



820 First Street, NE, Suite 510 Washington, DC 20002
202-408-1080 Fax: 202-408-1056 center@cbpp.org www.cbpp.org

To: Interested Parties
From: Center on Budget and Policy Priorities
Re: Response to PHADA on CBPP MTW Analysis
Date: April 14, 2015

HUD is currently negotiating agreements with housing agencies to extend their participation in the Moving to Work (MTW) demonstration through 2028. CBPP issued an analysis on January 21, 2015, recommending that HUD include strong provisions in the agreements to distribute funding more fairly between MTW and non-MTW agencies, require more rigorous evaluation of MTW policies that pose serious risks for low-income families, better support expanded housing choice, and encourage agencies to provide rental assistance to more families.¹ The Public Housing Authorities Directors Association (PHADA) published a critical response on February 25.²

PHADA's response purports to "fact check" our analysis, but it does not identify any inaccuracies. Instead, PHADA's response contains a series of misleading statements that distort our positions or obscure the main points of our analysis.

- Our analysis included data showing that, compared to non-MTW agencies, MTW agencies provide Housing Choice Vouchers to a far smaller share of the families they could assist with their voucher funds. PHADA contends that our finding is inaccurate, but fails to provide any data contradicting it.
- PHADA questions whether our recommendation that HUD phase out special MTW public housing operating fund formulas is prudent. But it does not address our central criticism of those formulas — that by providing 91 percent more funding per unit to certain MTW agencies than the regular formula provides they reduce the funding available to other agencies, potentially by more than 5 percent.
- Our analysis recommends that HUD limit to 10 percent the share of voucher funds that MTW agencies can shift to public housing or other purposes aside from direct rental assistance. PHADA suggests that this contradicts our past support for public housing preservation, but there is no contradiction. We have consistently supported added funds to preserve public housing, but not sweeping authority for agencies to cut vouchers to provide those funds. Such transfers could be expected to undermine Congressional support for the

¹ Will Fischer, "HUD Seeks Significant Improvements to 'Moving to Work' Demonstration, but Additional Changes Needed," Center on Budget and Policy Priorities, January 21, 2015, <http://www.cbpp.org/cms/index.cfm?fa=view&id=5261>.

² Greg Russ, "CBPP Criticizes Moving to Work Program," Public Housing Authorities Directors Association, February 25, 2015, <http://www.phada.org/pdf/PHADAsCBPPPaperRebuttal.pdf>.

voucher program and lead to less overall rental assistance funding.

- PHADA portrays our recommendations that some federal standards be kept in place under MTW and that some risky policies be permitted only if they are rigorously evaluated as opposition to innovation. But we've supported innovation, flexibility and streamlining in many aspects of housing policy. Moreover, we have proposed MTW extension terms that would allow agencies to keep in place the great majority of alternative policies they have implemented.
- PHADA claims that our recommendation that MTW agencies do more to help families move to lower-poverty neighborhoods is off base, and cites selected findings from a housing mobility study to support this point. But the broader body of research shows that living in high poverty neighborhoods can impair children's cognitive development, school performance, and mental and physical health, while living in low-poverty, high-opportunity areas can deliver important benefits. This research provides more than enough evidence to support making housing choice and mobility a priority in MTW.³

Voucher Utilization

The CBPP analysis recommends that HUD allocate most Housing Choice Voucher subsidy funding for MTW agencies through the same formula used for non-MTW agencies, which provides very strong incentives to use available funds to issue vouchers to needy families. By contrast, the block grant formulas used to provide voucher subsidy funding to MTW agencies contain no voucher utilization incentives. To demonstrate the impact of these differing incentives we note that, compared to MTW agencies, non-MTW agencies provide vouchers to a far larger share of the families they could assist with their funds. In 2013, the last year for which complete data are available, non-MTW agencies assisted 99.5 percent of the families they could have assisted with their funds, while MTW agencies assisted 86 percent of the families they could have assisted.⁴

PHADA doesn't question the 86 percent average utilization rate we estimate for MTW agencies, but claims that we should have used a lower utilization rate — 91.7 percent — for non-MTW agencies.⁵ This would cut the gap in utilization between MTW and non-MTW agencies by more than half. But it would not have made sense for us to use PHADA's figure in our analysis.

³ Barbara Sard and Douglas Rice, "Creating Opportunity for Children: How Housing Location Can Make a Difference," Center on Budget and Policy Priorities, October 15, 2014, <http://www.cbpp.org/cms/index.cfm?fa=view&id=4211>.

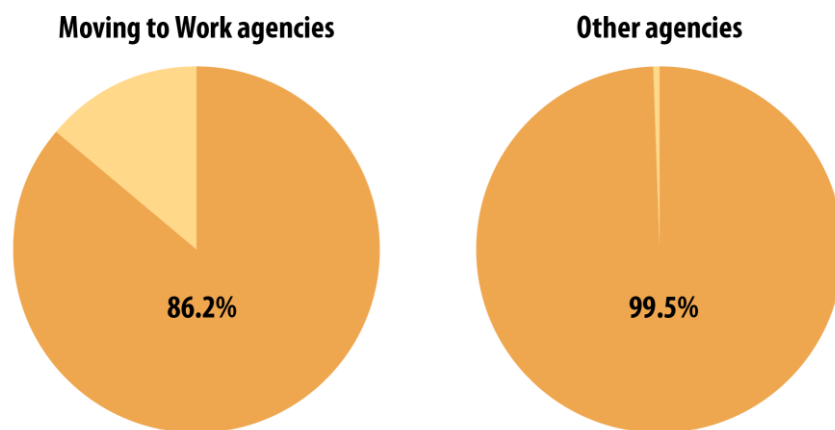
⁴ We calculate the number of families an agency could have assisted with its funds by dividing its funding level by the average cost of its vouchers. Our January 21 analysis provides further details on these figures in footnotes 9 and 10 and additional discussion of the implications of low MTW voucher utilization.

⁵ PHADA also claims that we should have looked at median, rather than average, utilization rates. But either approach shows much lower utilization at MTW agencies. In 2013, the median MTW agency assisted 90 percent of the families it could have assisted with its funds, while the median non-MTW agency assisted 100 percent. The MTW average was lower — at 86 percent — because the 13 MTW agencies (out of 35 that participated in MTW throughout 2013) with utilization rates at or below 86 percent were disproportionately large. We used the average in our analysis because it shows the overall effect of MTW underutilization. When larger agencies have low utilization more families are left without vouchers, and in total MTW agencies provided vouchers to 86 percent of the families they could have assisted with their funds — not 90 percent.

The difference between PHADA’s 91.7 percent utilization rate for non-MTW agencies and our 99.5 percent is that PHADA looks at the number of vouchers in use as a percentage of all vouchers an agency is *authorized to administer*, while we looked at vouchers in use as a percentage of the vouchers an agency is *authorized to administer and received sufficient funds to support*. This is an important distinction, since many non-MTW agencies receive much less funding than they need to support all of their authorized vouchers. Nearly all of the authorized vouchers non-MTW agencies left unused in 2013 were vouchers they could *not* have supported.

“Moving to Work” Agencies Use Smaller Share of Vouchers Than Other Agencies

Vouchers in use as share of vouchers that annual funding could support, 2013



Source: CBPP analysis of Department of Housing and Urban Development data.

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PHADA argues that we should have cited the percentage of all authorized vouchers in use because it is “the uniformly accepted definition” of voucher utilization. This isn’t true. For example, HUD’s voucher performance assessment system uses a definition of utilization that takes funding availability into account and is more similar to the definition in our analysis than to PHADA’s.⁶

But more importantly, PHADA’s figures on the percent of all authorized vouchers in use are irrelevant to the point our analysis makes — that MTW agencies provide vouchers to a much smaller share of the families they could assist with their funds than non-MTW agencies. That is unambiguously correct. The large number of *funded* vouchers left unused at MTW agencies argues strongly for changing MTW funding formulas to encourage agencies to provide rental assistance to more families, given the very large unmet need for such assistance.

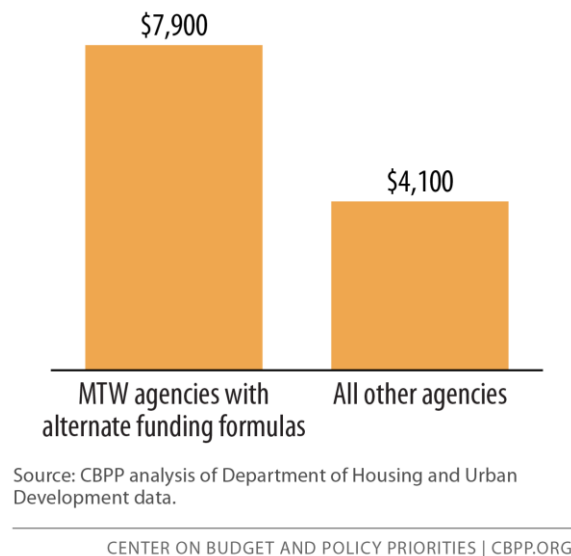
⁶ See 24 C.F.R 985.3(n).

Public Housing Operating Fund Formula

PHADA's response notes that our analysis criticizes the special formulas used to provide public housing operating funds to 11 MTW agencies, which on average provide 91 percent more funding than the regular operating fund formula provides to non-MTW agencies (and to the 28 MTW agencies without special formulas). But PHADA fails to mention the central point of our analysis — that by providing such generous funding to agencies such as Cambridge, Chicago, and Philadelphia, the special formulas leave less funding available for other agencies (including nearly all PHADA members).

Some “Moving to Work” Agencies Get Much Higher Public Housing Funding

Operating fund eligibility per public housing unit, 2014



In recent years Congress has usually underfunded the public housing operating fund, resulting in pro rata reductions for all agencies. The added funding provided to MTW agencies makes these prorations deeper than they would otherwise be. If MTW agencies with alternative formulas received the same funding per unit as other agencies, HUD would have had enough funds to provide all agencies 94 percent of the funding for which they were eligible in 2014, instead of the 89 percent they actually received.

As PHADA mentions, one reason special MTW funding levels are so high is that the formulas provide generous incentives to agencies that reduce utility costs (although these incentives are just one of the formulas' preferential provisions, and there is not enough information available to determine how much of the added funding stems from particular provisions). PHADA asks “Is it prudent for CBPP to advocate so strongly to eliminate an energy-saving behavior that should be incentivized across the entire public housing portfolio?” But our objection is to preferential funding formulas that benefit some agencies at the expense of others, not to well-designed energy efficiency incentives. HUD currently plans to phase out special MTW operating fund formulas, and proposes

in its 2016 budget request to create a new incentive that — while less generous than the current MTW incentives — would encourage all agencies to reduce utility consumption. We think both measures would be steps in the right direction.

Public Housing Preservation

Our January analysis urges HUD to limit to 10 percent the share of voucher funds MTW agencies can shift into their public housing programs or use for other purposes aside from vouchers and similar rental assistance. PHADA argues that this contradicts statements we have made in support of public housing. As PHADA notes, we wrote an analysis in 2008 making the case for a series of policies to preserve most public housing. We have also regularly supported more adequate public housing operating and capital funding, inclusion of \$4 billion in supplemental capital funds in the 2009 Recovery Act, and the enactment and expansion of the Rental Assistance Demonstration.

We do not, however, support funding public housing preservation by allowing agencies to cut vouchers and transfer the savings. The most important reason for this is that unlimited authority to shift voucher funds into public housing can be expected to reduce overall funding for rental assistance. Congressional appropriators have generally sought to provide sufficient funds to renew all vouchers in use, in part because they are aware of the benefits of vouchers and the serious, direct consequences of voucher funding shortfalls. For various reasons, they have provided less favorable appropriations for the public housing operating fund and have cut the public housing capital fund sharply.

Allowing additional local agencies to override those Congressional decisions by shifting large amounts of voucher funds into public housing — as PHADA proposes — would increase resources for public housing in the immediate term. But over time it would severely damage the rationale for funding vouchers and likely lead to voucher funding cuts. The best strategy to maximize the total resources available for vouchers and public housing is to persuasively advocate more adequate funding for both programs.

Flexibility, Innovation, and Evaluation

PHADA portrays our support for new protections in MTW as opposition to policy innovation, asking “Why does CBPP wish to deny this once in a generation opportunity for true innovation in government?” But we have strongly supported a wide range of housing policy innovations, including many that allow housing agencies new flexibility and reduce administrative costs.

PHADA cites a recent Abt Associates report that lists (but does not evaluate) 304 alternative policies implemented by MTW agencies.⁷ More than half of these involve alternative inspection schedules and methods, alternative income recertification schedules, streamlined certification of assets, elimination or modification of deductions and disregards, and easing of limitations on project-based vouchers — all areas where the Center has advocated legislative and regulatory

⁷ Jill Khadduri et al, “Innovations in the Moving to Work Demonstration,” Abt Associates, December 2014, http://www.pahrc.org/studies/Innovations_in_the_Moving_To_Work_Demonstration_Full_Report.pdf.

changes adding flexibility for all agencies.⁸ Moreover, the terms we have recommended to HUD for the pending MTW extensions would continue to permit nearly all of the alternative policies the Abt report lists.

We do, however, believe that rental assistance will be more effective and politically sustainable if key federal standards remain in place. For example, we recommend that the extensions prohibit agencies from restricting the right of voucher holders to move with their voucher outside the jurisdiction of the agency that issued it — a right that is critical to giving voucher holders access to a wide range of communities and neighborhoods. Instead, we have supported statutory and regulatory efforts to make this “portability” right simpler and less burdensome for agencies to administer. We have also urged that any expansion of MTW to new agencies protect additional federal standards beyond those we recommend retaining in the extensions, including income targeting rules and procedural protections for voucher holders and public housing residents.

Our analysis also recommends that HUD *only* permit MTW agencies to establish new policies with particularly high risks for low-income families (including work requirements, time limits, and major changes to rent rules) if the policies will be subject to rigorous evaluation. A number of MTW agencies have implemented such policies in the past, but because HUD has not required rigorous evaluation little is known about the effects they have on families. For example, while housing agencies have imposed time limits on assistance, these limits have not been subject to controlled evaluation and agencies have not even systematically tracked families whose assistance was cut off to determine how they fared.

PHADA says that our concern about effects on low-income families is off base because evidence of harm has not been documented. But this is exactly our point. Neither we nor HUD nor state and local agencies know the impact that the riskiest MTW policies have had on families. If HUD is going to allow agencies that receive extensions to establish such policies in the future, it should require that those experiments generate concrete, meaningful findings that can inform policy going forward.

Housing Choice

Our analysis notes that many MTW agencies have done little to help low-income families access a wider range of neighborhoods, even though expanding housing choice is one of MTW’s three primary goals. This point is supported by the Abt MTW report, which finds that only six MTW agencies identified measures expanding choice as among the most important they had implemented. The report includes only 24 measures promoting access to a broader range of neighborhoods among the 304 alternative policies it lists, and only a few agencies have tested key choice-promoting policies. For example, just six agencies have revised payment standards to reflect rents in smaller submarkets rather than HUD’s metro-wide FMRs, despite emerging evidence that this approach can help families move to higher opportunity neighborhoods without raising program costs.⁹ We recommend that HUD require MTW agencies whose rental assistance recipients are excessively

⁸ See, for example, Will Fischer, “Testimony before the Senate Banking Subcommittee on Housing, Transportation, and Community Development, August 1, 2012, <http://www.cbpp.org/cms/?fa=view&id=3814>

⁹ Robert Collinson and Peter, Ganong, “The Incidence of Housing Voucher Generosity,” Social Science Research Network, October 13, 2014, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2255799.

concentrated in high-poverty areas to develop plans to expand housing choice, and also that HUD prohibit agencies from using MTW flexibility to limit choice (for example, through the voucher portability restrictions discussed above).

PHADA does not address our contention that supporting housing choice has been a low priority at many MTW agencies. Instead, it portrays our emphasis on the importance of choice and mobility as misplaced, and cites a portion of the findings from HUD's Moving to Opportunity (MTO) demonstration as support. But the MTO findings are more mixed and nuanced than PHADA suggests and other studies provide additional evidence of the importance of neighborhoods for low-income families. Overall, a strong body of evidence shows that living in high-poverty neighborhoods can impair children's cognitive development, school performance, and medical and physical health, while living in low-poverty, high-opportunity areas can deliver important benefits.¹⁰ We have written a detailed review of this evidence, and other analysts have reached similar conclusions. For example, the Abt Associates MTW report summarizes the research on access to opportunity areas as follows:

“Expanded access to opportunity areas can result in a variety of positive outcomes. Research on the academic performance of elementary school students living in public housing in Montgomery County, MD, for example, revealed a significant association between math and reading scores and neighborhood poverty rates. Over a five- to seven-year period, students living in public housing who had been randomly assigned to developments in lower-poverty neighborhoods significantly outperformed their peers in higher-poverty areas.

Opportunity neighborhoods have also been linked to improved health outcomes, with some of the strongest evidence coming from participants in the Moving to Opportunity (MTO) program. Over a 10- to 15-year study period, women living in distressed public housing who were offered housing vouchers that could only be used in low-poverty neighborhoods had significantly lower rates of morbid obesity and diabetes than their peers who were not offered a voucher. Findings from MTO also indicate that women who moved to low-poverty areas experienced significant reductions in psychological distress. Evidence from the HOPE VI program also points to health benefits for families that used vouchers to move from public housing developments to lower-poverty areas.”

This and other evidence strongly supports making expanded choice a top priority in federal housing policy. HUD should ensure that the pending extensions make it a priority in MTW.

Conclusion

Despite its strongly worded complaints, the PHADA article fails to raise criticisms of our January analysis that stand up to scrutiny. We believe the findings and recommendations of the analysis remain on point. As we wrote in January, MTW has resulted in some useful innovations, but has also demonstrated major shortcomings in areas such as voucher utilization, funding equity, evaluation, and support for housing choice. We have not opposed extension of most existing MTW contracts through 2028, but we do recommend that HUD include strong provisions in the extension agreements to address these shortcomings.

¹⁰ Sard and Rice, 2014, note 3 above.