Flat Rents and Time Limits

Tulare County's Moving to Work Program

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Introduction

Since May 1999, the Housing Authority of the County of Tulare (HATC), a participant in the U.S. Department of Housing and Urban Development's Moving to Work (MTW) demonstration, has instituted a policy of fixed or "flat" rents in its public housing and Section 8 programs. Qualified families participating in HATC's MTW program either pay a fixed rent for public housing or receive a fixed subsidy for Section 8. Because the rents and subsidies are not based on household income, participants have the opportunity to save as their incomes increase. The program also applies time limits to assistance: the subsidy is terminated when a family's income reaches 120 percent of the area median or after five years in the program. These policies are intended to meet the MTW demonstration's multiple goals of 1) providing work incentives to promote resident self-sufficiency, 2) increasing housing choice, and 3) reducing program costs. This report examines HATC's MTW program after approximately one year of operation and discusses the agency's progress to date towards meeting these objectives.[1]

Local Context

The Housing Authority of Tulare County operates a public housing program of 714 units in 18 developments and administers approximately 2,800 Section 8 vouchers and certificates, including 400 Welfare to Work vouchers. In addition to operating HUD programs, the agency owns or manages some 1,200 units of other rental housing, including properties financed with low-income tax credits, farm labor housing funded by the Farmers Home Administration, state rental housing, and locally-funded senior complexes. The agency also has more entrepreneurial sources of revenue, such as a contract with the City of Visalia to provide a crisis intervention hotline through which callers are referred to social service agencies throughout the county.

HATC serves Tulare County, a rural, predominantly agricultural county located in the heart of California's Central Valley. Approximately 360,000 people live in Tulare County, about half in the three largest cities, Visalia (pop. 90,000), Porterville (pop. 50,000), and Tulare (pop. 45,000). Tulare County is the second largest agricultural and the largest milk-processing county in the world. An estimated 60 to 70 percent of the region's economy is related to agriculture. Dairy, grapes, and citrus operations dominate, drawing a permanent labor force that includes specialized workers in addition to unskilled labor. Permanent plantings mean that Tulare County has little of the migrant labor typically associated with the Central Valley; however, the agricultural economy follows a seasonal pattern that

[1] This case study is based primarily on a series of interviews conducted by the Abt/Spectrum team with HATC staff and partners on a two-day site visit, May 23-25, 2000. It also draws upon a database of HATC's MTW and conventional clients provided by the agency in June, and an additional interview with the Tulare County Health and Human Services Agency conducted by Abt in July.

creates high levels of unemployment at certain times of the year. The high rate of joblessness and relatively low skill level of the labor force is a major concern for the county. Overall, Tulare's unemployment rate is consistently the second or third highest in the state, averaging between 12 and 18 percent depending on the season. Education levels lag behind the national average, with some 40 percent of adults over the age of twenty-five not having completed high school.[2] As a result, there is a strong focus among the county's social service agencies and nonprofit organizations on economic diversification and workforce development.

Although HATC's Executive Director Tim Sciacqua is careful to point out that "this isn't the grapes of wrath," wage and income levels in the county and surrounding region are nevertheless quite low. Median income for a family of four in Tulare County is $35,00036,800, and the percentage of families receiving public assistance is significantly above the national average.[3] HATC is subject to the statewide median for the purposes of income qualification, with the "very low income" cut off (50 percent of median) at $18,560 and the "extremely low income" cut off (30 percent of median) at $11,100. The low median income for the area presents a problem for HATC in meeting HUD targeting requirements while also focusing its efforts on working families. For example, new enrollees in the Welfare to Work (WtW) voucher program as well as the regular voucher program must meet targeting rules requiring that 75 percent of new admissions earn less than 30 percent of the area median income. However, a full time minimum wage earner in the county earns $11,960 annually (at $5.75/hour), or slightly above the 30 percent cap. Given that most families participating in the county's CalWORKS program receive TANF income on top of the wages, the vast majority do not meet the targeting thresholds. Although MTW provides more flexibility in targeting, overall the agency is struggling to reconcile HUD requirements with its mission to serve the working poor.

Given the generally low wages and high unemployment in Tulare County, there is a high demand for affordable housing. Local authorities identify the lack of quality affordable housing as a critical problem in the county's major population centers. Overcrowding is also a widespread problem, particularly among large families living in older housing.[4] HATC's public housing and Section 8 waiting lists attest to the demand for affordable housing in the county. Earlier this year, HATC had a waiting list of 3,064 applicants for public housing and 5,256 applicants for Section 8 assistance. In both groups, over half of the applicants reported incomes at or below 30 percent of median.[5] These families typically experience the greatest cost burden and have the greatest need for rental assistance.

HATC's housing stock is generally recognized to be superior to much of what is available to low-income families on the open market in Tulare County. HATC's public housing consists of scattered single- and multi-family properties that are well maintained and blend easily into the surrounding communities. A deliberate policy of not advertising these properties as public housing reduces the potential for assisted families to be stigmatized. HATC's Section 8 program is currently facing some

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2 U.S. Census Bureau, 1990 data.

3 HUD estimated Median Family Incomes for FY 2000. In 1990, 18 percent of Tulare County households received some form of public assistance, compared to 8 percent nationwide (U.S. Census Bureau).

4 City of Tulare, "A Consolidated Plan for the City of Tulare," 1999, 4; City of Visalia, "Analysis of Impediments to Fair Housing," 1995, 10.

5 HATC staff note that the percentage of households earning under 30 percent of area median income may be overstated as the income data gathered from waiting list applicants is unverified and tends to be underreported.

challenges. Although the county has historically enjoyed a relatively low cost of living, the private rental market has tightened up over the past year. Increased demand for rentals, particularly for larger and better-maintained units, has reduced the incentive for landlords to rent through the Section 8 program. According to HATC staff, it is becoming it increasingly difficult for very low- and extremely low-income families to find suitable apartments. Whereas in previous years the agency typically had to issue three vouchers in order to place one tenant under contract, the ratio is now closer to five to one. In particular, the Quality Housing and Work Responsibility Act (QHWRA) requirement that Section 8 participants not spend more than 40 percent of their adjusted income on rent makes it difficult for these families to find housing that meets HUD's quality standards. Here again, MTW flexibility, which includes an exemption from the "40 percent rule," is providing some relief.

Just as it operates in a distinctive regional context, HATC is a distinctive housing agency. It is a perennial high performer, with housing management and maintenance practices that are recognized to be among finest in the nation. HATC is also one of only about seven percent of housing agencies nationwide that does not receive an operating subsidy for its public housing program. Historically, the agency has employed a "broad range of rents" policy to ensure that it covers its operating costs through tenant rents. It has a local preference for working families, the elderly and disabled, and for MTW participants. These preferences are consistent with the culture and work ethic of the region. According to HATC's Executive Director, the public is generous to those in need and unable to help themselves, such as the elderly and disabled, and to working families in need of a helping hand. HATC staff comment that despite the low wages and relatively scarce employment opportunities in the region, most people view rental assistance as a temporary benefit and not a lifelong entitlement.

Although HATC stresses homeownership and self-sufficiency as the ultimate goal for its residents, it generally does not provide resident services in-house. Instead, the agency focuses on asset management and refers its residents to local social service agencies and nonprofit organizations for the services that they may need to become self-sufficient. The social service environment in the county appears to be well suited to this kind of arrangement. HATC maintains close working relationships with many of the local agencies that provide supportive services and job training, such as the County Health and Human Service Agency, Community Services and Employment Training, Inc., and the Tulare County Private Industry Council. For families nearing self-sufficiency, the agency also works with two well-established homeownership programs, Self-Help Enterprises and Visalians Interested in Affordable Housing. In most cases, the relationship involves client referrals between HATC and the agencies, but HATC also maintains some more active partnership arrangements, such as the joint administration of a facility for the mentally disabled, in which the County Health and Human Services Agency provides case management and HATC maintains the housing.

Program Design and Objectives

The cornerstone of HATC's MTW program is its policy of flat rents and subsidies plus time limits. MTW participants in public housing are charged flat rents set at approximately 50 percent of the local Fair Market Rent (FMR) (see Table 1). HATC also offers a flat rent option in public housing as required under QHWRA. This option, identified in Table 1 as the HUD Flat Rent option, requires recertification once every three years and does not have time limits. However, rents are based on market rents and therefore run roughly $100 higher than MTW flat rents.

In the Section 8 program, MTW participants receive a fixed subsidy also set at approximately 50 percent of the local FMR and pay the difference between this fixed subsidy and the contract rent for the unit. There are no utility allowances in either the MTW public housing or Section 8 programs. The rent and subsidy amounts do not vary by household income, but assistance is terminated when household income reaches 120 percent of median or after five years.

Table 1

MTW Flat Rent and Section 8 Subsidy Levels by Bedroom Size

Bedroom Size	0	1	2	3	4	5
MTW Flat Rent (Public Housing)	n/a	$200	$225	$275	$300	$325
MTW Fixed Subsidy (Section 8)	$167	$169	$256	$396	$466	$556
HUD Flat Rent Option	n/a	$300	$325	$375	$400	$425

Source: HATC Total Tenant Payment Computation Worksheet.

HATC has reserved up to 400 MTW slots for referrals from its partner agencies, the Tulare County Health and Human Service Agency's CalWORKS Division (HHSA), Community Services and Employment Training, Inc. (CSET), and the Tulare County Economic Development Corporation (EDC). The agency also offers its conventional public housing and Section 8 tenants the option to transfer to the MTW program at the time of recertification. All new families admitted from the public housing and Section 8 waiting lists are admitted under MTW rules, except for the elderly and disabled, who are exempted. Thus, as public housing units and Section 8 vouchers turn over, MTW policies will eventually become the standard, except for exempted households or current tenants who elect not to participate.

Under MTW, there are no escrow accounts of the type offered in the Family Self-Sufficiency Program (FSS). Rather, participants are expected to manage their own savings. HATC currently has an FSS program, but it intends to phase it out in favor of MTW. Other features of HATC's MTW program include a $50 minimum rent and a $25 rent increase (public housing) or subsidy reduction (Section 8) for each illegal family member. Families are not required to report changes in income and household composition on an interim basis, but these are reevaluated annually for reporting purposes.

Within the larger program objectives of MTW, HATC's system of flat rents and time limits is driven by the local context. The agency readily acknowledges that a system of flat rents and time limits will not suit all places and all client populations. The particular economic and labor market conditions that prevail in Tulare County, for example, probably exist in other parts of the country, but clearly not everywhere. HATC's leadership firmly believes that "one size does not fit all" in housing assistance programs, but nevertheless maintains that many of the ideas underlying its MTW program have widespread applicability.

In the context of Tulare County, HATC staff consider the principle benefits of their MTW approach to be that it: allows them to better serve the working poor; gives tenants an opportunity to retain their savings and benefit from increases in income on an ongoing basis; promotes individual responsibility; increases housing choice; removes the incentive for fraud and underreporting; is simpler to administer; and provides a fairer method of allocating housing resources.

- ***Serving the working poor.*** The low median income in Tulare County, coupled with QHWRA requirements that target families at or below 30 percent of the area median, makes it difficult for HATC to focus its efforts on working families. For example, it is impossible for a full-time minimum wage earner in Tulare County to meet this threshold unless he/she has a large family (five or more). In addition, although families living exclusively on AFDC typically earn less than 30 percent of the area median, welfare reform has meant that many families now earn supplemental income through job training and other self-sufficiency programs, pushing them above the income limit. MTW has provided the agency with a partial solution by lifting the requirements for the course of the demonstration. Under MTW, the agency must ensure that at least 75 percent of assisted families are at or below 50 percent of the area median at any given time. The remainder must be at or below 80 percent of the area median. Agency staff believe that these targets allow them to serve the county's poorest families as well as families that are already working or taking steps to gain employment. MTW also helps HATC come closer to meeting QHWRA targeting requirements in its WtW and regular voucher programs: when possible, the agency diverts higher income families to MTW and enroll those with incomes under 30 percent of median to WtW.[6]

- ***Incentives for tenants to save and increase their income.*** HATC's MTW program employs a "carrot and stick" approach to encourage families to achieve self-sufficiency. HATC staff believe that a flat rent system provides an incentive for families to increase their income because it allows them to keep the full amount of any extra earnings. HATC staff anticipate that flat rents and subsidies may initially pose a hardship to new MTW families, particularly those with the lowest incomes, but the fact that this burden will decrease as incomes go up should act as an incentive for families to seek employment or better jobs. Moreover, the elimination of FSS-type escrow accounts under MTW means that families are free to spend their savings as they wish.

- ***Incentives for increasing individual responsibility.*** The elimination of escrow accounts, in addition to giving families greater freedom in their saving and spending decisions, also forces families to take greater responsibility for their finances. HATC staff believe that escrow accounts provide an artificial sense of security for assisted families, as do utility allowances, which have also been eliminated in the MTW program. MTW's five-year time limit on assistance increases the impetus for families to gain employment and self-sufficiency skills as quickly as possible, so that they will be able to afford alternative housing once their assistance is terminated. One of the

6 Meeting QHWRA targeting requirements has been a particular challenge for HATC's WtW program, which targets families that are either employed or enrolled in a self-sufficiency program. The agency received an allocation of 400 WtW vouchers in the Fall of 1999, but as of April 2000 had only succeeded in housing about 100 families. The agency has requested a waiver of QHWRA targeting provisions for its WtW program, but as of the time of this review (May 2000), the waiver had not yet been granted.

agency's hopes for the program is that at the end of five years families will have earned and saved enough to purchase a home. In Tulare County, where it is still possible to buy a new home for roughly $85,000, homeownership is not an unattainable ideal.

- ***Increased housing choice.*** One of the challenges that HATC faces in its regular voucher and WtW voucher programs is meeting the QHWRA requirement that families not pay more than 40 percent of their income for rent when they first receive a Section 8 subsidy for a particular unit. Given that incomes in the area are so low, HATC's Section 8 families find it difficult to locate units that both meet HUD's Housing Quality Standards and are within the program limits. Under MTW, the 40 percent rule is waived, allowing families to devote a larger percentage of their income to rent should they choose to do so. This provides them with greater choice because it allows them to look for housing in higher-rent neighborhoods with the expectation that their rent burden will decrease as their earnings rise. Alternatively, families are rewarded for finding a less expensive unit by realizing rent savings almost immediately, as under the old shopping incentive. HATC staff acknowledge that the system of fixed subsidies would not work well in parts of the country with very high rents, because the rent burdens on families would simply be too high.

- ***Disincentives to fraud and underreporting.*** HATC staff believe that in spite of the Public Housing Reform Act's earned income disregard provision, any system in which rents are tied to income provides an incentive for tenants to underreport their income at admission and recertification. Tenants also tend find the income verification process intrusive and are often reluctant to provide all of the information necessary to make accurate rent calculations because they are afraid that it will result in higher rents. By untying rents from household income, HATC's MTW program reduces the incentive for fraud and encourages tenants to report their income honestly. This can result in benefits to tenants (beyond reducing the anxiety of underreporting) by allowing staff to provide better counseling—for example, encouraging homeownership for those within reach of this goal.

- ***Increased program clarity.*** HATC argues that a system in which rents are based on bedroom size is far simpler to explain to program participants than one that is based on a complex calculation of adjusted income. Moreover, it more closely reflects the private market system under which most people operate. The flat rent/fixed subsidy system also eliminates the phenomenon of different families paying different amounts for the same unit, which is a common cause of contention among public housing and Section 8 tenants. Finally, with families able to save any extra income they earn but having to be off the program within five years, the program's goals of self-sufficiency and tenant responsibility are clear and more readily understood.

- ***Administrative simplicity.*** In addition to being easier to understand, the MTW program is also simpler to administer, because it eliminates the need for costly and time-consuming interim income verifications and recertifications. Under MTW, income and household composition are verified upon admission to determine program eligibility and bedroom size and annually for evaluation purposes. This reduces the workload of the eligibility clerks. It also provides less room for error as all files contain the same calculations. It is expected that if all of HATC's tenants were on the MTW program, this streamlining of administrative processes would result in significant cost reductions. Further, as the FSS program is phased out, the costs of the current accounting and reporting system for resident escrow accounts would disappear. Finally, with less incentive for tenants to underreport their income, the agency would save on fraud investigations and grievance procedures.

- ***Fairness.*** One of the overarching goals of HATC's MTW approach is that it is recognized to be a fairer means of providing housing assistance. It is very important to the leadership of the agency that tenants, staff, and the wider public perceive the program as fair and equitable. A system of flat rents and subsidies, they argue, puts everyone on the same initial footing and rewards those who pursue employment and other self-sufficiency opportunities. It also more closely reflects the private market conditions that most people face. Finally, time limits reinforce the notion that rental assistance is not a lifetime benefit but a helping hand to families as they move toward employment and self-sufficiency. The time limits on assistance, and the expectation that many families will reach self-sufficiency sooner than five years, also allow the agency to serve more low-income families.

Program Implementation

HATC submitted its initial application for the MTW demonstration in February 1997, followed by an implementation plan in December 1997. The final agreement with HUD was not finalized and signed until April 1999, at which point the agency began enrolling participants into its MTW program almost immediately. HATC was one of the earliest agencies in the demonstration to sign its agreement and among the first to begin enrolling program participants. At the time of this review, after approximately one year of operation, HATC had 944 households participating in its MTW program, 253 in public housing and 691 in Section 8 (see Table 2). Just over half of these households were prior HATC tenants who opted to switch to MTW from HATC's income-based programs. The other half were almost equally divided between referrals from HATC's partner agencies and new applicants admitted from the waiting list.

Table 2

Profile of HATC Tenant Population

	Public Housing	Section 8	Total
Total HATC Tenant Population	697	2,183	2,880
Total MTW Participants	253	691	944
Source of MTW Participants			
Referrals from partner agencies	6%	29%	23%
HATC waiting list	34%	18%	22%
Prior HATC tenants	60%	52%	54%
Special set-asides[a]	0%	1%	1%

[a] Includes a set-aside for disabled persons, for which HATC has reserved about 39 slots, and for participants in a HUD project opt-out.

Source: HATC database, June 2000.

Impact on Tenants

Given that the MTW program has only been operational for one year and that no baseline data were gathered on HATC's tenant population prior to starting the program, it is difficult to quantify the impact that MTW has had on participant families thus far. Recent data on HATC's tenant population, however, suggest that while MTW families differ only slightly from their non-MTW counterparts in terms of demographics, household size, and household composition, they are significantly different from them in terms of income and employment. Table 3 compares HATC's current MTW and conventional (non-MTW) tenant populations along several key dimensions. The table offers two points of comparison: MTW households versus non-MTW households, and MTW households versus non-MTW "families" (i.e., excluding households headed by the elderly or disabled). While both sets of comparisons are useful, the latter is more appropriate because it excludes the elderly and disabled populations, who by and large are not expected to participate in or benefit from HATC's MTW program.[7]

As can be seen in Table 3, HATC's MTW households are slightly larger than non-MTW families (excluding the elderly and disabled), with more three- and four-member households in particular. MTW households are also slightly more likely to have one or more members who are illegal aliens. HATC staff suggest that tenants are more willing to provide accurate data on illegal household members under MTW because simply paying an additional $25 in rent for each illegal member is preferable to having to account for those members' incomes. The heads of MTW households are also slightly less likely to be women and slightly more likely to be white and Hispanic than those of other HATC families.

In general, based on existing data, the differences in household demographics between HATC's MTW and conventional populations appear to be relatively small. By contrast, there are significant differences between the two groups in terms of household income and the presence of wage income. HATC's MTW households currently earn, on average, about $4,000 more per year than its non-MTW families. Moreover, non-MTW families are twice as likely as MTW families to fall into the extremely low income category, earning less than 30 percent of area median income. Finally, about 70 percent of MTW households reported earning some income from wages, compared to just under 50 percent for non-MTW families.

Given that the demonstration has only been in operation for one year, it is unlikely that such dramatic differences in income and employment levels are the result of MTW incentives. It is more plausible that the discrepancies reflect the fact that to a large extent the families participating in MTW are a self-selecting group. Over half of the current participants switched to MTW from HATC's income-based programs, and these tended be households with higher incomes and therefore the potential to realize immediate or imminent savings from a flat rent/subsidy system. The higher incomes of participants in MTW's Section 8 program are also, in part, the result of HATC's practice of diverting higher income families to MTW and enrolling those under 30 percent of median in its WtW

7 For elderly and disabled tenants, who are not likely to be able to reach self-sufficiency within a five-year period, HATC staff have discussed offering a program of MTW flat rents and subsidies without time limits. This program is not currently being offered, however, and the vast majority of elderly and disabled households—100 percent of the elderly and 92 percent of the disabled—have chosen to remain on HATC's income-based programs.

program.[8] Agency staff also suggest that the higher incomes of MTW families reflect more accurate reporting: under MTW's flat rent policy, there is less incentive for families to underreport their earnings.

In addition to having higher incomes, MTW households also tend to pay more in rent and bear slightly higher rent burdens (monthly contract rent as a percentage of monthly adjusted income) than their non-MTW counterparts (see Table 4). Although in both public housing and Section 8, the differences in average rent burdens between MTW and non-MTW households are small, the distribution of rent burdens for the two groups is significantly different. (Note that "rent" in this case does not include utilities, as HATC had not yet begun to track spending on utilities by MTW households.[9]) In general, MTW households tend to be clustered at the lower and higher ends of the rent burden scale, while non-MTW households are clustered in the middle range (rent burdens between 20 and 30 percent). For example, in the public housing program, 48 percent of MTW flat rent households are currently spending less than 20 percent of their adjusted income on rent, compared to 29 percent of conventional low-rent families (excluding the elderly and disabled). At the same time, 21 percent of MTW flat rent households have rent burdens in excess of 30 percent, compared to 13 percent for non-MTW families. The statistics are similar in Section 8, with 50 percent of MTW fixed subsidy households paying less than 20 percent of their adjusted income in rent, but 27 percent paying more than 30 percent. By contrast, almost half of non-MTW Section 8 families have rent burdens of between 20 and 30 percent, with far fewer (11 percent) paying in excess of 30 percent.

This preliminary analysis of rent burdens among MTW and conventional program participants suggests that while the average rent burden is similar between the two groups, there is more variation among MTW participants, with some households spending a great deal of their income on rent and others spending relatively little. Among the conventional low rent and Section 8 populations, households are much more clustered around the average household rent burden of 24 percent; this is particularly true when the sample includes elderly and disabled households. It is too soon to tell whether it is significant that there are not more Section 8 MTW families paying very high (over 40 percent of adjusted income) initial rent burdens given the increasingly tight rental market in Tulare County. With the addition of utility costs, rent burdens would obviously increase across the board, but it is not clear how the distribution would change. Future analyses will include the utility data when these become available, which will allow for comparability with national rent burden statistics. It will be important to track changes both in the magnitude and distribution of rent burdens as more and more people join the MTW program from HATC's waiting lists and those currently on the program begin to respond to its incentives.

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[8] Among Section 8 participants, the income differences between the MTW and non-MTW groups are slightly more pronounced. Thirty-three percent of households in the MTW fixed subsidy program are extremely low income (earning less that 30 percent of median), compared to 65 percent of non-MTW households, excluding the elderly and disabled.

[9] The conventional HUD formula for determining rent burden (gross rent as a percentage of net income) includes utilities, but accurate data on utility usage were not available at this time for MTW households. Although an approximation of utility costs by household size could be derived on the existing data on current low-rent residents, there are numerous difficulties with applying these data to MTW families, particularly those in the Section 8 program, where utility usage can vary widely among households of the same size. It is expected that data on MTW utility usage will be gathered as a requirement of the new Form HUD-50058 MTW and will be available for future analyses.

Table 3

Demographic and Income Characteristics of MTW Participants[a]

	Conventional (non-MTW) Population	Conventional (non-MTW) Families[b]	MTW Population
Total number of households	1,936	1,181	944
Percent with female head	78%	82%	80%
Percent with elderly or disabled head	39%	n/a	6%
Distribution by race of head			
White	89%	91%	95%
Black	5%	5%	4%
Asian or Pacific Islander	6%	4%	1%
Distribution by ethnicity of head			
Hispanic	56%	68%	71%
Non-Hispanic	44%	32%	29%
Distribution by family size			
1-2 members	41%	20%	13%
3-4 members	34%	45%	51%
5-6 members	20%	29%	30%
Over 6 members	5%	6%	6%
Average household size	3.3	4.0	4.1
Presence of illegal alien household members			
No alien members	95%	92%	90%
One or more alien members	5%	8%	10%
Distribution by income level			
Extremely low income (< 30% of median)	62%	62%	31%
Very low income (50% of median)	32%	31%	47%
Low income (80% of median)	5%	5%	18%
Over 80% of median	1%	2%	4%
Average gross household income	\$11,551	\$11,692	\$15,908
Average adjusted household income	\$10,487	\$10,442	\$14,716
Percent of households with income from wages	35%	49%	71%

a Combines Section 8 and public housing programs.

b Population does not include households headed by elderly or disabled persons.

Source: HATC database, June 2000.

Table 4

Rent Burden Comparison of HATC's MTW and Non-MTW Populations

PUBLIC HOUSING	Non-MTW Low Rent Population	Non-MTW Low Rent Families[a]	MTW Flat Rent Population
Total number of households	444	268	253
Average gross household income	$13,180	$13,925	$17,420
Average adjusted household income	$11,993	$12,436	$16,089
Average monthly tenant rent[b]	$230	$237	$266
Rent burden as a percent of adjusted income (does not include utilities)[c]			
Rent burden under 20%	19%	29%	48%
Rent burden 21% to 30%	72%	58%	32%
Rent burden 31% to 40%	5%	8%	8%
Rent burden 41% to 50%	2%	3%	7%
Rent burden over 50%	1%	2%	6%
Average rent burden	23.5%	23.3%	24.1%

SECTION 8	Non-MTW Section 8 Population	Non-MTW Section 8 Families[a]	MTW Fixed Subsidy Population
Total number of households	1,492	913	691
Average gross household income	$11,066	$11,037	$15,355
Average adjusted household income	$9,960	$9,749	$14,063
Average monthly tenant rent[b]	$198	$185	$228
Rent burden as a percent of adjusted income (does not include utilities)[c]			
Rent burden under 20%	28%	41%	51%
Rent burden 21% to 30%	58%	49%	22%
Rent burden 31% to 40%	10%	6%	14%
Rent burden 41% to 50%	2%	2%	6%
Rent burden over 50%	2%	3%	7%
Average rent burden	23.5%	22.3%	23.6%

[a] Population does not include households headed by elderly or disabled persons.

[b] Tenant rent does not include utilities. For conventional low-rent households, tenant rent is calculated as 30% of net monthly income. For MTW Flat Rent households, tenant rent is based on the schedule of flat rents shown in Table 1. For conventional Section 8 households, tenant rent is calculated as calculated as contract rent minus Housing Assistance Payment. For MTW households, tenant rent is calculated as contract rent minus the fixed subsidy (schedule shown in Table 1).

[c] Due to rounding, percentages do not necessarily sum to 100.

Source: HATC database, June 2000.

Tenant Response to the Program

Given the limitations of existing demographic and rent burden data, the testimony of HATC's intake staff and partner agencies provides crucial insight into how tenants have responded to the MTW program thus far.[10] Overall, interviews with intake and referral staff suggest that prospective and current tenants have responded very positively to MTW. According to HATC intake staff, the three main benefits that families seize upon when the program is explained to them are 1) the ability to save as their earnings increase, 2) not having to report changes in income on an interim basis, and 3) the opportunity to look for housing in more affluent neighborhoods. Other benefits include the motivation that comes from the five-year time limit, the ability to access savings rather than put them in an escrow account, and the fact that the program is easy to understand.

Tenants see the ability to save on rent as the principle advantage of the MTW program. Many of the families that opt for MTW do so strictly because it results in a lower rent. The eligibility clerks will often run calculations for prospective families to show the money that they can save by choosing MTW over the income-based alternatives. Other families are attracted by the fact any extra money that they earn will be theirs to spend or to save as they see fit. Most of the intake staff are familiar with cases in which people have found jobs only to quit once they understood the impact that the extra income would have on their rent. As one clerk put it, "income-based rents gave people no room to save. This program gives you room to save." The clerks also suggest that escrow accounts can be restrictive for many families, and that sometimes it better serves families' needs to give them direct control over the money that they are able to save.

For many families, the MTW program is a step towards independence and homeownership. According to one eligibility clerk who is a current MTW participant, the ability to predict how much you will have to spend on rent for the next five years is a tremendous help in planning for the future. Some tenants also see the five-year time limit as a motivational tool. They have a sense that with MTW they are "getting off the program" and beginning a new phase of their lives. An eligibility clerk recounted an incident in which an older couple opted to switch from conventional public housing to the MTW program even though it would raise their rent payments. When asked why they wanted to join MTW, the couple replied, "we need to get off [housing assistance], we've been on it long enough."

For families who are just beginning to take steps toward self-sufficiency, the time limits can be a disincentive to joining the program. According to HATC staff, a person who is struggling to gain basic job skills would probably choose to wait a year before joining MTW. Other families may opt to pay more for the HUD Flat Rent option in conventional public housing simply to avoid the MTW time limits. HHSA and CSET staff note, however, that many families on AFDC are now facing deadlines associated with welfare reform. For these families, the five-year limit on housing assistance acts as an additional incentive to seek employment.

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10 Based on a focus group with HATC intake staff and interviews with Mary Escarsega (CSET) and David Crawford, Jason Brent, and Sylvia Naciano (HHSA). Several of HATC's intake staff have firsthand experience with the program as current or former tenants and some were able to compare it directly to other programs geared toward self-sufficiency, such as FSS.

In addition to the greater ability to save, tenants appear to prefer the administration of the MTW program, particularly the fact that they do not have to report interim changes in income and household composition. According to HATC intake staff, many tenants find the income verification process to be highly intrusive. They also find it burdensome to have to report changes in income or household composition within a fifteen-day period, which often requires that they take time off work to meet with an eligibility clerk. Perhaps more important, MTW participants appear to be very relieved to no longer have an incentive to underreport their income to the housing agency. HATC intake staff comment that MTW families are generally more forthcoming about their income and more willing to discuss their financial goals. In some cases, this helps the staff to better address their needs. According to one clerk, "A couple recently chose to go with the MTW program. Now they are more open with me about their income and have started asking how they can go about purchasing a home. I was able to tell them the places that they needed to go to take the first steps."

The final reason that tenants cite for choosing the MTW program is the ability to look for housing in neighborhoods of their choice. Without FMR limits on their vouchers, families in the MTW Section 8 program are free to seek out neighborhoods where they think they will have a better chance of improving their lives. According to CSET staff, moving to a safer neighborhood can be a very important part of the stabilization and self-sufficiency process. The story of Rosa Suarez, a woman referred to the MTW program from CSET, attests to the interconnection between housing, neighborhoods, and independence:

> "Rosa Suarez was very reluctant to come to training due to her family living situation. They were in the 'bad' section of town and she needed to be at home when her daughter arrived home from school. We were able to help Rosa obtain a housing voucher that assisted her into moving into a new three-bedroom, two-bath home complete with a yard for her children. She states this is the nicest house she has ever lived in and as a result she has a desire to stay with training and become employed so that she can continue to provide this type of environment for her family even after the housing voucher is expired. The housing assistance has made a tremendous change in her life. She is now able to attend her vocational training class without worrying about her family's safety; as a result her training has flourished. Her attitude has improved greatly and she is working at getting certified and looks forward to becoming employed in a position, which will enable her to keep moving forward in her life."[11]

Impact on Agency Finances

Given that HATC does not receive any subsidy from HUD in its public housing program, it is essential that revenue from tenant rents be sufficient to cover program operating costs. The MTW demonstration therefore poses some risks for the agency, as it is difficult to predict program enrollment and revenue. Prior to starting the program, HATC prepared analyses that suggested that with full enrollment (all tenants joining MTW except the elderly and disabled), the MTW program would likely result in increased revenues. The agency recognized, however, that their decision to allow their existing tenants to choose whether or not they participated in MTW would probably result in lower revenues, as only those families whose rent would either decrease or remain roughly the

[11] Testimonial prepared by a CSET case manager. The name of the participant has been changed to protect her privacy. See Appendix for further testimonials.

same would be likely to choose to switch. In the worst case scenario, HATC predicted that the rent roll would fall from $222 per unit per month (the average at the start of the demonstration) to $210 per unit per month.[12] The schedule of MTW flat rents and subsidies that the agency settled upon represents their best attempt, without knowing what enrollment would be, to cover operating costs while still providing an incentive for families to join the program.

One year into the program, rental revenue has not fallen. Instead, agency staff estimate that it has increased by $10-15 per unit per month.[13] Although it is possible that this increase has been driven by MTW rents, other factors affecting HATC's income-based programs, such as the strong economy (higher tenant wages) and major reductions in the county's welfare rolls (more working tenants), may have contributed as well.

HATC has thus far not been able to realize the cost savings that it had expected from the MTW program.[14] This is in large part because the start of the MTW demonstration coincided with major programmatic changes required by QHWRA, including the merger of the Section 8 certificate and voucher programs, the creation of a flat rent option in public housing, and new income targeting rules. The result is that HATC is currently running income-based, HUD Flat Rent, and MTW options in public housing, and certificate, voucher, and MTW options in Section 8, as well as tax credit and farm labor housing programs. This has created a great deal of administrative complexity and some level of frustration on the part of HATC's intake staff, who find it difficult to communicate the program varieties and keep track of the different income provisions. And because the agency has given its income-based tenants the option to choose MTW, and is required to give its HUD Flat Rent tenants the option of returning to the income-based program, it has had to continue to perform intake and annual recertification functions for the entire tenant population. Finally, the tracking of MTW clients that is required for evaluation purposes requires extra staff effort. HATC is currently in the process of developing new software that will support the new Form HUD-50058 MTW. Until this software is available, intake staff will have to continue to deal with additional paperwork to fulfill MTW reporting requirements.

Given these administrative requirements—some of which were unforeseen at the time of the MTW application—HATC anticipates carrying higher operating costs for several years. Some of this burden will be alleviated when all of HATC's Section 8 certificates have been converted to vouchers and its FSS program has been phased out; however, it is unlikely that the agency will realize any significant cost savings during the course of the demonstration. Instead, the agency may need to use the leeway that it has to raise MTW flat rents (up to 10 percent annually) to pay for the extra administrative costs associated with running multiple programs simultaneously. In the Section 8 program, HAP payments have gone down slightly since the start of the MTW demonstration, and the agency intends to use these minimal savings to subsidize additional families.

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12 HATC statistical projections, 7/10/98. This analysis was generated using a slightly different flat rent schedule to the current MTW schedule.

13 This is despite the fact that only about one third of HATC's tenant population is on the MTW program (45 percent excluding the elderly and disabled).

14 Detailed data on operating costs were not available at the time of this review; the ensuing discussion is based on the estimates of HATC staff.

There is some concern among agency staff about the possibility that the MTW program might not continue beyond the five-year demonstration period. They believe, both from an administrative point of view and from the point of view of the tenants, that terminating the program and returning to an income-based system after five years would have a very adverse impact. In particular, it would require a huge administrative effort to recertify and recalculate rents for what, by that time, would be almost the entire tenant population. It is also likely that the agency would lose revenue on extremely low-income families, while working families and those approaching the upper limits of the program would face tremendous rent burdens and would most likely drop out. Finally, in the Section 8 program, there might be implications for HATC's ability to retain landlords. Although HATC staff have not spent a lot of time investigating this issue, it appears that landlords favor the simplicity of the MTW program. MTW participants reportedly have more success in leasing up their vouchers, in part because landlords associate the program with people who are taking responsibility for their lives and getting off welfare. HATC staff comment that in the current tightening housing market, there are few incentives for landlords to participate in the Section 8 program and the MTW program is an important selling point.

Impact on Employee Morale and Workforce Organization

Overall, HATC staff have been very pleased with the MTW program. They generally perceive it as very fair, which was one of the agency leadership's principal objectives. All of the agency's employees that currently receive housing assistance have switched to the MTW program and are reportedly happy with it. Among HATC program staff, the eligibility clerks are particularly enthusiastic about the MTW program, despite the extra work that it entails for them. This enthusiasm came through very clearly in a focus group that took place in late May with representatives from HATC's field offices. The clerks explained how they tried to "sell" the program to whomever they thought could benefit from it, often taking extra time to show existing tenants how switching to the program would affect their finances. The clerks were also supportive of the MTW time limits on assistance. They felt that limiting assistance to five years helped families to set goals for reaching self-sufficiency and also allowed the agency to serve more people. They did, however, express some alarm at the prospect of the program being phased out at the end of the demonstration period.

According to Administrative Analyst Margaret Lowe, the reaction of the HATC staff to the MTW program has been something of a surprise. When they first proposed a system of flat rents and subsidies plus time limits, the HATC leadership expected to encounter some internal resistance. This has not happened, and in fact Lowe suggests that MTW has been energizing for the eligibility clerks, who prior to the start of the program had experienced burnout and turnover. This support for the program among HATC's eligibility clerks is very important, because in many ways they are the lynchpin to its success, promoting the program, enrolling new tenants, and making referrals to partner agencies for supportive services. The agency currently has a part-time FSS coordinator who makes referrals to other agencies, but as HATC phases out its FSS program in favor of MTW, it is expected that the eligibility clerks will fully take over this role.

Partnerships

The final aspect of HATC's MTW program to be examined is the system of referrals from partner agencies. HATC has allocated up to 400 MTW slots for partner referrals. HATC's principal partners in the MTW program are the HHSA, which administers the local TANF program, and CSET, a non-profit organization focusing on workforce development.[15] HATC's relationship with these agencies is longstanding, and has become closer in the past few years as a result of requirements in welfare reform legislation for greater interagency coordination. One of the intentions behind HATC's MTW program is that the system of referrals, apart from providing the program with clients, will further strengthen the agency's partnerships and contribute to the overall goal of workforce development in Tulare County.

The referral process for MTW is relatively simple. Both the HHSA and CSET provide HATC with the names of clients that are in need of housing assistance and that meet MTW's income requirements. Both agencies also provide referrals for HATC's WtW program. The HHSA makes no distinction between the two programs and leaves it up to HATC to offer a referred family one program or another, usually depending on the family's income level. CSET has a more comprehensive internal review process, and only refers clients to the MTW program who have taken significant steps toward self-sufficiency, either by getting a job or by participating in one of the organization's workforce development programs. For these clients, the MTW program is presented as a reward for their progress. CSET also immediately refers clients living in substandard housing to MTW. CSET refers those clients who have not yet entered a job program and are simply trying to stabilize their lives to the local Private Industry Council (PIC), and from there to the WtW program. Because these families generally have lower incomes than those referred to MTW, this process is consistent with HUD targeting requirements.

Once HATC receives a list of referrals from a partner agency, intake staff follow up with each MTW (or WtW) referral to confirm their interest in the program, verify their income, and provide them either with a public housing unit or a voucher. The level of information that new referrals have about the programs seems to vary by partner agency. The HHSA does little to differentiate between MTW and WtW and simply presents both as an opportunity to move to the top of HATC's waiting list for rental assistance. CSET staff spend more time explaining the program particulars and really emphasize the goals of the MTW program. They explain that MTW is not a "Band-Aid" but rather a way to move people to work and provide them with an opportunity to save toward homeownership. The issue of time limits does not figure very strongly in either agency's explanation of the MTW program. HHSA and CSET staff suggest that many of the families are facing time limits in their welfare assistance anyway and for others, thinking five years ahead is too abstract a concept.

The level of follow-up for referred clients also varies by agency. With HHSA, there seems to be little follow-up on HATC's part to communicate which families were successful in joining the program and which were not. By contrast, the CSET referrals are documented more carefully and there is more follow-up with case managers should a family fail to obtain housing. These differences in approach appear to reflect both different levels of partnership among the agencies and, perhaps most

[15] The Tulare County Economic Development Corporation (EDC), which was initially allocated 50 MTW slots to provide rental assistance for employees of businesses creating a minimum of 25 new jobs in the county, has thus far failed to provide any referrals.

important, differences in the volume of referrals submitted. HHSA has made approximately 930 referrals to both MTW and WtW since the start of the MTW demonstration, while CSET and PIC have only made 84 and 79 referrals, respectively.

One year into the demonstration, HATC staff are not fully satisfied with either the number of referrals that they have received from the partner agencies or the percentage of referred families that they have been able to house. In general, the success rates for the referrals have been modest. At the time of this review, of the 930 HHSA clients referred thus far (to both the MTW and WtW programs), 26 percent had been housed, 28 percent had withdrawn, and 46 percent were in process. Among CSET's 84 referrals, only 7 percent had been housed, while 27 percent had withdrawn and 66 percent were in process.[16] In part, the large percentage of referrals in process reflects the fact that almost three quarters of MTW participants are in the Section 8 program, where it takes some time for families to find suitable housing. In general, however, HATC staff would like to be able to improve upon the rate at which MTW referrals are housed. HATC intake staff claim that they often have a difficult time contacting the referred families or getting them to come in for an interview. And once they do come in they may not be eligible. A rough analysis of CSET referrals supports this claim. Out of a sample of 58 families, 10 had been housed and 13 had been issued vouchers. Of the remaining 35 families, 11 had not responded, 4 had let their vouchers expire, 4 were over the income limit, and 1 had asked to be withdrawn.[17]

Despite these difficulties, HATC's partners have been very pleased with the referral system. For both agencies, being able to give clients the option of receiving immediate housing assistance (waiting two weeks versus two to three years on the waiting list) is a major benefit given the lack of affordable housing in Tulare County. In the words of the CSET director,

> "The MTW program has been a godsend. Being able to jump the list is a new thing and much better than preferences and priorities. Housing is such a great need for us and this has been a great boon. If we could arrange a similar process for childcare assistance it would be great."

The HHSA expressed some concerns about clients' ability to become self-sufficient within five years and to save in the absence of escrow accounts. By contrast, the CSET director felt that the time limits played a role in helping families to set goals and that the ability to manage their own savings was an important incentive for them. These contrasting opinions likely reflect different philosophies, but may also be based on experiences with different client populations, HHSA clients being generally the lowest income and the furthest from self-sufficiency.

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[16] Based on statistics provided by HATC during the site visit.

[17] Based on a list of CSET referrals and status provided by HATC during the site visit.

Program Outlook

Roughly one year since its inception, HATC's MTW program of flat rents and fixed subsidies plus time limits has been successful in enrolling a large number of families. MTW participants currently make up about a third of the agency's total tenant population and the program will continue to grow as conventional public housing units and Section 8 vouchers turn over and families are enrolled into MTW off the waiting list. While there will likely always be a percentage of the existing tenant population that prefers to stay on an income-based system, this percentage can be expected to shrink as more and more families move from welfare to work and see their incomes increasing. Because of the time limits on the program, the elderly and disabled, who together make up almost 40 percent of HATC's tenant population, are least likely to switch to MTW; however, agency staff are currently considering offering an unlimited flat rent/fixed subsidy option to serve this group.

Among the MTW participants, over the next year we should expect to see incomes rising and an increasing percentage of households with income from work. Although none of the program participants has yet reached 120 percent of median income, we would also expect to see at least some households with the highest incomes leaving the program to pursue homeownership opportunities. At this point, HATC's partnership with local homeownership programs, for example Self-Help Enterprises and Visalians Interested in Affordable Housing, will become important. It remains an open question, however, whether a majority of participants will be successful in saving in the absence of an escrow account. It will also be important for the agency to ensure that all MTW participants take advantage of the ample supportive services available through agencies such as CSET and HHSA, which include financial assistance and counseling. Currently there is a consensus among HATC intake staff that most MTW participants know how to access local service providers—this will be especially true of CSET and HHSA referrals—but the agency does not have a good sense of what services are actually being used by its clients. The new Form HUD-50058 MTW should assist in tracking clients' use of services.

More broadly, one of the keys to the success of HATC's MTW program will be the ability of its participants to find viable employment. The partnerships that HATC has developed with local social service agencies are extremely important for meeting the workforce development challenges facing Tulare County. A system of flat rents and time limited assistance may have broad applicability, but ultimately it relies both on the potential for job creation in the region and on the ability of the local client population to gain the skills and training necessary to maintain these jobs. As the demonstration matures, and more and more people with basic job skills move to work, it will be interesting to explore whether there remains a sector of the population that cannot be served by a program that relies on families' ability to increase their income.

The success of the MTW's Section 8 program also depends to some extent on conditions in the local housing market. The difficulties that HATC has begun to encounter in leasing up in its regular voucher program also present a challenge for MTW participants, the majority of whom choose the Section 8 fixed subsidy option. HATC is currently taking aggressive steps to increase landlord participation in its Section 8 program and plans to use MTW as a marketing tool. This landlord outreach, coupled with the ongoing tracking that HATC is doing of the experiences of CSET referrals in joining the program and obtaining housing, should provide valuable insight into how a program of time limited assistance, which places a great deal of responsibility on the tenants, will affect Section 8 operations.

Many of these issues will undoubtedly become clearer over the course of the demonstration, as MTW enrollment grows and sufficient time has elapsed to begin to test the effect of its policies on tenant behavior and program operations. HATC's program's careful design and success thus far suggest that in addition to serving the demonstration's overarching goals, the program will ultimately help to answer a number of questions of interest to policymakers about the relationship between rent structures and tenant employment and self-sufficiency.

Appendix

Testimonials of MTW participants (referred by CSET)

"Marshall started with our program while living with family members in Earlimart, a small town that was about a 40 mile round-trip drive from his vocational training site. This was an uncomfortable situation for him and his family, as they did not feel they had a 'home.' We referred him for a housing voucher and he was able to move his family to Visalia, which helped him establish residence in the community where he wishes to work.

Since moving he has completed training ahead of schedule and has been hired at a job for $8 an hour. He states that if he were still living in Earlimart he doesn't believe his success would have been possible. His attitude and commitment to becoming self-sufficient has dramatically changed and he is now looking forward to the future and the many possibilities which are there."

(Prepared by a CSET case manager.)

"I was asked to write a brief summary on how the move to work program has impacted and helped my life. Since my husband and I have been in our new home it has not only helped our wallet, it has helped our marriage. We no longer have the stress of living with another family. My two children have a big back yard to play in and their own private rooms. Having such low rent has helped us pay bills, buy groceries and not have the stress of wondering how we would make it month to month. This program has helped us in many ways for which we are truly grateful. Thank you."

(Prepared by a CSET client.)