leads to diminution in the quantity or quality of assistance provided.

MTW was enacted to be temporary. That also had a dampening effect on what was attempted by some agencies. Many agency officials (although not all of them) expected to have to return to non-MTW status at some point, which generally led to caution with respect to the changes or innovations they attempted. In some instances, certain types of changes were not even considered because of what would likely be involved in having to ‘go back.’

Merged funding assistance was not set up as a prototypical “block grant.” Separate funding streams were maintained, although agencies were authorized to use them for interchangeable purposes. For this and other reasons, merged funding under

MTW provides only limited insight into the likely effects of shifting funding to a more typical, formula-driven block grant system.

Exhibit 1: The Initial MTW Cohort

Participating Agency	Agency Size			Category***
	Housing Units	% PH	% §8	
1. Cambridge, MA	3,711	52	48	Systemic Merged Assistance
2. Delaware State	918	41	59	
3. Louisville, KY*	5,362	87	13	
4. Portland, OR	14,426	19	81	
5. Seattle, WA	12,036	54	46	
6. Vancouver, WA	2,002	29	71	
7. High Point, NC	2,364	50	50	Other Systemic
8. Keene, NH	602	38	62	
9. Lawrence, KA	806	45	55	
10. Lincoln, NE	3,099	10	90	
11. Portage County, OH	1,326	23	77	
12. Tulare County, CA	3,499	20	80	
13. Greene County, OH	1,691/ 100**	21	79	Non-systemic
14. Massachusetts State	16,498/ 183**	0	100	
15. Minneapolis, MN	10,457/ 50**	58	42	
16. San Antonio, TX	18,017/ 660**	36	64	
17. San Diego, CA	10,031/ 72**	14	86	
18. San Mateo County, CA	3,744/ 300**	4	96	
19. Birmingham, AL	8,830	75	25	Drop Out
20. Cherokee Nation	2,337	42	58	
21. Los Angeles County, CA	19,600	18	82	
22. Stevens Point, WI.	366	76	24	
23. Salt Lake City, Salt Lake County, Utah County, Davis County, Provo, and Ogden, UT	8,813	23	77	
24. Tampa, FL	9,060	52	48	

*Units for Louisville (City) are prior to the merger of the City and County housing agencies.

**The first figure is the total number of public housing units under management and Section 8 units administered by the agency; the second figure is the agency's original goal for the number of units/households to be affected by its MTW initiative.

***Systemic agencies altered basic practices and systems affecting whole classes of residents or operations. Merged assistance agencies combined operating subsidies, capital grants, and Section 8 tenant-based assistance funds. Non-systemic agencies made changes affecting only a small number of households or parts of their programs or operations.

Finally, MTW is not yet over.

Although originally intended to last only three years, it has been extended so that most of the original agencies have at least two more years of participation. Beyond that, some of the newly enrolled agencies have yet to begin at all. Hence, long-term or end results are not yet fully known or knowable at this time.

For the above reasons, MTW results to date, and the lessons to be drawn from them, are interim and suggestive rather than final and conclusive.

Types of MTW Initiatives

One or another participating MTW housing agency experimented with:

- Altering federal funding arrangements;
- Changing the terms of rental assistance; or
- Adjusting program operations and management.

Each is considered, in turn, below.

Altering federal funding arrangements. One issue MTW was intended to address is whether it is better for federal funds to be provided to local agencies through multiple funding streams, each having a separate, federally defined purpose, or as merged assistance where local agencies are allowed to decide what amounts and proportions of its total federal funding can be used for any particular housing-related function. In the absence of MTW, most agencies receive three major sources of funds from the federal government. Each has a primary use even though, to some extent and with restrictions, funds can also be used for certain other purposes as well. Under MTW, however, funds could be merged to an extent not otherwise permissible under the legislative authority governing the public housing program—the 1937 Housing Act.

In fact, five agencies chose to experiment with combining their federal public housing operating subsidies, public housing capital (modernization) grants, and Section 8 tenant-based assistance funds

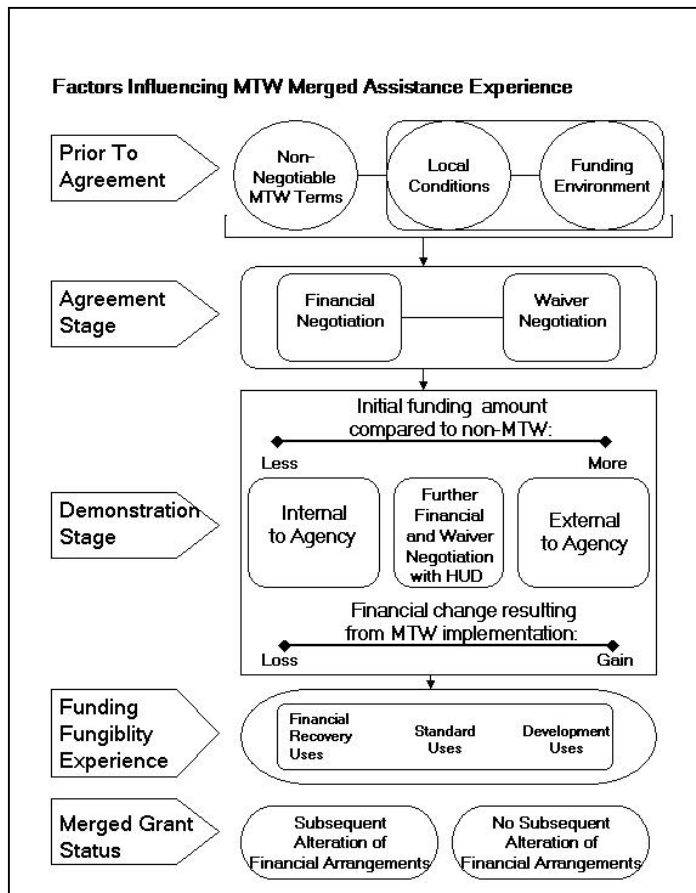
into a merged, flexible funding pool.⁶ Nonetheless, none of them consolidated its funds into a single, internal account for bookkeeping purposes. Each of the funding sources continued to be accounted for separately. This was the case for several reasons. For one, agency officials believed that HUD program monitors, HUD or state auditors, or community stakeholders expected funding sources to be separately identifiable for review or audit purposes. For another, there was concern that at the conclusion of the demonstration there would be a need to return to a non-merged assistance set of accounts, which could be complicated if accounts had been consolidated during the demonstration. Finally, federal funds to local agencies are received or drawn down differently, depending on source. This apparently also deterred some agency finance and budget managers from attempting to put them into a single account.

Beyond not combining funds into one account, some agencies also chose—during internal budgeting or planning deliberations—not to allow one or another funding source to be used for any purpose other than its HUD-proscribed use. In essence, they established a “firewall” around that source to separate it from the remainder of the agency’s funding in order to ensure that an established level of funding would continue to go to an established use.

An overriding question, then, is whether merged assistance led to changes in the way funds were used and/or in the proportions of funds used for different purposes. An initial answer is that over the course of the first several years of the demonstration, experiences varied from agency to agency. The variation was a function of a unique set of interactions among their (a) local environments, situations, and planning activities prior to participation in MTW, (b) the terms of their MTW agreements with HUD, and (c) that which occurred during their participation in the demonstration. Such relationships are complex, but the bottom line is that they

⁶ These are Cambridge, Delaware, Portland, Seattle, and Vancouver. Louisville initially also chose to merge its funding, but did not implement this change.

resulted in a somewhat different set of financial consequences for each agency.



difficulties—a portion of which were related to how their MTW agreements defined the subsidy calculations. While these were not in any way desired outcomes, agency officials used their financial flexibility to help weather such difficulties. For example: one or another agency:

- Used the capital portion of its merged assistance funds to cover shortfalls in its voucher program
- Used excess capital funds and voucher funds (voucher underutilization) to cover operating subsidy shortfalls.
- Used voucher reserve funds (as well as funds available because of previous voucher underutilization) to cover operating and voucher program shortfalls.
- Temporarily lowered its tenant-based assistance utilization rate in order to make up for losses resulting from the timing of its funding cycle, while working with HUD to rectify the situation.

Compared to the level of federal funding an agency would have received had it not been for merged-assistance, a few of them, in fact, were somewhat advantaged by their MTW experience, and a few were disadvantaged. That is important because the extent to which funds were used differently from how they otherwise would have been used, and what agencies did when they used funds differently, depended in part on where each agency fell on this continuum. That helped to dictate whether it used its merged assistance primarily for financial-recovery purposes, standard housing management or service-related purposes, or development purposes.

(a) Financial recovery purposes. Some agencies had experiences during the course of the demonstration that resulted in financial

These shortfalls were a result of a variety of experiences: downturns in local economies, which led to lower rent revenues or higher housing assistance payments to landlords; unanticipated administrative costs for administering voucher programs; and, disadvantages because of the base-year used to establish a portion of the merged-assistance agreement—where costs were based on experiences that lagged well behind the start-up date; and shortfalls resulting from the elimination of the Public Housing Drug Elimination Program (PHDEP). Except for the latter, HUD would have covered such shortfalls in the absence of MTW.

It is not clear in all instances if the extent to which funds were moved to cover certain types of program shortfalls was necessarily greater than that which would have been allowable in the absence of MTW. That notwithstanding, agency

officials generally attributed their ability to deal with the short-term financial challenges they encountered during the demonstration to their funding fungibility authority.

(b) Standard purposes.

Some agencies moved funds from one category or program to another (such as from capital improvements to operations) or within program categories in ways that are otherwise authorized absent MTW but for which additional funds were necessary.⁷

Some agencies funded additional services for residents. These included providing transportation to job training and social services; hiring a staff resource coordinator to help persons approaching their TANF time limits become more self-sufficient; and, hiring additional staff for Family Self-Sufficiency programs.

Other agencies addressed local market conditions or increased voucher utilization. One of them, for example, funded services that would help residents successfully utilize their vouchers in a tight housing market by hiring a landlord outreach counselor to recruit and retain landlords. These included a program to pay landlords for damages and requiring them to agree to accept subsequent voucher households in order to receive a damage claim. The agency also provided counseling for disabled voucher recipients to help them locate suitable housing units. Yet another agency upgraded its public housing stock by installing air conditioners to better compete in the local market and increase the occupancy rate.

In these situations, agency officials consciously decided to spend more money on one or another program or service by either decreasing funding to another or utilizing “excess” funds realized during the demonstration. Agency officials identified these uses as benefits of their funding fungibility authority. Although many of these uses could have occurred in the absence of MTW and merged assistance, they assert

that they would likely not have done so without MTW.

(c) Development purposes.

Aside from HOPE VI grants, local agencies have not recently received any federal support explicitly earmarked for development activities. While some use of HUD operating subsidy and capital grant funds for this purpose is permissible, it rarely occurs. Three agencies added affordable housing opportunities within their communities by developing new (“hard”) units, and one increased the number of (“soft”) voucher units that it administered.

Those MTW agencies that used merged assistance and regulatory flexibility to develop new housing units did so in conjunction with other organizations and/or other funding sources (e.g., HOPE VI grants, Low-Income Housing Tax Credits, bond financing, housing trust funds, and conventional loans). Two key benefits for development of having merged assistance were agency possession of lump-sum voucher reserve funds (that, absent MTW, would have been held by HUD and used when necessary only for payments to landlords) and the lack of need to ask for and await HUD approval of financial transactions involving development. Additionally, an agency’s ability to show investors or lenders its merged-assistance “portfolio,” instead of annual subsidy flows, appears to have improved the ability to leverage additional financing.

To date, voucher reserve funds have been used for development purposes more so than drawing from the three primary funding streams although, at one agency, there was sufficient voucher program funding available to use for development purposes. Those agencies that engaged in development activity did so by using their resources for making down payments and providing equity financing, with some using their flexibility for bridge loans, particularly for their HOPE VI development activities. These development deals involved other investors, including area non-profits, local housing trust funds, and private lenders.

New development of public housing units was capped by (or limited to) the number of units an MTW agency had in its

⁷ Agencies applied to participate in MTW prior to enactment of QHWRRA; hence, some of the changes they proposed and made as part of their participation, while subsequently authorized by QHWRRA, had not previously been permitted.

inventory as of October 1, 1999. Any newly developed units that exceeded the cap could not be put under HUD's Annual Contributions Contract to receive operating subsidy and, therefore, had to be self-sustaining. To make them so, one agency used project basing as a means of subsidizing new developments owned by a mirror-image non-profit organization. Another partnered with a local affordable housing developer, covered some portion of the down payment, and provided assistance for a share of the units through project basing. This agreement benefited both the agency and the developer: the agency added to the number of units available for its project-based households, and the developer benefited because of the assured stream of residents and, thus, predictable rental income. The units were financed with high down payments or were in mixed-income buildings, so they could sustain themselves financially without on-going assistance from the agency.

Under MTW and with merged-assistance authority, HUD waivers were not required in order to acquire new units, so agencies were able to respond more quickly and flexibly to market opportunities. Some of the funds that were used were in-hand and available (especially voucher reserve funds), which helped prospective funders take the agency more seriously in fast-moving markets. Because they were able to take these actions, agency officials believed they had become key and more active players in their local housing markets. Furthermore, because some of the developments were initially financed by short-term loans that were to be repaid during the life of the MTW demonstration, these agencies had a revolving fund that provided opportunity for further development or other use.

Officials of the three merged-assistance agencies that did some amount of development viewed their ability to use funds for development as one of the key benefits of merged assistance. Particularly at the beginning of the demonstration, these agencies operated in tight housing markets, so adding to the supply of affordable housing was a key goal for them.

One agency used its MTW waiver authority and merged-assistance funding to add to the number of vouchers it administered. It did so by increasing the proportion of household income that all non-elderly and non-disabled persons paid for rent in both its public housing and tenant-based assistance programs, from 30 percent to 35 percent, and using the additional tenant payment income to create new vouchers. This was possible because the agency received a pre-set amount of operating subsidy and voucher funding as part of its merged-assistance, which was not adjusted annually based on income and operating expenses. Hence, additional income to the agency obtained through increased tenant rent payments did not result in reduced operating subsidy or voucher assistance funding from HUD, but remained with the agency. Through October 2003, the agency used those funds to add 69 vouchers, amounting to about seven percent of its total voucher program.

(d) The status of merged assistance. Agency officials have made limited, yet strategic uses of their funding fungibility authority, and some believe that this authority has been essential to their ability to respond effectively to local conditions and preferences regarding low-income housing provision. Experiences have varied, however.

Three agencies have used some of their funding resources to engage in development activities, which may have gone beyond non-MTW funding fungibility provisions—although this cannot be known with certainty given available information. In some instances, funds were used as revolving resources (i.e., by making short-term loans or down payments that were repaid when other funds were ultimately obtained so they could be re-used for additional development). The in-hand availability of lump-sum reserve payments and, in the case of one agency, of HAP funding resources associated with underutilized tenant-based assistance, provided otherwise unavailable capital for development purposes. Because they could be used in a timely fashion without having to wait for HUD approval, these funds helped to obtain additional funding necessary to engage in development activities and

allowed the agencies to become more active housing market players within their communities. And, beyond that, these experiences appear to have been empowering for these agencies.

Aside from development uses, the extent to which these and other merged-assistance agencies used their funding flexibility beyond what is permissible outside of MTW is also unclear, but it appears to be modest. This, however, is in line with what might be expected given the unique constraints associated with both the MTW demonstration, as it was devised and implemented, and the various other contextual factors affecting MTW outlined in this report. Whether significant or not, it is clear that agency officials believed the flexibility they possessed with respect to funding choices forced them to be more strategic and deliberate in their activities than was the case when they were required to follow standard program funding rules, guidelines, and directives.

Finally, some agencies were disadvantaged by merged-assistance arrangements, either because of agreement-related considerations, the negative financial impacts of some of their MTW policies, or unanticipated market, economic, or demographic changes that affected their program expenses and incomes. Two of them requested additional funding from HUD to compensate for shortfalls, and two requested different merged-assistance arrangements from the standard that applied at the beginning of the demonstration. The latter requests, to separate Section 8 from merged assistance, suggest a greater financial risk associated with administering tenant-based assistance than administering public housing in a merged-assistance mode where agencies receive a fixed amount of money yet are obligated to serve the same number and mix of households over time.

In sum, merged assistance involving operating subsidy, capital grants, and voucher assistance, as originally conceived, seems to have worked well for three of the agencies and somewhat less well for two others.

Changing the terms of rental assistance. Twelve housing agencies

used MTW to make changes in their public housing rent rules and/or Section 8 subsidy formulas, and some of them used the demonstration to experiment with alternatives to the traditional percent-of-income approach for calculating tenant rent contributions.⁸ In addition, a small number experimented with some form of time limits on housing assistance. Although other MTW agencies also made rent rule or subsidy formula changes, the focus here is on those that made dramatic changes or that considered those changes to be a major element of their MTW experience.

Officials of agencies making rent rule changes generally believed that standard program rules discouraged residents from working or making progress toward economic self-sufficiency because, as incomes increased, rent contributions rose as well, and vice versa. They also believed the existing system to be overly complex and confusing—demoralizing residents by requiring them to report changes in income, encouraging some residents to hide income sources, and requiring time-consuming and tedious verifications by agency personnel.

Each agency implementing changes in housing subsidy formulas adopted a unique approach, based on local judgments about the role that scarce rental-assistance resources should be playing and about the behavior of assisted housing residents. These judgments were influenced and sometimes constrained by the local political environment as well as housing market conditions.

(a) Rewarding employment and income growth. All agencies experimenting with alternative subsidy formulas included provisions that let residents keep a larger share of any increases in employment income. The generosity of the incentives offered by such agencies to encourage employment and income growth varied considerably. Four of them severed the link between resident income levels and rent contributions by:

⁸ These are: Cambridge, Greene, Keene, Lawrence, Lincoln, Massachusetts, Portage, San Antonio, San Diego, San Mateo, Seattle, and Tulare.

- Establishing flat public housing rents and Section 8 subsidy contributions;
- Providing a flat subsidy intended to pay for housing and supportive services;
- Establishing “stepped rents” whereby residents’ rent contributions are set at a flat amount in the first year and, then, increased at predetermined intervals;

Agency officials argued that in addition to rewarding employment and income growth, their systems offered the benefits of administrative simplicity for staff and understandability and predictability for residents. Moreover, they generally believed residents had the capacity to raise their incomes in order to make larger rent contributions, and that they benefited from experiencing a rent-setting system more like that found in the private market.

Other agencies essentially retained income-based subsidy formulas but exempted some employment income from the calculation and/or delayed rent adjustments, modifying their policies in various ways, such as:

- Limiting rent increases to one per year at the time of a household’s annual re-certification.
- Substantially expanding exclusions and deductions from the income used to calculate a household’s rent contribution, but otherwise retaining the basic income-based approach.
- Delaying rent changes that would normally be associated with income increases.

These changes were intended to encourage work by allowing residents to keep more of any earned income, without abandoning the notion that a household’s rent contribution should be pegged to its income.

Finally, three agencies that retained percent-of-income formulas also implemented ceiling rents. This meant that residents whose incomes grew significantly would ultimately switch from a percent-of-income contribution to a flat rent. Officials of

such agencies hoped this would not only encourage residents to progress toward higher wages but that it would also provide an incentive for successful, working residents to remain in public housing longer—serving as role models for other residents and helping to strengthen and stabilize the community.

(b) Penalizing un-employment. Along with incentives to make work and self-sufficiency more rewarding, all of the MTW agencies that experimented with alternative subsidy formulas included provisions intended to discourage families from dropping out of the labor force or reducing their income. In general, agency staff and managers believed the standard percent-of-income method for determining rent contributions to be flawed because a resident who quits a job or works fewer hours is, in effect, “rewarded” with a rent reduction. Many also argued that residents needed a vigorous push to enter and remain in the work force. Again, however, the design of these provisions varied tremendously across agencies. Interestingly, agencies that were most generous were not always the most stringent. In other words, those that chose to use positive and negative incentives did so in differing combinations.

Some were simultaneously generous in their rewards and stringent in their requirements. They required residents to make the same rent contribution regardless of what happened to their incomes. Agency officials argued that residents would be more likely to seek work and less likely to quit their jobs or reduce their hours if they knew they had to make pre-determined rent payments. Alternatively, one agency’s stepped-rent system reduced the required rent contribution for households whose income dropped. This was done even though it held rent contributions fixed when household income rose. The agency wanted to implement a subsidy mechanism that rewarded work without penalizing those suffering setbacks.

All of these agencies required a minimum rent contribution from households, regardless of how low their incomes fell. Minimum rents ranged in different places

from a low of \$25 to a high of \$200. The rationale for minimum rents was that residents would be motivated to get or keep a job if they know they had to make rent payments regardless, and that able-bodied persons should work to pay for housing costs. In addition, some agency officials contended that virtually all residents have sufficient incomes (often unreported) to meet minimum rents, and that the discipline of doing so is valuable.

Finally, in addition to rent incentives, several agencies required residents to work or engage in some kind of learning/training activity, such as: requiring all adult residents to work or attend school or training for at least 20 hours per week or to meet a minimum income level to be admitted; prohibiting residents from going without employment for more than 90 days; or requiring all TANF-eligible Section 8 recipients to enter and adhere to a local welfare-to-work program.

(c) Supplemental services and supports. Officials of all agencies experimenting with changes in rent rules and subsidy formulas report that they accompanied these changes with enhanced supportive services. They contended that many families needed both financial incentives and a helping hand in order to move toward self-sufficiency. For example one agency or another:

- Provided on-site employment counseling and skill building, classes in household budgeting and parenting, and child-care and transportation services for residents who needed them.
- Made participation in their supportive service programs mandatory for MTW participants because although officials expected their financial incentives to motivate residents, they also believed many households needed guidance to enter the work force and make meaningful progress toward self-sufficiency.
- Required all MTW households to enroll and participate in a Family Self-Sufficiency program.

- Required all families to work with case managers to set personal goals, create and follow a financial plan, and participate in quarterly goal meetings and skill development activities.
- Required residents to participate in classes on life-skills, money management and asset development, home maintenance, and homeownership.
- Provided intensive support to participants through a case manager, who helped them decide what services they need, how to allocate their support budget, and whether to draw down on an accumulating escrow account. The unusual aspect of this agency's initiative was that its flat subsidy payment was explicitly designed to help households pay not only for housing, but also for other supports they may have needed in order to leave welfare and progress toward self-sufficiency.

Officials of other agencies did not believe enhanced supportive services to be essential to the success of their subsidy formula changes. Some considered existing supportive services programs to be sufficient and expected that residents would be motivated by the new financial incentives and requirements to take advantage of those services they needed. In addition, however, some argued that supportive services were not particularly effective in promoting work and self-sufficiency—that if families were properly motivated by financial and other incentives, many would be able to make progress on their own. Moreover, some did not see supportive services as a housing agency responsibility but as a responsibility of other agencies and organizations that had the expertise and obligation to deliver them, while housing agencies were responsible for delivering decent and affordable housing.

(d) Temporary or long-term assistance—time limits. Seven agencies implementing changes in rent rules and subsidy formulas incorporated some form of time limit on the number of years households could remain in public or assisted housing. In addition, one limited the number of years households could

remain in scattered-site and transitional housing, and another limited the number of years households could participate in MTW. Both, however, allowed households to maintain their assistance after reaching the time limit. Of the agencies establishing some type of time limit, only one is actually implementing a strict limit on the number of years families can receive assistance.

The issue of time limits is highly controversial and, not surprisingly, the thinking behind the design and implementation of such policies varied dramatically across agencies. For example:

- One agency limited the time public housing households could pay ceiling rents to five consecutive years or 10 years overall. Some others took the opposite view, wanting to retain households both because they believed stable working families provided good role models and also because they believed private-market housing remained out of reach for many low-wage workers.
- One agency initially was inclined to institute a three-year, ceiling-rent time limit, but decided not to in order to maintain income to support the public housing program and avoid disruption of families by forcing them to move to new neighborhoods and schools. They did not opt for an overall time limit on housing assistance because they believed households with one or two adults working full-time might still not be able to afford private market rents.
- Two agencies implemented time limits for particular developments or types of housing. In one case, residents with a demonstrated commitment to work received priority in scattered-site housing, believed to be preferable because it was located in better neighborhoods and more closely resembled private-market units. Such assistance was limited to three years to encourage movement to homeownership or private market rentals. In the other case, in order to allow formerly homeless residents to take advantage of on-site employment-related services, an agency limited

residence in a transitional development to two years, believing that to be an adequate amount of time to secure employment and move to housing without services.

- One agency limited its MTW homeownership Section 8 assistance to five years, although officials were attempting to modify the program in response to subsequent Voucher Homeownership regulations that allowed for provision of homeownership assistance for up to ten years under slightly different rules.

These policies all included absolute time limits although, in two cases, the limits applied only to those with Section 8 vouchers, not residents of public housing. Agency officials imposed time limits for various reasons, including belief that:

- If households knew they were going to have to pay market rents at some point, they would be motivated to get the education and skills they needed to earn more, get and keep a steady job, or accumulate savings.
- With limited housing resources available, it was unfair for some households to receive them indefinitely while others went without.
- Adding time limits to housing assistance supported the goals and program structure of welfare reform.

As of late-2003, no agency had actually terminated housing assistance for any of its residents, and some were still considering their rules and adding safety nets. One agency's five-year time limit had a provision for a one-year extension. Two others were developing systems of exemptions to allow households unable to achieve self-sufficiency through no fault of their own to continue to receive assistance. Officials indicated that while the threat of a time limit may effectively motivate some households, individual circumstances often argued for exceptions and extensions. And, officials of another agency discovered that enforcing time limits through evictions could

significantly disrupt agency operations and potentially increase vacancy rates.

An agency implementing a strict limit on the number of years households could receive assistance was about to experience its first family reaching that point at the end of 2003. Although officials there recognized that some households would face hardships and that a surge in turnover might create a surge in agency workload and costs, they were committed to the principle of time limits, and fully expected to enforce them.

(e) Implementation challenges and experiences. Many agencies moved quickly to implement changes in subsidy formulas and rent rules while others took more time—consulting extensively with residents and other community stakeholders or rethinking their original proposals. All involved their own staff and at least a few residents in the process of finalizing new subsidy formulas and rent rules, and some also consulted with welfare agencies or other local partners, such as homeless providers. One agency even attempted to survey the larger community about locally appropriate subsidy formulas and rent rules, but received little response. And several modified or adjusted their original approaches based on initial implementation problems—increasing the subsidy level, broadening the hardship policy, simplifying provisions that were administratively complex, or abandoning time limits seen as too short. There were a number of major implementation experiences in transitioning to new rent or occupancy rules, as discussed below.

Deciding who was to be covered.

All agencies exempted elderly and disabled persons from subsidy formula and rent rule changes that focused on encouraging work and progress toward self-sufficiency. However, some implementing stepped rents made this an option available to residents who wished to choose it. And, officials of a few agencies retaining percent-of-income formulas were interested in enrolling elderly and disabled persons, with exceptions for medical expenses. Most made changes mandatory for residents who were not elderly or disabled, but some were required by HUD to give all pre-MTW residents and

Section 8 recipients the choice of joining MTW or continuing under the old rules and formulas.

Administering multiple programs with different rules. Several agencies received special allocations of Section 8 vouchers under HUD's Welfare-to-Work demonstration, and were prohibited from applying their MTW subsidy formulas to these special-purpose vouchers. Also, agencies reported that HUD required them to make the HUD flat-rent option established under QHWRRA available to all residents, and to allow them to switch between flat rent and percent-of-income systems. As a consequence, they found themselves administering several different sets of subsidy formulas and rent rules rather than a single, simplified set. This contributed to increased administrative complexity, higher staff training costs and, in some cases, confusion among residents. Agencies expecting to achieve significant administrative streamlining and savings, therefore, were frustrated by the need to maintain multiple systems, believing this undermined some of the benefits they were hoping to realize from MTW.

Explaining new systems to agency staff. Agency officials generally reported that staff understood and accepted the changes they had made. For those implementing flat or stepped-rent approaches, officials expected and reported that these systems were easier to implement and much more understandable for residents. Many recognized it had been easier to say, "HUD requires it," rather than, "we require it," and some found this difficult at the outset. But, in general, the need to explain and justify the reasons behind program rules and requirements gave staff a strong sense of accountability for the results they generated. As reported by several managers, staff had a "renewed sense of purpose" because they controlled program design instead of just following federal regulations.

Explaining new systems to residents. Some agencies implemented changes that made rent rules and subsidy formulas more complex and difficult for residents to understand. Although residents contacted for this report claimed to have

understood the basics of the new rules and formulas, some clearly did not and a few believed they had been “tricked” into participating rather than remaining under traditional program rules.

Working with the local community.

No agency appeared to have experienced significant community opposition to its subsidy formula or rent rule changes, although some were clearly challenged. A few worked with potential opponents to design changes that would be acceptable, such as in one case where an agency invested in quite extensive analysis and consultation with a range of stakeholders to develop its system of stepped rents to reward households whose incomes rose without penalizing those who experienced reductions. One agency initially faced opposition from local advocates for its proposal to serve more households with incomes between 40 and 80 percent of area median, but officials were able to convince them that such households were also facing severe housing hardships in their community. Officials of several agencies reported that reforms rewarding work and penalizing residents who did not work were strongly supported by their local communities. Finally, others indicated their communities were generally uninformed and indifferent about public and assisted housing matters.

Considering the financial feasibility of proposed changes. Changes in rent rules and subsidy formulas may result in reductions in resident contributions toward rent that are not offset under the statutory provisions of MTW by increases in federal subsidy payments. For agencies implementing rent rule and subsidy formula changes, HUD established a system for calculating public housing operating subsidy and Section 8 voucher funding levels that essentially “held HUD harmless” for changes in tenant contributions. Therefore, agencies realizing increases in tenant contributions (due to minimum rents, for example) saw their total revenues rise, while those realizing decreases (due to income exclusions or ceiling rents, for example) experienced a decline in total operating revenues. In fact, rent rule changes produced financial outcomes that ranged from minor losses to moderate gains. In

general, agencies instituting flat rents or substantial minimum rents benefited financially from these changes and used the savings to fund additional vouchers or social services. Agencies instituting rent rule changes that rewarded employment but did not punish unemployment tended to incur greater financial costs as a result. One of them reported losing \$15,000 to \$20,000 in rent revenues in the first years due to MTW calculations and deductions, but gradually offset this through ceiling rents. Another reported a financial net gain during the first year of MTW but losses in the second and third years. They attributed the financial losses to decreases in participant incomes over the period, primarily reflecting a downturn in the local economy.

Considering the staffing implications of proposed changes. Most agencies eliminating interim subsidy calculations reported saving a substantial amount of staff time. Gathering income documentation, recalculating subsidy levels, and sometimes collecting retroactive rent increases were all seen as tremendously burdensome and time-consuming. None of the agencies had evidence that staffing levels were actually reduced, but several managers reported they would have had to increase staffing to handle expanded workloads were it not for the savings achieved through simplification of rent rules and/or subsidy formulas. Because many agencies ended up with multiple rent and subsidy formula systems (applicable to different categories of residents), however, they have not been able to realize the full savings in staff time and costs they had anticipated. Finally, not all of the agencies sought greater simplification or timesavings through rent reforms. In one instance, for example, rent adjustments phased-in when residents experienced increases in income significantly increased administrative complexity and required additional implementation time.

Considering the impacts of policies on the accuracy of tenant reporting. Officials of agencies eliminating the link between household income and rent contributions contended their new systems reduced fraud by eliminating residents’ incentives to under-report income. They indicated many participants had not been reporting

increases in incomes anyway, so eliminating that requirement automatically reduced fraud. However, none of the agencies had hard data on the extent to which residents were under-reporting employment and income prior to MTW.

Considering the impact of policies on staff morale. Officials of most agencies implementing changes in rent rules and/or subsidy formulas reported improved staff morale. Reasons included a greater sense of mission and purpose, reduced fraud, improved staff-client relations, and less burdensome paperwork. However, officials of one agency found that policing its new work requirement hurt employee morale, and several agencies reported that the unanticipated need to operate multiple programs hurt morale because staff found it difficult to keep track of programs and rules. Officials of a small number of agencies reported they were able to serve more families under the voucher program because their average subsidy payment had been reduced. And, officials of most agencies believed the changes they had made to encourage work increased the appeal of the voucher program to landlords.

Dealing with negative consequences of rule changes. Several agencies encountered difficulties with voucher portability related to their new subsidy formulas, work requirements, or time limits. For example, two of them decided to prohibit portability because they expected families receiving vouchers to 'port out' of the jurisdiction in order to avoid new rent requirements. In another case, having established time limits on its Section 8 vouchers, one agency wanted to treat all voucher recipients within the community equally—even if their vouchers had been issued by another agency. They therefore absorbed all of the portable vouchers coming in to the community, permitting the agency's MTW rules to apply. Because of the relative market attractiveness of the community, the result was the absorption of a much larger-than-anticipated number of new voucher households, at a substantial cost to the agency—which was operating under a merged-assistance arrangement. To compensate, the agency ultimately had to reduce the utilization level of its voucher

program, at least for some period, until the situation could be rectified.

(f) Evidence of benefits for participating families. Officials of all agencies expected their new subsidy formulas to yield benefits for participating families—such as increased employment, income, fairness, savings, and sense of self-respect. The available evidence to assess the extent to which such benefits were being achieved is as follows.

Increased employment and income. Almost all agencies experimenting with rent rule and subsidy formula changes reported increased employment among MTW participants, and several had evidence to support this. Some agencies indicated that job duration had increased and that the annual recertification process resulted in less job quitting intended to reduce the amount of rent. Others reported that people were working more hours—measured by the percentage of participants in full-time versus part-time employment. Several also reported higher average incomes among MTW participants.

There appears to be no clear relationship, however, between the type of policy change these agencies made and the extent of increased employment or income. Neither the stringency of requirements nor the generosity of rewards appears to have affected reported employment increases. Whereas one agency used a combination of time limits and flat rents to penalize unemployment and encourage employment, another offered deductions, phased-in rent increases, and transfers to a desirable development to reward good behavior. Yet another instituted a stepped-rent system, but allowed residents to revert to percent-of-income rent contributions if the applicable stepped rents exceeded 30 percent of income. Despite these dramatic differences, all such agencies reported increased incomes among MTW participants.

The only change that agencies reporting increased employment have in common is that they all eliminated subsidy adjustments between annual recertifications, which may have reduced the incentive for quitting a job between recertifications in

order to get a rent reduction. However, it is difficult to conclude that delaying subsidy recalculations accounts for higher employment rates because the subsidy adjustment process works so differently in different agencies. For example, residents in one community were, with a few exceptions, not allowed a downward adjustment in rent due to income loss between recertifications but, in another, residents were allowed such a reduction. Furthermore, the former emphasized minimum rents and work requirements to discourage unemployment while the latter offered incentives (such as income deductions) to encourage work. Despite these fundamental differences, staff and management at both agencies believed their policies increased employment, and both reported increased employment among residents.

It is also not possible to separate the potential impacts of MTW rent incentives, subsidy formulas, time limit incentives, supportive services, or other MTW incentives from other factors that may have contributed to increased employment or income. At the same time that MTW was initiated, strong economic conditions as well as TANF work requirements and time limits were also creating strong incentives for low-income households to get and keep jobs. Moreover, increases in reported incomes may reflect a greater willingness among residents to report their incomes in situations where there was no consequence on the amount of rent to be paid—as opposed to an indication of actual income gains.

Perceptions of fairness. Officials of agencies with flat- or stepped-rent systems reported that residents generally believed their new system improved on fairness by requiring households living in the same kind of unit to pay the same rent, and also by preventing people from receiving a rent reduction for working less. Officials of an agency instituting a work requirement also reported that residents considered the system to be fairer because they believed able-bodied people should work. However, some residents in one agency expressed reservations about time limits—especially for people with extenuating circumstances,

such as disabled family members or where residents cannot be expected to work.

Residents in agencies instituting social service participation requirements were reportedly more likely to see such changes as unfair. Although participants contacted for this report in one community agreed they should have to work and pay rent, a few complained to the agency that requirements such as mandatory participation in workshops were unfair and unreasonable. Residents in another agency objected to having to fulfill a work requirement as long as they were paying their rent.

Staff in several agencies with mandatory case management also noted that some residents found their programs intrusive, based on the requirement that participants meet regularly with a case manager to assess progress toward individual educational, financial, or personal goals. This is because case managers sometimes ask people to talk about personal issues such as alcoholism or drug use in the context of overcoming barriers to employment. Some residents felt uncomfortable receiving this type of counseling from the agency responsible for administering their housing assistance.

Increased savings. A few agencies documented increased savings, at least for some of their participants. Two of them designed programs so that tenants automatically saved money as a reward for increased income and/or employment. One set aside 30 percent of any rent over \$350 for public housing households with income from employment in a Tenant Trust Account, which could be used to pay for job-related educational expenses, rent, medical expenses in an emergency, a down payment on a home, the first and last month's rent on the private market, or to start a business. Another agency diverted to escrow any rent increases for the previously unemployed, after an 18-month grace period, and annual increases for those paying the minimum rent—to be used for such expenses as education, transportation, or homeownership.

Most agency officials believed their programs would allow residents to save

more of their incomes than under a percent-of-income system by limiting increases in rent due to increased income, although they chose several different methods for limiting rent increases (such as employment deductions, flat rents, and maximum rents). Most agencies continued their Family Self Sufficiency (FSS)⁹ programs during MTW, although one eliminated it on the grounds that residents should be responsible for their own savings.

Increased resident self-respect.

Most agency officials believed their program changes provided residents and recipients more understandable and less intrusive assistance and, as such, gave them a greater sense of achievement and self-respect. Agencies using penalties, either through flat or stepped-rent systems or through work requirements, were especially likely to have emphasized personal benefits for residents. However, they used different rationales to explain this idea. Those using flat or stepped-rent systems believed residents' sense of self-respect improved, in part because they no longer had to report income changes—a process that many found intrusive. An agency with a work requirement, on the other hand, believed people had gained a sense of achievement from working more and moving toward self-sufficiency. Another agency with a significantly increased social service participation requirement reported that its program contributed to residents' sense of achievement by helping them set and achieve personal goals.

(g) Evidence of hardship for participating families. Critics of the subsidy formulas tested under MTW raise concerns about potential hardships for vulnerable families. Most agencies created protections against severe hardship but, even for those that did not, there is little evidence of extensive hardship. However, most of the agencies considered here raised

rents for the lowest income residents, so that more households paid in excess of 30 percent of their income for housing. Evidence available to assess the extent of adverse effects of subsidy formula changes on participating families is as follows.

High rent-to-income ratios. The traditional percent-of-income system was designed to ensure that assisted households paid no more than 30 percent of income for housing. Officials of three agencies reported that average rent-to-income ratios were lower under MTW than previously. There seems to be no connection, however, between the types of policy changes they made and rent-to-income ratios. Alternatively, two agencies instituted rents that were not dependent on income because officials believed the flat rents were lower, on average, than what residents paid under the previous system. In one case, rent-to-income ratios were kept lower, given that the agency had to give current residents a choice as to rent systems. Staff reported that residents who did not choose the MTW option would have paid a higher rent—specifically, higher than 30 percent of their income, under MTW. Filtering out residents with lower incomes reduced the average rent burden of the MTW population.

Officials of another agency maintained the percent-of-income system, but added minimum and maximum rents and deductions for employment. Staff believed the deductions, in particular, helped to keep rent-to-income ratios low. Despite lower *average* cost burdens under MTW, the lowest-income households had higher cost burdens higher income households had lower burdens. In a percentage-of-income rent system, the lowest-income households could be paying very little or no rent. In a flat rent/stepped rent system, depending on where the rent is set, the lowest-income households pay more than they would under a percentage-of-income system. The opposite is true for higher-income households. In order for average rent-to-income ratios to be lower under MTW, the decreases in rent paid by higher-income households must exceed the increases in rent paid by lower-income households.

Systems involving minimum and maximum rents have the same effect. A

⁹ Established in 1990, Section 554 of the National Affordable Housing Act encourages housing agencies to develop local strategies to help families obtain employment that will lead to economic independence and self-sufficiency. Services provided, referred, or coordinated under FSS can include childcare, transportation, education, job training and counseling, substance abuse treatment and counseling, household skill training, and homeownership counseling.

minimum rent forces the lowest-income households to pay more than 30 percent of their income for rent, while a maximum rent allows higher-income households to pay less than 30 percent of their incomes for rent.

Evictions and loss of assistance.

Evidence with respect to this topic is very weak. According to many agency staff, overall eviction rates may or may not reflect MTW changes, depending on the nature of the eviction. Only increased evictions for non-payment of rent or program violations, such as non-compliance with work or social service requirements, would indicate that a change resulting from MTW negatively affected participants. Furthermore, staff in many agencies argued that eviction for non-payment did not necessarily reflect inability to pay. For example, in one agency staff reported occasionally evicting multiple residents prior to MTW for failure to pay a rent of \$5. In such cases, they believed residents had the \$5 but either did not take such a low rent seriously (i.e., did not think the agency would evict for \$5) or believed residents were simply procrastinating.

Line staff in many agencies alleged that some residents purchased non-essential items, such as alcohol, instead of paying their rent—demonstrating that non-payment reflected choice and not inability to pay. Therefore, it is possible that an agency's eviction rate would go up over time for reasons unrelated to MTW, such as more frequent property destruction or lease violations, and even evictions for non-payment of rent may not reflect an inability to pay.

In general, agency officials reported no increase in evictions although, in one instance, an agency adjusted its hardship policy to avoid evictions. As initially designed, the hardship policy took 30 days to take effect, which meant that even when granted residents still had to pay the rent for the month prior to the hardship. Staff members reported that, “people were getting into trouble” in the event of a rapid income loss, and that they were not saving adequately for emergencies. To prevent evictions for non-payment, the agency altered its rent policy to allow for more rapid rent reductions. Additionally, staff in a few

agencies with minimum rents higher than \$50 believed that some people were having trouble meeting this minimum.

Dealing with hardship cases. Most, but not all, agencies had provisions for waiving minimum rents, time limits, or other requirements in cases of severe hardship. They approached their hardship policies differently, however, depending on their overall approach to MTW. For example, the hardship policy in one agency was designed to reinforce personal responsibility and a strong work ethic by requiring work for the agency or a repayment plan. Another that sought to penalize unemployment granted only one hardship waiver over the course of the demonstration. Although this may indicate that the agency's rents were set at an attainable level, it may also indicate that staff members were effective in convincing residents that the agency would not accommodate people who failed to work—withstanding its hardship policy.

Agencies that favored rewards rather than penalties tended to have somewhat more lenient hardship policies. One of them, for example, allowed residents to receive a rent reduction, although never below the minimum, in cases where income loss was not the resident's fault. Officials there reported a significant number of hardships, about 15 percent of the MTW population, in one year. Another did not institute a hardship policy because it allowed for downward rental adjustments in the event of income loss, and did not require a minimum rent.

The actual number of hardship waivers was generally quite small: regardless of local philosophy, agencies did not have to grant large numbers of exemptions to allow residents to comply with their MTW rules. This is somewhat surprising, especially in agencies with flat or stepped rent systems that may have forced very low-income households to pay significantly more rent than they had under percent-of-income rules. One possible explanation is that residents were deterred from applying for hardships given the values communicated by such agencies. That is, residents agencies that took a more hard-line approach to unemployment may have been less likely to apply for a waiver simply

because they thought there was little chance of being granted one. In such a case however, increased hardship would likely be reflected in a higher number of evictions for non-payment of rent. As mentioned, this did not appear to be the case. Another, more optimistic explanation is that agency policies, welfare policies, and/or improvements in the economic opportunities for low-income people were effective in motivating MTW participants to work, precluding the need for hardship waivers.

Adjusting program operations and management. As distinct from administrative changes made in conjunction with, or as a result of, policy changes (like altering income recertification procedures to implement a flat rent policy), many agencies used MTW to alter certain HUD-proscribed procedural and reporting requirements for their own sake. Officials of those agencies believed some HUD requirements to be redundant, unresponsive to local housing markets, and inconsistent with local needs. They also contended that particular HUD-required procedures were unnecessarily complex and required time-consuming and tedious verifications. They thought that by altering procedures they could make better use of scarce staff time and resources, making their operations more efficient and yielding cost savings. Agencies experimented with altering the following types of procedures.

(a) Less frequent income recertification for elderly and disabled persons. Several agencies proposed or implemented changes to the normal recertification process requiring annual submission and agency verification of the incomes of elderly or disabled persons. Premised on the notion that such incomes are fairly stable over time, agency officials considered this to be unnecessary, with staff costs sometimes exceeding the amount of increased rental income to the agency.

- One agency implemented a once-every-three-year recertification procedure, although some staff expressed concern that elderly residents might not be able to maintain accurate paperwork on a multi-year basis.

- Two agencies proposed every-other-year recertification. One of them never implemented the change, while the other initially did but later reverted to annual recertification. Officials there recognized that having a formal process requiring contact with elderly residents was good for the residents, and was appreciated. They also reasoned that the medical expenses of elderly persons fluctuated enough to warrant a process that could help those experiencing significant costs in a given year. Property managers in one of the agencies responsible for doing recertification also considered this to be a good practice, since these were the only times some of them had personal contact with their residents.
- One agency originally proposed having multi-year recertification but its MTW agreement with HUD required annual recertification, with income verification, every other year. Officials concluded that this would not achieve sufficient cost savings and, consequently, never implemented the change.

(b) Merged waiting lists for public housing and Section 8. Two agencies merged their waiting lists for public housing and Section 8 because officials believed separate lists to be confusing for recipients and required different staff to be doing the same job for different programs. Staff at one agency concluded that the merged lists decreased the time required to fill public housing units, thus reducing the revenue loss incurred by vacancies. The savings associated with having the same application specialist cover both programs allowed them to dedicate one staff member completely to applications as well as hire another inspector.

However, merging waiting lists also produced some negative consequences.

- It reduced choice for residents, given that unit assignments were based on availability and not preference. For one agency, merging lists required standardization of screening criteria for public housing and Section 8. This involved weakening standards for public

housing and strengthening them for Section 8. The weaker standards for public housing resulted in more lease problems and damage, costing the agency more in maintenance and lease enforcement.

- Officials of one agency found that more residents refused offers under this system, and that the sum of the savings gained by simplification was offset by the cost of having to make more offers.

Neither agency had hard data to support their assessments of the relative costs and benefits of merged wait lists.

(c) Use of state/local, rather than federal, procurement and investment rules. Several agencies proposed or implemented changes to certain federal policies relating to procurements and investments.

- Due to increased costs in small capital improvement projects, one agency requested a waiver of the federal \$100,000 limit for agency informal procurements. Officials estimated that this change would allow them to save \$50,000 per year in advertising and administrative costs. HUD, however, denied the waiver on the basis that the limit is set by statute and not the 1937 Housing Act.
- Another agency sought to replace the federal limitation on total development costs (TDCs) with locally created limits that would be approved by HUD, in order to better reflect local market costs. They found, however, that federal cost limits did not inhibit mixed-finance development projects and, therefore, did not implement this change. They decided, instead, that if federal TDCs become an issue, they might pursue this in the future.
- To increase the amount of interest generated from investment, one agency adopted state investment policies in lieu of federal ones. However, they observed that this change failed to generate any significant additional interest income.

(d) Other streamlining and paperwork reduction procedures. One agency discontinued charging residents for excess utility consumption because the costs associated with this process exceeded the amount recovered for usage. The associated costs included reading and recording meter amounts, billing, collections, and enforcement of payment. Officials estimated a modest savings of approximately \$2,000 by eliminating this charge.

(e) Use of local inspection standards or protocols. Four agencies proposed to simplify their inspection policies to reduce the amount of staff time dedicated to inspections. Simplification took several forms, including: allowing landlords to self-certify Housing Quality Standards (HQS), particularly those with a record of high performance; accepting local certifications in lieu of HQS inspections; and extending the inspection period from one to two or three years, especially for landlords with a small number of Section 8 units. Only two of the four agencies, however, actually implemented changes to their inspection procedures.

- One agency changed its inspection procedures to allow owners of multifamily units to submit verification that they had passed a city housing code inspection in lieu of HQS. Officials believed that it was a waste of staff and landlord time to conduct essentially the same inspection twice. Because city inspections took place every year, the agency waived annual inspections and, instead, inspected multifamily units using HQS every other year. They estimated that the change allowed them to do 98 fewer inspections per year, amounting to a moderate reduction in staff time.
- Another agency also originally proposed to limit inspections to every other year, but staff found that property owners preferred more frequent inspections because it allowed them to incur the costs of fixing units more gradually.
- Another agency allowed landlords to self-certify HQS compliance, but

landlord reactions were mixed. Some found self-certification to be more convenient because they could do the inspection on their own time and at their own pace, while others preferred having the agency conduct the inspections because it saved the landlord time and effort. Close to 50 percent of landlords had self-certified their units as of October 2003.

- One agency initially proposed to limit inspections of properties with up to five percent of their tenants as Section 8 recipients to three-year intervals. Due to limited interest on the part of landlords, however, the agency dropped the proposed change. It additionally attempted to simplify its inspection process by consolidating the annual and single-room occupancy (SRO) building inspections in Section 8. Officials found that because this change reduced the number of landlords who did not bother to show up for recertification inspections, and increased first inspection passes, they were able to save the equivalent of \$90,000 in staff positions.
- After inspecting all public housing units in FY2002, one agency divided its units into those requiring a limited inspection (e.g., fire alarms, sprinklers, and fire extinguishers) and those requiring a comprehensive inspection. Units were assigned to the comprehensive inspection category if they had turned over or had a low HUD Real Estate Assessment Center (REAC) physical inspection score, or if such an inspection had been requested by the property manager.

(f) Flexibility to adopt local lease requirements (apart from self-sufficiency/time limits). One agency streamlined its procedures for Section 8 transfers by shifting from a one-year lease requirement to using state tenant-landlord law to determine rental contract length. Under the new requirements, tenants provide the agency with 30-days notice of contract termination, giving staff members ample opportunity to discontinue payments in a timely fashion. Officials

estimated a \$20,000 savings resulting from reductions in overpayments to landlords.

(g) Altered annual reporting requirements. All merged assistance agencies replaced HUD-required five-year plans and annual plans with Annual MTW Plans and Reports. At inception, officials of one of them expected this change to save staff time, but their experience was that any savings associated with the new process was offset by the time required to “educate and re-educate HUD staff on the Moving to Work agreement” and the time spent by agency planning and accounting staff “ensuring that they were funded properly by HUD under the terms of their MTW agreement.” Apart from cost savings, however, personnel at most merged assistance agencies generally believed that even though MTW Plans and Reports took a good deal of time to complete, the process of gathering information and preparing the reports provided officials and staff with a good opportunity to do strategic planning, which benefited their agencies.

(h) Exemption from PHMAP, PHAS, and SEMAP reporting.¹⁰ Six agencies proposed to discontinue reporting on HUD’s PHMAP or SEMAP indicators, either because they were inconsistent with the activities proposed to be undertaken under MTW or in order to reduce costs. One of them ultimately did not include this stipulation in its MTW agreement, but the others did and, thereafter, discontinued reporting. In addition, one agency received a limited waiver with respect to MTW annual reporting requirements and PHAS. Their primary motivation in applying for the waiver was to free up staff time needed to administer their MTW initiative.

Of the agencies that discontinued PHMAP or SEMAP reporting, only one formally analyzed the cost impacts of this change, concluding that submitting Annual MTW Plans and Reports to HUD in lieu of PHAS (the successor to PHMAP) and SEMAP resulted in no cost savings. However, officials believed the change to be

¹⁰ PHMAP is the Public Housing Management Assessment Program; PHAS is the Public Housing Assessment System; and SEMAP is the Section 8 Management Assessment Program.

quite helpful because operational, accounting, and information technology staff time did not need to be spent “working and re-working the ‘numbers’ for the purpose of HUD regulatory reporting.” Staff time spent on preparing Annual MTW Plans and Reports absorbed a portion of the time savings associated with not reporting through PHAS and SEMAP, with the remainder of the time savings redirected toward supporting self-sufficiency opportunities and housing choice goals.

(i) Implementation challenges and lessons. Overall, far fewer agencies implemented changes to their administrative procedures than had originally proposed to do so. In a few cases the changes were not approved by HUD, thereby precluding implementation. In other instances, agencies received waivers but discovered, upon evaluating the proposed changes, that they would either be unproductive or unnecessary. For the most part, while agencies have not made administrative changes the central focus of their MTW initiatives, they contended, nonetheless, that such changes were crucial to improving cost effectiveness in federal expenditures.

Benefits. Most agency officials reported that their administrative changes produced small-scale improvements in efficiency and cost savings. Some of them believed such alterations saved staff time, enabling them to divert resources to fulfill other MTW goals. They saved staff time in several ways, including reducing the frequency of recertification for the elderly, merging their Section 8 and public housing waiting lists, discontinuing charges for excess utility consumption, simplifying their inspection policies, and submitting Annual MTW Plans and Reports to HUD in place of PHAS and SEMAP. In many cases, changes did not result in real time (or cost) savings, but did result in more rational or meaningful use of staff time—as judged by agency officials. Agencies that attempted to reduce paperwork for their staff members, residents, or landlords believed the reduction to have improved staff morale and resident/landlord satisfaction with the agency. Officials of one agency estimated a saving of \$20,000 in overpayments to

landlords by adopting local lease requirements. Finally, agencies that changed their reporting procedures and formats discovered that the information compiled during their new reporting process proved useful for strategic planning purposes. In all but a few instances, however, agencies could not provide data to support their claims of savings or efficiencies.

Costs. Some administrative changes introduced new problems or consequences for residents and staff. Officials of an agency that reduced the frequency of recertification for elderly persons, for example, noted that some of them missed the personal contact and attention received during more frequent meetings with agency staff. Staff members of one agency also observed that less frequent recertification was, in fact, more time-consuming under the new system because some elderly people had difficulty keeping track of several years of paperwork.

Officials of an agency that merged Section 8 and public housing waiting lists noted that this change, in effect, reduced choice for residents regarding type and location of housing. An official of another agency further noted that more residents refused their offer when given a more narrow choice, causing the agency to reallocate staff time to making housing offers. An agency that allowed landlords to self-certify compliance with HQS reported that some landlords actually found the process to be more time consuming because it required them, not agency staff, to carry out the certification. Finally, staff at some agencies that implemented non-standard reporting procedures stated that any time saved by that change was spent explaining the new procedure to HUD staff in order to ensure that they would be considered to be in compliance. Again, most agencies did not provide data to support claims of increased costs.

MTW’s Diverse Experiences

Bounded by the terms of the demonstration and HUD’s implementation rules, agencies defined their own MTW agendas. The package of activities

undertaken by each, therefore, was somewhat unique. Moreover, the goals each intended to further differed one from another. Even those engaging in similar activities may have done so for different purposes and, conversely, agencies with similar goals sometimes made different program changes to achieve them. For example, two agencies adopted new rent rules, with one hoping to increase turnover while the other hoping to decrease it. And, two agencies implemented time limits to serve more people, while another deliberately did not do so based on the belief that households currently being served with two adults working fulltime could still not afford to pay private-market rents. Thus, MTW permitted agencies to develop packages of changes that reflected, among other things, local housing markets, political cultures, agency perspectives, and changing circumstances.

(a) Housing markets. Some initiatives were shaped in large part by local market conditions that varied from place to place. For example:

- A very tight housing market and dwindling stock of affordable rental housing in one community lead agency officials to increase the proportion of project-based, relative to tenant-based, housing assistance to secure more affordable units.
- A shortage of three-plus bedroom units and a waiting list containing families needing such units motivated one agency to acquire buildings containing larger units and project-base some of their tenant-based assistance in those properties to ensure their viability.
- A very competitive affordable housing market, reflected in a long waiting list for assistance, prompted agency officials to put time limits on assistance to make it available to a larger number of people.
- Agency officials in a relatively soft housing market focused their efforts on rent policy changes that would make the program more understandable and equitable, rather than addressing a stock shortage.

- And, agency officials targeted rent incentives to only two of its developments, in neighborhoods with particularly depressed conditions, to attempt to attract working families and improve the quality of those areas.

(b) Political cultures. MTW initiatives also responded to locally accepted normative judgments regarding the provision of housing assistance, and these varied from place to place. The goals agencies hoped to further through policy or procedural changes reflected these different values, which then served to direct or constrain what was attempted under MTW.

Officials of one agency, for example, believed the community was receptive to rent changes meant to promote employment and accountability. Likewise, new rental policies by another agency were greeted with little opposition, according to officials, because they reflected the local consensus that all able-bodied people should work. In contrast, officials of one agency did not even contemplate the idea time limits on housing assistance because they knew community advocates would reject, out of hand, terminating assistance to those who received it.

The level of community interest, advocacy, and agency oversight also varied across communities. In once instance, for example, an expectation of strong community interest in being involved in setting housing policy led officials to be deliberately vague in developing their pre-MTW plan, recognizing that more concrete policy changes would only be possible through extensive public consultations to vet new ideas. That would have to occur during the demonstration phase. On the contrary, the potentially controversial issue of time limits that one agency established was met with little fanfare by a local community seemingly uninterested in the affairs of the agency.

(c) Agency perspectives. Cross-agency variation in MTW activities also reflected diverse prior program experiences and perspectives across agencies—including their interests in deregulation, their perspectives on welfare

reform, and their core views regarding federal housing policies and procedures.

Prior to MTW, many agency officials had been intensely frustrated by what they viewed as a mismatch between federal programs and rules, on the one side, and local concerns, housing market conditions, and needs, on the other. They tended to see procedural and reporting requirements as burdensome, unnecessary, or unproductive, and were looking for a way to reallocate their resources to better assist the populations they served. A few of them had been lobbying for deregulation for some time before MTW was initiated and, therefore, had something of a head start over others when it came to planning what they would do with such an opportunity.

Some officials seemed particularly motivated by their expectation that federal funding for public housing would not be sustained over the long-term and, therefore, wanted more flexibility to prepare for this eventuality. Others were particularly sensitive to the changes that welfare reform was having, wanting to focus their programs more explicitly on work and self-sufficiency goals. And yet others were inclined to emphasize housing provision and leave social service supports and case management to others outside of the housing system.

Finally, some agency officials had been planning or piloting their own programs (such as for homeownership or for development of employment and training centers) prior to MTW, and needed to find some way to waive federal rules in order to further develop, extend, or expand such programs. They tended to be motivated by these interests more so than a general interest in deregulation.

In addition to differences in agency perspectives were variations in the way agencies organized staff resources to implement their MTW initiatives. Program change meant familiarizing staff with new policies and procedures and educating residents on new program rules. One agency used its annual re-certification sessions to explain the new program to residents and, in some cases, show them what they could save in rent by switching to

a flat-rent system. Another used the opportunity to create a new briefing for potential participants, including an informational video.

To implement MTW, some agencies reorganized staff plus changed staff responsibilities and duties. Prior to MTW, officials at one agency found that the separation of managerial and social service functions caused conflict when the interests of the two sets of managers diverged. To reduce such conflict, they consolidated managerial and social service functions into one position. As a result, managers began taking the agency's resident self-reliance component more seriously, and used their role as counselors to decrease managerial problems, such as lease violations. Section 8 and public housing staffs were also merged, creating one set of staff for intake and occupancy and another for management. While MTW was not required for staff reorganization, it created a window of opportunity.

The changes agencies made prompted not only staff reorganization in a few places but, also, staff hires in some cases. While brainstorming a package of changes, officials in one agency merged their public housing and Section 8 waiting lists, believing that separation was confusing for recipients and required too many staff doing the same job. The merger and reorganization allowed them to hire another inspector, a re-certification specialist, and to dedicate one staff person completely to applications.

Staffing changes at one agency resulting also from a merger of waiting lists demonstrate how thinking creatively, as part of MTW, contributed to broader program changes. Even though the list merger was possible without MTW waivers, it was the MTW planning process that prompted staff to think of a better way to do business. Officials at other agencies had similar experiences. According to one Executive Director, the higher level of independence provided by MTW forced the agency to constantly evaluate its programs and adjust to changing needs. He believed staff members were more involved in program development and more vested in the outcomes as a result. Increased autonomy

also forced them to justify the rationale for their programs whereas, before, they could passively defer to federal regulation.

(d) Changing circumstances.

The initial years of MTW were marked by major contextual changes in some communities. Examples are large-scale demolitions of properties, major property renovations, organizational mergers, significant staffing changes, and other developments that, in some instances, dramatically altered the housing assistance landscape compared to the period prior to MTW.¹¹ This was also a time of significant economic change nationally, which especially affected some communities and regions where MTW was underway. Rapid shifts in employment and real estate markets clearly had an impact on the way the MTW initiative progressed in different communities, as well as did agency experiences in response to their MTW-inspired policies or procedures.

While different agencies crafted their own set of policy or procedural changes to address local needs, fluctuating conditions sometimes made it difficult to achieve desired outcomes. Officials in one agency, for example, designed a homeownership program under the assumption that the market was soft, which it was at the time. They set purchase-price limitations accordingly. An upturn in the market, however, rendered the program ineffective. Participants were unable to find houses for purchase given the price limitations, and this delayed early efforts by the agency.

For others, initial assumptions about market and external conditions proved false. One agency's effort to attract working families to depressed neighborhoods, for example, was stymied because families were unwilling to move to the targeted developments. With the highest rents in the state, officials of another agency wanted to expand voucher resources and bolster local neighborhoods by generating money through renting units to moderate-income

households at affordable market rates. Officials believed their units were of higher quality than what the local market provided for at the same price. Unfortunately, their hopes for the local market did not come to pass, and they were not able to attract moderate-income households to rent units in public housing developments.

Officials of many agencies believed their initiatives were constantly evolving, so they changed their policies over time depending on results, feasibility, and the needs of their participants. These changes were usually incremental, however, and did not involve large overhauls of entire systems. One agency, for example, instituted a work requirement but then considered eliminating it due to the administrative burden caused by enforcement. In lieu of the requirement, they contemplated raising the minimum rent to a level such that residents would only be able to meet the rent if they were meeting a work requirement.

While agency officials sometimes saw a need to improve their experiments, the time-limited nature of the demonstration and the laborious waiver-approval process stymied some local efforts to make incremental enhancements. Agency officials in one community, for instance, sought to move residents toward self-sufficiency by offering a phased-in rent system. That system, however, prevented them from reaching their MTW goal of reducing administrative burden. Phased-in rents required recalculation and notification of rent changes in two-month intervals over five months, rather than the one adjustment required under the standard system. Staff found their regimen to be significantly more time-consuming and burdensome, and hoped to change it if the program continued.

(e) Reporting variations.

Aside from a desire to fine-tune local programs, MTW reporting requirements sometimes encouraged development of local benchmarks. These were handled somewhat differently, however, from place to place.

One agency compiled annual reports on their MTW public housing population, which contained data on

¹¹ MTW occurred concurrently with receipt of HOPE VI in some communities and, as previously indicated, at the same time as implementation of welfare reform and QWHRA.

average monthly rents, zero incomes, average annual incomes, income from wages, and reasons for involuntary departure. They also tracked the number of MTW participants utilizing each of their MTW features, although Section 8 data were not tracked separately for the MTW population. In both the public housing and Section 8 programs, they conducted financial impact assessments of deductions from income. Staff of another agency tracked the number of participants at each step, rent burdens by step, numbers of and reasons for exits, employment status at exit, income at exit, evictions, and service participation.

The annual reports of another agency contained impact analyses on their public housing and Section 8 MTW participants. These tracked participation, hardships, turnover, involuntary terminations, number of participants paying more or less than they would under percent-of-income rent calculations, and average amount of rent differential from percent-of-income rents. The reports also presented a financial impact analysis of MTW that measured the amount of savings or loss to the agency due to the MTW rent structure. Officials believed that their MTW system was better because it allowed the agency to examine outcomes and make adjustments based on them.

Reporting rules under MTW changed most for agencies in the systemic merged assistance category. According to officials of several such agencies, preparation of an MTW Annual Plan and Annual Report in lieu of other reporting to HUD, while still time consuming, promoted more strategic thinking and program creativity than had been their experience in satisfying pre-MTW reporting obligations.¹² Several officials contended that previous reports did not help them internally in terms

of planning. Creating an MTW Annual Plan generally involved some group discussions with staff members, and provided a time when staff examined their agencies' past performance, financial situation, and possible future initiatives. While, in fact, such officials did not need MTW to think strategically, the flexibility of the MTW demonstration seemed to have provided the opportunity and motivation to plan more purposefully.

Achieving MTW's Objectives

MTW's legislative mandate articulated three basic objectives for the demonstration: promoting work and self-sufficiency; expanding housing choices for low-income persons; and achieving administrative efficiencies and cost savings. Individual agencies gave different levels of attention and importance to these objectives, as indicated above. The question, then, is what their collective experience reveals about the potential for achieving such objectives through regulatory reform and/or merged subsidies.

Work and self-sufficiency.

For many, though not all agencies, promoting work and progress toward self-sufficiency was a central goal. Agencies that did not opt for merging their funding assistance but, instead, focused their efforts on changes in rent rules and/or subsidy formulas, were primarily interested in this objective. They experimented with a wide range of alternative rent rules, including some that completely detached the determination of rents from resident incomes. Unfortunately, given the design of MTW and the lack of consistent data on resident characteristics, incomes, and rent payments, there is no way to determine with certainty whether individual programs achieved this goal.

According to agency officials, employment and income levels rose quite substantially during the period of MTW implementation. And staff and managers who were in regular contact with residents were generally convinced that their reforms encouraged residents to seek work, work more hours, and pursue opportunities to increase their incomes. Over the same

¹² Merged assistance agencies are exempt from submitting to HUD a PHA Plan, required of other agencies. Instead, they submit an Annual MTW Plan and Report. The former is a comprehensive outline of an agency's activities and funding allocations. Its submission requires approval by the agency Board as well as certification that a public hearing was held. The latter includes a consolidated financial report that details the sources and uses of funds and compares the agency's performance with its Annual Plan.

period, however, labor markets in most MTW communities were relatively strong and welfare reform was being implemented nationwide, making it impossible to determine whether MTW reforms had an independent effect.

Moreover, there is no clear relationship between local approaches to rent rule changes and the magnitude of reported changes in employment and income levels. Agencies that continued to set rents on the basis of income, making only modest changes in the size or timing of rent adjustments, were just as likely to report substantial employment gains as agencies that completely detached rents from incomes, or that implemented intensive programs of case management and support services. This could mean that changes in rent rules and subsidy formulas really had no effect (i.e., that TANF and the economy explain reported employment gains), or it could mean that agency officials reoriented their programs and began communicating a clear and consistent message to their staff and residents (that employment was expected), which influenced resident expectations and behavior.

Housing choices. Advocates of increased local flexibility believed that, with greater independence, agencies could do a better job developing and offering locally appropriate housing options, and providing residents with more and better choices. The goal of expanding assisted housing choices was particularly important to several agencies that received merged assistance and used it to help finance the acquisition or production of more assisted housing units. They were able to increase housing or location options by: financing one-for-one replacement of public housing units demolished under HOPE VI; building more large units suitable for big families; acquiring scattered-site properties that provided greater location choice for residents; increasing the stock of affordable rental units available for voucher recipients in tight, high-cost markets; or shifting somewhat the targeting of assistance to include slightly higher income levels in a situation where “higher low-income” households also had few affordable housing options in a high-priced market. These examples all reflect the potential of skilled and sophisticated

agencies to use merged funding arrangements creatively, and to respond effectively to local housing needs and market conditions.

Although some agencies used MTW to expand choices for their residents, others made changes that actually constrained household choices about where to live. Several agencies merged their waiting lists for public housing and Section 8 in order to make the application process more efficient for staff and less burdensome and more understandable for applicants. But it also limited a household’s choice regarding form of assistance. In addition, some agencies experimenting with changes in the Section 8 subsidy formula restricted portability to prevent families from claiming a voucher and then moving to another jurisdiction that did not have the same work requirements or incentives. Thus, regulatory flexibility resulted in both greater housing choice as well as more restricted choice, depending upon local agency goals and priorities.

Administrative efficiencies and cost savings. Many agencies anticipated that relief from specific procedural and reporting requirements would save significant staff time and resources, making their operations more efficient and yielding cost savings. Achievement of some administrative efficiency was expected in conjunction with policy changes. For example, agencies that simplified tenant rent and/or subsidy calculations to create stronger work incentives also expected to reduce the staff time required to recertify and verify incomes and calculate rent adjustments. But other cost savings were anticipated to result from narrower administrative changes, such as simplifying the Section 8 inspection process or adopting state (rather than federal) procurement rules.

Agencies did not always implement administrative changes that had been planned or proposed. In some cases this was due to HUD denial of waiver requests, generally on the grounds that they called for rule changes outside of the 1937 Housing Act, or because they ultimately decided the administrative changes they had planned or

proposed were actually not worth implementing.

Most agencies reported modest benefits from administrative streamlining—i.e., they were positive, but not as dramatic as had been anticipated. In many cases, changes in administrative procedures or reporting did not yield substantial time (or cost) savings, but did result in more rational or meaningful use of time. For example, many agency staff and managers noted that the annual reporting requirements under MTW were just as time-consuming as had been previously required monthly reports, but that MTW reporting encouraged and supported meaningful planning and strategic thinking. Similarly, officials of several agencies implementing rent reforms found that staff members were spending just as much time with residents, but that the relationship had changed from one of auditor or investigator to one of mentor or advocate. As a consequence, staff morale in many agencies improved, and both staff and managers believed they were operating more strategically and with a greater sense of control over their work.

Another potentially important administrative benefit from simplification of rent rules and subsidy calculations was that tenants were less likely to under-report their incomes, and staff were less likely to miscalculate tenant rent contributions. By definition, programs that detached rent determinations from resident incomes, and that imposed a flat (or stepped) rent based on unit size, achieved the biggest gains in this regard. Although individual agencies did not have systematic data on the incidence of reporting errors, this has been identified nationally as a weakness of HUD's current rental assistance programs.

Lessons and Implications

Beyond what MTW experimentation produced with respect to employment and self-sufficiency, housing choice, and administrative efficiency, it is important to know how MTW altered agency behavior and relationships with HUD, and what it reveals about whether housing assistance should be primarily under federal or local control.

(a) Did MTW alter agency behavior? A principal contention of deregulation proponents is that it stimulates innovation and results in more efficient and effective outcomes for communities, agencies, and those whom they serve. While all of the evidence on outcomes is not yet in, there is information at present regarding agency behavior in response to the opportunities that MTW provided to develop local policies and procedures.

Agencies approached their participation in MTW in different ways. Whether this variation is due to the specific structure and implementation of MTW or to deregulation more generally is not clear. What does seem clear, however, is the following relationship: to the extent that deregulation was perceived by agency officials as serious, genuine, and lasting, the opportunity for increased local discretion over policies and procedures seemed to have motivated increased agency stocktaking, initiative, and sense of ownership. To the extent it was not so perceived, there appeared to be less behavior change. On this score, most participating agencies fall roughly into one of three categories, along a continuum ranging from less to more change.

At one end of the continuum, where there has been least change, is a cluster of agency officials who can be labeled “doubters.” They believed deregulation opportunities under MTW were either not sufficiently appealing or long lasting to warrant using the opportunity to make major changes in the way they did business. In several instances, this doubt about MTW opportunities was reinforced by experience: some were either turned down on a proposed waiver, or were disappointed by the way MTW was implemented, or otherwise saw evidence that deregulation boundaries did not go far enough. Some also did not object strongly to the federal requirements under which they operated, or felt less need to make policy or procedural changes. And, some simply did not give much consideration to the opportunities that the demonstration provided, for whatever reason. Doubters included officials of agencies that remained in the demonstration from the beginning as well as some who dropped out of the demonstration early on.

What these officials have in common is that they tended not to use MTW as a significant change agent, and only marginally modified their programs or operations.

Next on the continuum are ‘cautious movers.’ Caution resulted from the fact that they were either very concerned about making changes that were likely to end when the demonstration concluded, or were not sure what the boundaries of deregulation were. Movement, however, resulted from the fact that they considered MTW to be distinctive, involving only a handful of agencies, so that participation was seen as a genuine invitation to reflect on, and modify, some aspects of their policies and procedures. To a greater or lesser degree, these officials thought more strategically about aspects of their programs and operations than they might have under normal circumstances and, in so doing, often felt a sense of empowerment. This process sometimes led to proposing or making changes that, in fact, did not require MTW waivers, even prior to QHWRA. These agencies all have in common the fact that their leadership took some advantage of an opportunity to make changes and, by doing so, they and their staff generally experienced more pride of ownership in the programs they administered than is common for such agencies. Even so, the policy and procedural changes made by this cluster of agencies were relatively modest.

At the other end of the continuum are ‘opportunity maximizers.’ These officials believed MTW deregulation to be real enough, or enough of an opportunity, or the only real opportunity they had at the time, so they took it very seriously. Prior to MTW, many of them had aggressively promoted and lobbied for deregulation. With the advent of MTW, they were thrilled to be rid of rules and regulations believed not to be consistent with their local situation or with their ability to handle the provision of housing assistance on their own. Such officials tended not to worry much about having to go back to non-MTW status, or certainly did not let that prospect slow them down. Indeed, some were convinced they were making changes that simply could not be repealed. These officials generally tried not only to change the way they did business, but also the nature of their

relationship with HUD. Although they proceeded differently across agencies—a few initiating multiple changes from the very beginning and a few moving more incrementally—they saw MTW as license to review basic agency policies or operations, take initiative, and take ownership. Such officials generally saw themselves as having significant responsibility for their own destiny.

While these categories represent a range of behavioral responses to MTW, it should be noted that the change dimension is relative. In particular, none of the agencies, not even those classified as opportunity maximizers, have yet changed the mix or character of their programs, delivery systems, or operations so much that they no longer resemble what they were like before their participation in MTW. For example, none went much further than where they had been in adopting fundamental private-sector real-estate principles of property-focused and asset management. What cannot be determined is whether failure to engage in major reconfigurations of inventories, programs, or management was due to the fact that the time period in which they had been involved in MTW was yet too short, the constraints imposed by the structure of MTW were too limiting, the local environment was not adequately supportive, the training of agency personnel was not especially appropriate, or the need to make substantial change was not sufficiently compelling.

(b) Has MTW altered agency relationships with HUD? It should not be ignored that MTW originated during a period in which the relationship between agencies and HUD was exceptionally strained. An extensive survey conducted at about the time participation in MTW began found that housing agency officials were the most disaffected of all of HUD’s program implementation partners. As customer surveys generally go, the level of dissatisfaction expressed by PHA partners was extraordinary.¹³ Likewise, a panel of

¹³ Martin D. Abravanel, Harry P. Hatry, and Christopher Hayes, *How’s HUD Doing? Agency Performance As Judged By Its Partners*, U.S. Department of Housing and Urban Development, December 2001, p. 117,

the National Academy of Public Administration, commenting on the deterioration relations between HUD and housing agencies at the time, concluded, “this relationship needs urgent repair.”¹⁴

The tension between agencies and HUD has long historical antecedents and many causes, but the extent and character of federal regulation of agencies is a large part of its explanation. A question, then, is whether improved relations between HUD and agencies—where the partnership between the two was perceived to be less adversarial and more supportive—followed from the deregulation occurring under MTW.

Some formalistic aspects of the relationship between agencies and HUD changed with MTW. These pertained to the nature of agency reporting, the role played by HUD field office monitors, the fact that MTW agencies could be excluded from the PHAS and related physical inspections and reviews by REAC, and the responsibilities of HUD headquarters in reviewing and approving agency waiver and merged-assistance requests.

Evidence and the time period involved in the demonstration are both insufficient at this point to permit a definitive assessment of the impacts of these changes overall—i.e., whether they generally improved the working relationship between agencies and HUD. What is clear at this point, however, is that administering a demonstration involving negotiating multiple MTW agreements on a waiver-by-waiver basis, and overseeing agency activities on a non-standard basis, have placed a heavy burden on HUD, while developing and implementing locally crafted policies and procedures have placed a heavy burden on agencies. This situation has, in fact, added new kinds of pressure to the relationship between agencies and HUD, changing somewhat the nature of that relationship if not yet improving its quality. There are still a good number of agency officials who believe that both the extent of deregulation and the

distance between HUD and agencies are not yet great enough.

There is considerable variation in how agency staff and HUD field offices related to one another. The role that HUD field offices played with respect to MTW agencies evolved over time; at the beginning of MTW, staff of neither agencies nor HUD knew precisely how that relationship was expected to work, which is very different from the standard relationship between HUD field monitors and non-MTW agencies. Some MTW agencies maintained close and good working relations with HUD field staff, seeking their input and advice or checking to see if agency policy or procedural initiatives were acceptable. Others used the opportunity of MTW to minimize their contact with HUD field office staff, reinforcing their contention that they were not subject to the same level of oversight and review as had been the case—and, consequently, improving their disposition toward HUD by so doing. Interestingly, there appears to be little if any correlation between the quality of agency-HUD field office relationships and the agency behavior categories discussed above.

A final aspect of the HUD-agency relationships under MTW involved the provision of technical assistance by HUD-funded consulting organizations. These not only offered informational and analytic support but also served as mediators and facilitators between HUD and agencies. This is an exceptional arrangement by comparison to that which exists for non-MTW agencies, and some benefited greatly from having access to such specialists. Arguably more important, however, this arrangement was sometimes able to smooth over the difficulties inherent in waiver and merged-assistance negotiations between HUD and agencies—difficulties that might otherwise have strained even further the relationship between the two.

If Congress were to move in the direction of further deregulation—extending merged assistance and programmatic flexibility to a much larger number of agencies—the MTW experience to date suggests that the relationship between HUD and agencies would have to change even further. For one thing, HUD would not be in

http://www.huduser.org/publications/polleg/ows_hud.html.

¹⁴ *Evaluating Methods for Monitoring and Improving HUD-Assisted Housing Programs*, National Academy of Public Administration, December 2000, p. xii.

a position to negotiate individual agreements with each participating agency about either funding or procedural waivers. Instead, it would have to delineate a basic set of programmatic requirements and performance standards, and create a standardized funding formula. Agencies, under such arrangements, would not have to “make the case” and wait for HUD approval for each of their waiver requests, but they would presumably also lose the option to renegotiate their funding packages—as some of the merged-assistance sites have done after the fact—if their financial condition deteriorated for one reason or another.

It should be recognized that, in devising a formula for transitioning from multiple funding streams to a single, merged funding system, there might be inadvertent winners and losers. Finally, as discussed further below, large-scale deregulation would probably require systematic reporting on critical program outputs and outcomes by agencies, with HUD staff monitoring adherence to basic performance standards rather than to procedural rules and requirements.

(c) Should housing assistance be under federal or local control? MTW allowed local agencies to change some of the basic features of federal rental assistance programs. Among the most controversial of these changes were variations in rent rules and subsidy formulas, occupancy requirements, and time limits. These local decisions fundamentally altered the terms of federal assistance, introducing significant differences across communities in terms of who benefited, how much, and for how long. Certainly, some variation across local agencies has always been permitted under the public housing and Section 8 programs, and more was introduced by QHWA. But deviations from key federal program requirements were much greater under MTW, raising the fundamental question of whether low-income households and communities are better served when the terms of federal housing assistance are determined locally or when they are consistent across the country as a whole.

There is no simple answer to this question. As discussed throughout this

report, agency leadership made decisions about program design based primarily on local norms, values, and priorities. Their understanding of local housing market conditions (and, in some cases, local labor market conditions) was a factor. But in most cases that does not appear to have been the most important factor. Instead, decisions tended to be shaped by local thinking about who deserved assistance, how much assistance was reasonable, whether incentives should be primarily supportive or punitive, and how scarce resources could be allocated fairly.

Under MTW, local, rather than national, political realities constrained the choices that agencies could make. Some communities, particularly those with strong advocates for low-income households and housing issues, imposed more stringent constraints than HUD on some issues. For example, several reported they did not consider time limits as an option because they would not be acceptable locally. One agency used the flexibility allowed under MTW to help achieve a local goal of one-for-one replacement of low-rent housing demolished under HOPE VI. In some communities the local political environment encouraged the agency to be much more restrictive about the terms and conditions of housing assistance while, in a few, there appeared to be little or no local interest in public or assisted housing and no meaningful local oversight of agency decisions. In general, agencies appeared to have been respectful of and responsive to local norms and priorities; none simply ignored community concerns or overruled local objections.

The local flexibility and independence permitted under MTW appeared to allow strong, creative agencies to experiment with innovative solutions to local challenges, and to be more responsive to local conditions and priorities than is often possible where federal program requirements limit the opportunity for variation. Toward this end, for example, one agency used MTW to adjust the community’s relative proportion of project-based to tenant-based assistance in ways that better accommodated its unique local market conditions. Through MTW, this was

done to an extent not otherwise permissible under standard rules.

Allowing local variation poses risks as well as provides potential benefits. Some agencies, for instance, made mistakes that reduced the resources available to them to address low-income housing needs, and some implemented changes that disadvantaged particular groups of needy households previously served under federal program rules. Moreover, allowing significant variation across agencies inevitably results in some loss of program uniformity across communities, and could also reduce the portability of Section 8 housing choice vouchers.

The example of one community's experience is instructive. Having established time limits on the voucher assistance it provided, agency officials believed it only appropriate to ensure that all voucher recipients within the community—whether their vouchers were issued by the local agency or by another agency and used in the community under the portability rule—be equitably treated. Therefore, they decided to absorb all of the portable vouchers coming into the community, thereby permitting their MTW-altered rules to apply. Because of the relative market attractiveness of the community, the result was the absorption of a much larger-than-anticipated number of new households, at a substantial cost to the agency—which was operating under a merged-assistance agreement that provided for no reimbursement from HUD for this circumstance. To compensate financially, the agency had to reduce utilization of its rental assistance program, at least for some period.

It is too early in the MTW experience to be able to observe the long-term results and consequences of deregulation, or to draw more definitive conclusions about the benefits of local versus federal control of housing assistance policy. The MTW evidence available to this point, however, suggests that further deregulation of local agencies may, indeed, yield benefits in terms of program design and implementation innovations but, also, can entail risks that warrant continued watching.

An option that has been proposed involves extending the deregulation experiment to more agencies than the original number. On this score, the MTW experience does offer some guidance. As discussed earlier, it seems clear that if deregulation beyond what is authorized by QHWRRA, or more merged funding authority than is currently permissible, were extended to a much larger group of agencies, the waiver-by-waiver HUD approval process used for the initial cohort of MTW agencies would be infeasible because of the administrative burden involved. HUD would probably have to provide blanket waivers covering some or all categories of regulatory rules and reporting requirements, and ensure a long enough time period for innovations to be tried and evaluated.

One approach to extending deregulation would be for HUD to structure a pre-defined set of waivers (and accompanying reporting requirements) so as to systematically test a limited number of programmatic alternatives—such as flat rents, time limits, or debt financing of capital improvements. This approach would not allow individual agencies as much discretion to design combinations of reforms around local conditions and priorities. But it could yield more systematic evidence about the costs and benefits of particular program reforms if accompanied by a rigorous evaluation design and mandatory data collection on key outcomes, such as the number and characteristics of participating households (particularly incomes, employment, and rent payments), the location and condition of assisted housing units, and possibly the extent to which federal funds are transferred across major expenditure categories. Collection of such information in a standardized format would have to be a minimum requirement for participation if the point is to learn from the experiences of those testing programmatic alternatives.

Alternatively, a pre-defined set of waivers or merged assistance arrangements could be broadly offered within the framework of some fundamental performance standards, mandating agency and independent measurement and reporting of outcomes in exchange for less federal control. Under this type of approach,

agencies could take greater ownership of, and responsibility for, program design decisions, and experiment more freely over the long-term, while HUD could focus on ensuring that key performance standards were being maintained. The challenge here would be to define the performance standards. What are the fundamental *federal* goals or requirements for low-income housing assistance? How can the achievement of these goals be measured systematically? And what level of performance must agencies achieve in order to remain in compliance with federal requirements?

In addition, any substantial expansion of deregulation and merged assistance would have to address the reality that agencies vary considerably in terms of past performance and current management capacity. Not all agencies would necessarily

be able to take advantage of greater flexibility to significantly improve their programs. But more importantly, it seems almost inevitable that some of them would fail to meet basic performance standards. One option for addressing this reality would be to limit participation to those that already meet some standard of management capacity or programmatic performance, while continuing to regulate others more closely. Alternatively, HUD could extend deregulation to all agencies, giving those that initially fail to meet performance standards time to improve their performance, or mandating incremental progress toward the performance standards each year. Regardless of approach, however, some agencies may ultimately fail to achieve required outcomes, and HUD would need to have some strategy for withholding funds, assuming control, or transferring responsibility to another entity.



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