How Housing Authorities are Encouraging Self-Sufficiency: Experiences in the Moving to Work Demonstration

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In 1996, Congress created the Moving to Work demonstration (known as MTW) to test whether local housing agencies could improve upon the delivery of housing and services to low-income families if given greater freedom from federal regulation.[1] Congress authorized the U.S. Department of Housing and Urban Development (HUD) to select up to 30 local housing agencies to participate in the demonstration. The housing agencies were given differing degrees of regulatory relief and flexibility in the use of their HUD funds—including the possibility of combining public housing operating and modernization funds and voucher funds into a single block grant.[2] In return, the agencies were asked to examine more cost-efficient ways of delivering housing assistance to create incentives for working families or families preparing for work and to increase housing choice. MTW began in 1999 as a five-year demonstration. Since then, several participating agencies have obtained permission to extend their demonstrations for an additional three to five years.

The existence of three related but distinct program goals—cost effectiveness, employment incentives, and greater housing choice—has resulted in local agencies pursuing disparate MTW experiments. As the evaluators of the demonstration have noted, a "hallmark of the demonstration is that each local housing authority has its own MTW agenda, consisting of a unique approach to managing and providing housing assistance, and its own local objectives."[3]

Understanding the lessons of the MTW demonstration will not be an easy task. Congress has mandated that an evaluation report be prepared within three years of the demonstration's start. However, the demonstration does not have an experimental research design and the range of program modifications being tested is wide. Moreover, household-level data are not being collected consistently across the study sites.[4]

Despite the limitations of the demonstration from a research perspective, there are a number of experiments being undertaken under the MTW umbrella that warrant closer examination. These experiments involve different degrees of deregulation and cover a range of topics, including: rent policies, waiting list policies, time limits, administrative streamlining, and housing development. I am going to focus today on how local housing agencies are experimenting with alternative rent policies and time limits to promote greater income growth among the low-income families that they serve.

To provide some context on the policies that local agencies are trying to change, under the traditional Federal housing assistance programs, families pay rent based on a percentage of their income. In the public housing and voucher programs, for example, families are required to pay 30 percent of their adjusted household income for rent. As household income increases, the family's share of the rent is adjusted upwards by 30 percent of each additional dollar of income.

If there is a decrease in household income, the family's share of the rent goes down by 30 percent of each dollar of income lost.

Many researchers and housing practitioners believe that this "percentage of income" approach to calculating the family's share of the rent acts as a disincentive to accurate income reporting and to income growth. Families may have an incentive to under-report their income to the housing authority, and may be reluctant to take a higher paying job (or to start working) if it will result in a higher monthly rent. Most program administrators have had experience with clients quitting jobs once they find out that their rent has gone up, or making a calculation that going to work—with all it entails in terms of paying for transportation and childcare—may not be worth it if it also has an adverse effect on their housing assistance.

Eleven of the 21 local housing agencies initially selected for the MTW demonstration are experimenting with alternatives to the traditional income-based rent formula. These rent alternatives are typically not mandatory for the elderly or for persons with disabilities, whose capacity for income growth through employment may be limited. The approaches currently being tested through MTW—by virtue of the regulatory relief that the demonstration affords—include flat rents, stepped rents, and ceiling rents. Under *flat rents*, the family's contribution to rent is based on the size of the housing unit and does not vary with household income or change over time. *Stepped rents* are also based on bedroom size rather than household income, but they are designed so that the family's contribution to rent gradually increases over time by pre-determined increments. *Ceiling rents* cap rents at a certain level beyond which they will not increase, even if household income continues to increase.

In addition to experimenting with alternative rent structures, several MTW sites are testing the effect of *time limits* on housing assistance as an incentive for income growth. Ten of the 21 original MTW sites have implemented time limits for their non-elderly/non-disabled families. The time limit provisions vary by site and include across-the-board time limits ranging from 3 to 6 years, as well as time limits applied only to families who reach a certain income level. There are also a range of provisions for how the time limits will be implemented and what exceptions will be made for hardship cases.

In the time that remains, I am going to focus on one of the demonstration sites that has implemented flat rents combined with time limits and has been tracking the income growth of the families subject to these changes.[5] The site is the Housing Authority of Tulare County, which is located in California's central valley, about an hour south of Fresno. Tulare County is predominantly an agricultural community and is the poorest county in the state, with a 24 percent poverty rate according to the 2000 Census. It is also a politically conservative area where there is much support for the notion of placing time limits on public assistance given limited public resources.

Removing the disincentives to income growth is a central goal of Tulare County's MTW program. The housing authority has instituted a system of flat rents that do not vary with household income or over time. In the public housing program, MTW families pay a fixed rent each month to live in a housing authority unit. In the voucher program, MTW families receive a fixed monthly subsidy that they use to rent a unit from a private landlord. Unlike traditional housing programs, the family's share of the rent does not go up if their income increases. Instead, MTW families retain any increases in income and can receive housing assistance for up to five years, as long their annual household income does not exceed 120 percent of the area median (approximately $45,000 in this area). There are no requirements for families to be employed or to participate in supportive services; however, it should be notes that about half of Tulare's MTW families were already working at the time they were admitted to the program.

Housing authority staff anticipated that the rent changes and time limits instituted through MTW would have several consequences. First, they expected to see higher incomes among MTW families than families remaining on the income-based system, because the incentive for under-reporting income would be eliminated under flat rents. Second, they expected a fair amount of self-selection of higher income families into the MTW program at the start of the demonstration, because families already receiving housing assistance were given the option to switch to MTW rules or remain under the income-based system. (Families admitted after the start of the demonstration were not given this choice.) Third, housing authority staff projected that the incomes of MTW families would grow at a faster rate than families on the income-based system, because of the "carrot" incentive of the flat rents (the ability to retain 100 percent of income increases) and the "stick" incentive of the five-year time limit. Finally, the housing authority anticipated that as incomes grew and the time limit approached, MTW families would voluntarily leave the program (to rent or purchase housing on the private market) at a faster rate than under the income-based system.

Three and a half years into the program, Tulare County's MTW program has met many of these expectations. There are currently approximately 1,900 families enrolled in MTW and housing authority data suggest that these families have higher incomes and faster income growth than their non-MTW counterparts. Table 1 shows the average income growth over two years for families who have been receiving housing assistance from the Housing Authority of Tulare County since at least 2000. (Note that the data exclude households qualifying as elderly or disabled, as these households are exempt from MTW rules.) The average family in the MTW program experienced income growth of 23.5 percent between 2000 and 2002, compared to 8.9 percent in the traditional public housing and voucher programs, where the family's share of the rent is based on 30 percent of adjusted income and there is no time limit on assistance.[6]

The median annual income in 2002 for MTW families ($18,655) is also more than double that of the non-MTW families, suggesting that in addition to experiencing faster income growth, MTW families may be reporting their income more accurately.[7]

Table 1

Change in annual household income between 2000 and 2002 for MTW and conventional (income-based) programs

	N	Median Income in 2000	Median Income in 2002	Median Change in Household Income
MTW Public Housing and Voucher Programs	731	$14,307	$18,655	23.5% ($3,279)
Conventional Public Housing and Voucher Programs	746	$8,304	$9,240	8.9% ($542)

Note: Table includes only non-elderly/non-disabled families who began receiving housing assistance in 2000 or prior to 2000 and who were still receiving housing assistance in 2002.

These data on income growth should be interpreted with extreme caution given the demonstration's non-experimental design. Families who were already receiving housing assistance from Tulare County at the time the demonstration began were given a choice as to whether they wanted to convert to the flat rent, time limited system. Higher income families, or families with the greatest potential for income growth, may have systematically opted for the MTW program.[8] At the same time, more cautious or less upwardly mobile families may have chosen to remain with the income-based program, which offers greater security in the event of a decrease in income and where there is no time limit on assistance. Also, some of the difference in income growth may be due to increasingly accurate income reporting, rather than actual growth in earnings.

Although the income growth under MTW is consistent with the housing authority's expectations, there have been some surprises with respect to the time limit. Housing authority staff expected that as incomes grew and the five-year time limit approached, families would begin to move into the private market at a rapid pace, such that there would not be significant numbers of families still receiving assistance near the end of the five-year period. However, turnover among MTW families has been lower than anticipated, and in fact is lower than it is among the income-based families. One hypothesis is that MTW families know that their assistance is limited to five years—the housing authority has tried to emphasize that there will be no exceptions—and are trying to get the most they can out of it. The relative lack of "natural" turnover, however, could create a significant administrative problem for the housing authority in that large numbers of families may be forced to leave the program at the same time—at the end of their five years.

Another concern is the extent to which families will be able to make a successful long-term transition into unsubsidized housing at the end of five years. Thus far, program staff have expressed strong support for the flat rent system and few concerns about the time limit. The families participating in the program, however, have not been surveyed for their views. Interviews with a small number of program participants suggest that MTW families are enthusiastic about the flat rent system and see the five-year time limit as fair, even if they may be concerned about losing the assistance.

There is still much to learn about how flat rents and time limits in housing programs affect employment and income growth. What we have learned from Tulare County, however inconclusive statistically, suggests that the MTW demonstration is fertile ground for further qualitative research into how housing assistance may affect household employment decisions. MTW also has important lessons to offer on what local housing agencies choose to do—and are able to do—when given the opportunity to depart from federal policy.

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[1] Section 204 of the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 1996, enacted as part of Pub. L. No. 104-134, 104th Cong., 2d Sess. (signed Apr. 26, 1996), 142 CONG. REC. H3911 (Apr. 25, 1996).

[2] The Act authorizes public housing agencies (PHAs) to combine operating subsidies, modernization funding, and voucher funding with services to achieve demonstration goals. However, 75 percent of the families participating in the demonstration must be very low-income households (with annual incomes at or below 50 percent of the area median income) and PHAs must continue to assist the same number of eligible households.

[3] "Moving to Work Demonstration Evaluation Draft Research Design," prepared by Quadel Consulting Corporation and The Urban Institute for the U.S. Department of Housing and Urban Development, May 2002. The evaluation of the MTW demonstration is being conducted by Quadel Consulting Corporation and The Urban Institute under contract to HUD.

[4] At the start of the demonstration, HUD's intention was to gather household-level data across all MTW sites through its Multifamily Tenant Characteristic System (MTCS). Due to technical difficulties presented by the variety of programmatic changes being tested under MTW, HUD was unable to modify the MTCS to accommodate the demonstration. As a result, there is no means of tracking household-level outcomes systematically across the MTW sites.

[5] I selected Tulare County because it is one of few the MTW sites where the housing authority has kept complete household-level data over time. It is also a site that I have been able to study in detail under a contract that Abt Associates has with HUD to collect evaluation data for the MTW demonstration. The national evaluation of the demonstration has only just begun, so at present we know relatively little about program outcomes in most of the demonstration sites.

[6] Note that these figures represent the median of each household's change in income between 2000 and 2002, not the percentage change in the median income of the families as a whole. The change in the median income of MTW families between 2000 and 2002 is 30.4 percent ($4,348), and the change in the median income of families in the conventional program is 11.3 percent ($936).

[7] The results are very similar if we disaggregate the public housing and voucher programs, with voucher program participants exhibiting slightly faster income growth overall and a slightly larger difference between the MTW and income-based programs.

[8] 263 of the 731 MTW families in Table 1 (36 percent) were existing housing authority tenants who voluntarily converted to the MTW program at the start of the demonstration. The remaining 468 families were admitted to the MTW program after the start of the demonstration and did not have a choice.