Largely as a result of commitments made during the last decade, about 4 million rental assistance commitments and 1.3 million homeownership commitments will be outstanding at the end of fiscal year 1982 (see Table 6). The rental assistance commitments will be sufficient to serve only 11 percent of all households with incomes below 80 percent of the area median--the eligibility limit for most rental assistance. However, those commitments will be sufficient to serve 22 percent of all income-eligible renters and about 28 percent of all renters with incomes below 50 percent of the area median--the effective target group of present programs. Outstanding homeownership assistance commitments will be sufficient to serve only 3 percent of all households with incomes below the eligibility limits for such aid, or 6 percent of all homeowners with incomes low enough to qualify.

Long-term obligations under all HUD rental and homeownership assistance commitments expected to be outstanding at the end of fiscal year 1982 will total more than $240 billion.[13] Interest-subsidy costs and rental assistance payments under outstanding FmHA subsidy agreements will probably add several billion dollars to this total. Actual long-term expenditures will depend on housing costs, interest rates, and household incomes for many years to come.[14]

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13. Obligation under HUD programs represents the total unspent budget authority set aside to fund all assistance commitments expected to be outstanding as of the end of fiscal year 1982. The figure excludes future requirements for public housing operating subsidies.

14. For descriptions of expected long-term costs under alternative economic assumptions, see Congressional Budget Office, The Long-Term Costs of Lower-Income Housing Assistance Programs (March 1979) and Rural Housing Programs: Federal Costs and Budget Treatment (June 1982).

TABLE 6. NUMBER OF ASSISTANCE COMMITMENTS OUTSTANDING THROUGH FISCAL YEAR 1982 AND PROPORTION OF THE ELIGIBLE POPULATION SERVED UNDER CURRENT HOUSING ASSISTANCE PROGRAMS (In millions of households)

	Rental Assistance[a]	Homeownership Assistance[b]
Number of Commitments Outstanding	4.0	1.3
Estimated Number of Income-Eligible Households--Renters and Homeowners Combined[c]	37.2	44.6
Estimated Number of Income-Eligible Households in Same Tenure Class--Renters or Homeowners Alone[c]	18.6	23.5
Outstanding Commitments		
As percent of all income-eligible households[c]	10.8	2.9
As percent of all income-eligible households in same tenure class[c]	21.5	5.5
As percent of all very-low-income households in same tenure class	27.8[d]	NA

SOURCE: CBO estimates. NA = Not available.

a. Includes Section 8, public housing, Section 236, rent supplement, and FmHA rental assistance programs.

b. Includes outstanding Section 235 homeownership assistance commitments and FmHA homeownership loans.

c. Eligibility limit for rental assistance is 80 percent of area median family income for a family of four. Limit for homeownership assistance is 95 percent of area median.

d. Estimated number of assistance commitments serving renters with incomes no greater than 50 percent of area median as a percent of all such households.

CHAPTER IV. ALTERNATIVE APPROACHES

The high cost of current housing assistance programs and their limited coverage has prompted a growing interest in alternative approaches for providing housing aid. This chapter examines several comprehensive policy alternatives that have been suggested recently and that have been under active consideration during the current session of Congress. The next chapter discusses program-design issues associated with each approach.

COMPREHENSIVE POLICY ALTERNATIVES

One obvious option available to the Congress would be to cease making additional housing assistance commitments. In light of the significant improvement in housing conditions that has occurred over the past several decades and the fact that remaining housing problems for the poor have more to do with the cost of housing than with its quality, some persons have argued that additional assistance tied specifically to housing may no longer be necessary. If such an approach was adopted, the current inventory of assisted units would still be available for lower-income persons, but any further assistance that might otherwise have gone for housing aid would be used instead to provide general income assistance to the poor. Taken one step further, outstanding housing assistance commitments could be gradually phased out, and the funds thus made available could be devoted to general income support programs as well. In either form, this alternative would do little to improve the housing conditions of those lower-income families who remain ill-housed, but would allow available resources to aid a larger number of low-income households and would grant assisted households greater freedom in the use of their additional income.

If the Congress chooses, instead, to continue to expand housing assistance for the poor, alternatives to present programs include:

- Housing vouchers;

- Housing assistance block grants; and

- o A multiple-program approach involving separate lower-income assistance and production-subsidy programs.

Each of these three alternatives is discussed below.[1]

Housing Vouchers

One alternative to current programs would be to provide any additional housing assistance principally through cash or cash-equivalent vouchers paid directly to lower-income persons living in physically standard rental housing of their own choosing in the private market. Under most voucher proposals, assisted households would receive payments equal to the difference between some percentage of their income and a benchmark amount corresponding to the estimated cost of modest-priced, physically standard housing. Households renting units costing more than the benchmark amount would pay the full additional expense themselves; those choosing to live in less costly dwellings would realize all of the savings. In either case, vouchers could only be used for dwellings meeting minimum quality standards.

Housing vouchers would closely resemble Section 8 existing-housing assistance and could be implemented by making a limited number of statutory changes. There are three principal differences between the present existing-housing program and the voucher program described above (see Table 7).[2] First, under a

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1. The Administration's budget and legislative proposals for fiscal year 1983 incorporate elements of the first two alternatives. The Administration has proposed that beginning in 1983 additional HUD lower-income rental assistance commitments be funded principally through a modified Section 8 existing-housing certificate program, which would resemble a housing voucher program in several important respects. The Administration has also proposed that rental rehabilitation grants be provided to states and localities, in part to help finance repairs to some of the units occupied by households assisted under the certificate program. The Administration's proposal calls for financing its 1983 assistance commitments principally with funds recaptured through the deobligation of outstanding tentative new construction, substantial rehabilitation, and moderate rehabilitation commitments.

2. The voucher alternative described here is based on the primary program design assessed in the HUD-sponsored Experi-
(Continued)

TABLE 7. PRINCIPAL DIFFERENCES BETWEEN HOUSING VOUCHERS AND SECTION 8 EXISTING-HOUSING PROGRAM

Section 8 Existing-Housing	Housing Vouchers[a]
Nature of Payment	
Payment made to landlord on behalf of assisted household. Requires contract between administering agency and landlord.	Payment made directly to assisted household. No contract with landlord required.
Rent/Subsidy Limit	
Maximum allowable rent levels limit households' housing choices and size of subsidy.	No maximum rents apply. Subsidy cap limits federal expenditure but households may choose any physically standard unit.
Size of Subsidy	
Subsidy equals difference between full market rent on occupied unit and fixed percentage of tenant income. Subsidy varies both with household income and with market rents on occupied units.	Subsidy equals difference between subsidy cap and fixed percentage of tenant income. Subsidy varies only with household income.

a. The voucher alternative described here is the primary program design assessed in the Experimental Housing Allowance Program.

voucher program, payments would be made directly to assisted households rather than to their landlords. Second, a subsidy limit would replace the rent limit, thus expanding participants' housing choices. Third, the size of the subsidy would not vary with a unit's market rent level, thereby providing a stronger incentive for recipients to shop for the least costly housing available.[3] Because of the similarities between the two programs, housing vouchers could easily be administered locally by the same agencies now providing Section 8 existing-housing assistance.

Housing Assistance Block Grants

A second policy alternative would involve folding current housing assistance programs into one or more block grants to be spent by state and local governments under programs of their own design.[4] In its most inclusive form, all current direct assistance programs--including Section 8, public housing, Section 235, FmHA loan programs, and the Section 312 rehabilitation program--would be folded into a single loosely restricted grant. A more limited block grant might supplant only particular types of programs while restricting the use of funds to corresponding types of assistance.

Any block grant would place a high premium on local discretion in determining what housing needs should be addressed. Such an approach presupposes that smaller units of government--because of their greater knowledge of local conditions--would be better

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3. (Continued)
mental Housing Allowance Program (EHAP), a 12-market study begun in 1971 to measure the costs and impacts of housing vouchers. Much of what is known about the likely effects of a national voucher program comes from EHAP, which is now nearing completion. The EHAP reports cited in this study represent only a small share of all those that are available.

3. Each of these features of a voucher program is discussed in greater detail in Chapter V.

4. For a discussion of specific housing assistance block grant proposals, see John C. Weicher, "Housing Block Grants," Staff Background Paper prepared for the Committee on Federal Housing Programs and Alternatives of The President's Commission on Housing (August 26, 1981).

able than the federal government to identify local needs and to devise strategies for dealing with them. Without federal guidelines, however, a housing block grant would necessarily substitute local judgments for national ones concerning the targeting of assistance.

A comprehensive housing assistance block grant would represent a major break with the past by turning over to state and local governments the responsibility for assisting lower-income renters and for promoting new residential construction. A more limited block grant emphasizing housing rehabilitation would more closely resemble the Community Development Block Grant program, and would therefore constitute a less dramatic policy shift.

Multiple Program Approach

A third option--encompassing elements of the other two--would be to use separate programs to pursue separate policy objectives. Under one such scheme, housing vouchers would be used to aid lower-income renters; a limited-use block grant would fund complementary rehabilitation assistance; and a separate production subsidy would be relied upon to promote the construction of new rental housing that would be available to households over a wider income range than would be served by vouchers. A somewhat different form of this proposal would entail subsidizing new residential construction as well as rehabilitation through block grants.

In either form, such an approach would direct lower-income aid toward reducing the housing costs of the poor while dealing separately with housing quality and supply concerns. Using different policy tools to address distinct concerns could increase overall efficiency. Applying this approach, it could be possible, for example, to aid more lower-income persons while subsidizing the construction or rehabilitation of more housing units at less expense than pursuing both objectives through current lower-income new-construction/rehabilitation programs. On the other hand, any system that included a production subsidy targeted less toward low-income households would necessarily divert some funds from the lowest-income persons in order to help provide additional housing for those who are better off.

The principal elements of a multiple-program approach would likely resemble existing programs and could, in fact, be modeled on them. Housing vouchers could be offered through a slightly revised Section 8 existing-housing program. A limited-use block grant could be created by setting aside a portion of CDBG funds--one-third of which are already used for housing rehabilitation--or by authorizing a separate program. A rental housing production subsidy could be provided by adapting any of several devices now used to reduce financing charges on Section 8 projects; by making new residential construction an eligible activity under the CDBG program; or by designing an entirely new alternative.[5]

ASSESSING ALTERNATIVE APPROACHES

Current housing assistance programs and the alternatives outlined above differ with respect to:

- The policy objectives addressed;
- The population that would be assisted;
- Program costs; and
- The ease of administration and the level of government at which administrative decisions would be made (Table 8).

Policy Objectives Addressed

Present housing assistance programs pursue the objectives outlined in Chapter II through numerous overlapping policy devices, each of which is generally meant to serve more than one goal. Multiple objectives are particularly evident in current new construction programs that are designed to improve the living conditions and reduce the housing costs of lower-income persons while simultaneously promoting new housing production.

Primary or exclusive reliance on housing vouchers would concentrate federal resources more narrowly on alleviating housing-cost burdens among the poor. Findings from the HUD-sponsored Experimental Housing Allowance Program and experience under the Section 8 existing-housing program indicate that vouchers would also likely induce some upgrading of marginally substandard units but would probably not generate repairs to many seriously dilapidated

5. Specific subsidy options are discussed in Chapter V.

TABLE 8. COMPARISON OF ALTERNATIVE HOUSING ASSISTANCE APPROACHES

Policy Alternative	Objectives Served	Types of Households Assisted	Average Cost per Household Assisted[a]	Administrative Burden and Degree of Local Discretion
Current Housing Assistance Programs	Principally aiding lower-income households and supporting new residential construction.	Principally very-low-income renters.	3,650	Administrative burden varies with program. Localities exercise some control over program mix.
Housing Vouchers	Principally aiding lower-income households.	Exclusively very-low-income households.	2,150	Administrative burden light. Local discretion limited.
Housing Assistance Block Grants	Depend on federal guidelines and local program-design decisions.			Federal involvement diminished. Local responsibilities and discretion increased.
Multiple-Program Approach				
Lower-income housing vouchers; separate block grants or production subsidies to support rehabilitation or construction.	Similar to current programs but different policy tools used to address different objectives.	Very-low-income households through vouchers. Somewhat higher-income persons through production subsidy.	2,150 per voucher recipient. Production subsidy cost depends on program design.	Depend on program design.

a. Figures represent estimated direct expenditures in constant dollars for the first year of assistance per additional assistance commitment made in 1983. Estimated average cost under current programs assumes 55 percent existing-housing assistance and 45 percent new construction mix--the program mix expected to result from the fiscal year 1982 authorizing legislation at the time it was enacted. See accompanying text for description of specific voucher option.

structures or promote additional residential construction.[6] Available evidence suggests that vouchers might also contribute somewhat to racial and economic deconcentration but that the degree of geographic dispersion would probably be very limited.[7] There is no evidence that a voucher program would have any measurable inflationary effect on rents, even in a relatively tight

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6. In the two largest housing allowance sites, about three-fifths of all renters enrolling in the program who were initially living in dwellings that failed inspections upgraded their units at an average expense of less than $40, excluding the value of donated labor. The proportion of initially inadequate units that were eventually upgraded ranged from 70 percent of all units that failed only one inspection item to 32 percent of the units failing on four or more counts. Over time, the requirement that recipients' dwellings remain up to standard appears to generate improved maintenance, with one-fourth to two-fifths of all eventually qualifying rental units failing annual reinspections and more than 70 percent of those being brought back up to standard. See James L. McDowell, Housing Allowances and Housing Improvements: Early Findings (The Rand Corporation, September 1981); and Sinclair B. Coleman, How Enrollees Respond to Allowances and Housing Standards (The Rand Corporation, forthcoming).

7. A study of the Section 8 existing-housing program in 15 metropolitan areas found that assistance recipients who moved relocated from census tracts with an average of 12 percent of all households in poverty to tracts in which an average of 10 percent of all households were poor. Minority-headed Section 8 households who moved relocated from tracts with an average of 50 percent minority-headed households to tracts with an average of 39 percent minority-headed households. See James E. Wallace and others, Participation and Benefits in the Urban Section 8 Program (Abt Associates, Inc., January 1981), pp. 247 and 261. Findings from the housing allowance experiments reported somewhat smaller degrees of deconcentration and, in general, found that the locational choices of assistance recipients did not differ appreciably from those of low-income renters who did not receive aid. See Fourth Annual Report of the Housing Assistance Supply Experiment (The Rand Corporation, May 1978); and Stephen D. Kennedy, The Final Report of the Housing Allowance Demand Experiment (Abt Associates, Inc., June 1980).

housing market, largely because vouchers do not generate substantial additional housing demand.[8]

The policy goals emphasized under a comprehensive housing assistance block grant would depend on the federal guidelines established and on the program-design decisions made locally. The relative emphasis given the housing affordability and housing adequacy problems of the poor, for example, would depend on the distribution of assistance among existing-housing, rehabilitation, and new-construction programs.

Combining housing vouchers with a rental housing production subsidy that assisted persons over a wider income range would use different devices to serve some of the same goals addressed by current programs. Differentiating between lower-income assistance and construction support, however, would increase the efficiency of the system as a whole--making it possible either to aid lower-income households or to subsidize new production without paying the large price needed to make the newly built structures immediately accessible to very-low-income persons.

The Population Assisted

As noted earlier, most aid under current housing assistance programs benefits very-low-income renters. While present rental assistance programs are open to families with incomes up to 80 percent of the area median, recent legislation required that at least 90 percent of all future beneficiaries have incomes no greater than 50 percent of the area median. Present tenant incomes are already heavily concentrated below the lower threshold, averaging about $4,800 as of 1979, or approximately 25 percent of the median family income.

Housing vouchers would target aid exclusively on very-low-income persons, because the subsidy cap would probably be set at a

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8. When offered on an entitlement basis over a three-year period to both homeowners and renters in two quite different markets, housing allowances, or vouchers, increased the aggregate demand for housing by less than 2 percent with no perceptible marketwide effect on either rents or property values. See Ira S. Lowry, Experimenting with Housing Allowances: Executive Summary of the Comprehensive Final Report of the Housing Assistance Supply Experiment (The Rand Corporation, April 1982).

level at which families with incomes above 50 percent of the median would not qualify or would be eligible only for small payments.[9] Within the very-low-income population, aid would likely be still further concentrated in the lowest-income segment, because the smaller maximum subsidy would provide less incentive for better-off persons to join.

The population served under a comprehensive housing assistance block grant would depend on federal guidelines and on local program-design decisions. Evidence from current community development programs suggests, however, that without fairly stringent federal targeting requirements aid might be dispersed across a somewhat wider income range than under current housing programs.[10] Also, under an unconstrained housing block grant, funds now used to assist renters might be diverted to homeowners, who, as a group, are less likely to be living in physically inadequate dwellings and are generally better able to finance their own housing improvements.

Under a multiple-program approach, different programs would serve different income groups. As noted, housing vouchers would aid exclusively very-low-income households. Depending on program restrictions, supplementary block grants might assist the same households or could be designed to aid persons ineligible for

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9. The manner in which this automatic targeting would occur, and options for setting income eligibility thresholds for a voucher program, are discussed further in Chapter V.

10. According to a 1976 survey, about 20 percent of the homeowners receiving assistance under CDBG-funded housing rehabilitation programs had incomes above the eligibility threshold for Section 8 and public housing assistance. Three-fifths of all homeowners benefiting from CDBG-funded housing rehabilitation assistance would have qualified as very-low-income under housing assistance program definitions, compared to nearly 90 percent of all Section 8 and public housing recipients. As noted earlier, only about one-half of the eventual occupants of housing projects built or rehabilitated with UDAG funds are expected to be lower-income persons. See U.S. Department of Housing and Urban Development, Community Development Block Grant Program: Third Annual Report (March 1978), pp. 136-37; and Consolidated Annual Report to Congress on Community Development Programs (April 7, 1982).

vouchers. A separate rental housing production subsidy would almost certainly serve better-off persons, because the subsidy provided would probably be insufficient to make newly built housing readily affordable to low-income families.

Program Costs

The costs of current housing assistance programs vary widely, depending principally on the types of structures in which people are housed. The average annual direct federal expenditure for rental assistance commitments made in fiscal year 1983 would range from about $2,350 per family aided under the Section 8 existing-housing program to more than $5,000 per household assisted under the new-construction programs. If the initially anticipated 1982 program mix of 55 percent existing-housing/moderate rehabilitation and 45 percent new-construction/substantial rehabilitation was repeated for 1983 as well, the average annual direct expenditure per additional household aided in that year would be $3,650.[11]

Housing vouchers would be appreciably less costly than the current mix of housing aid and might even be less expensive than Section 8 existing-housing assistance. The savings relative to Section 8 existing-housing could occur because a voucher program would replace the Section 8 rent maximums with payment standards, making it possible to set the payment standards at lower levels as a means of reducing program costs without automatically foreclosing additional segments of local housing markets from assisted households. Any reduction in the payment standards would, however, increase the share of their nonvoucher income that assisted households would have to pay to afford dwellings renting for more than the benchmark levels. Thus, while reductions in the payment standards would not automatically foreclose beneficiaries' housing choices, such reductions could make some share of local housing markets financially inaccessible to assistance recipients. If the payment standards were set 5 percent below the projected 1983 Section 8 existing-housing rent maximums, for example, the average annual cost per household aided in that year would be $2,150, or about 8 percent lower than the average cost of aiding a comparable

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11. All figures are estimates of the constant fiscal year 1983 dollar cost for the first year in which the newly assisted dwellings would be occupied.

household under the Section 8 existing-housing program and 40 percent less than the average expense under the current program mix.[12]

The average expenditure per household aided under a block grant program would depend on the types of assistance provided locally and the income groups served. In whatever form aid was provided, some administrative savings would likely be realized at the federal level. By contrast, state and local administrative expenses might increase—at least in the short run—as they took over additional program-design and management responsibilities.

The cost of any rental housing production subsidy designed to supplement lower-income vouchers would depend on the size of the subsidy provided and on the subsidy mechanism used. Using a mortgage assistance grant to reduce the financing charges on a newly built rental unit with a $50,000 mortgage from a market rate of, say, 15 percent to 12 percent, for example, would require a one-time expenditure of $9,400. Reducing the effective interest rate by seven percentage points would cost $21,500. Averaged over the expected lives of the loans, annual constant-dollar expenditures would range from $500 per unit for a three-percentage-point subsidy to $1,100 per unit for a seven-percentage-point interest

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12. In this example, the average payment standard for the voucher program is assumed to be set at slightly more than $3,600 on an annual basis, or about $300 per month. This level is close to the average expected Section 8 existing-housing Fair Market Rent (FMR) or rent ceiling for assistance commitments to be entered into in 1982, but it is somewhat less than what the FMR would be in 1983 if it was increased from 1982 at a rate sufficient to take account of anticipated growth in housing costs between the two years. As part of its legislative proposals for this year, the Administration has recommended replacing the present Section 8 existing-housing rent ceilings with payment standards for newly assisted households. The Administration has indicated that they expect to fix the market-specific payment standards equal to about the 40th percentile of all rents on physically adequate dwellings, excluding newly built units. This compares with present Section 8 existing-housing FMRs equal to the 50th percentile of all rents on units occupied by recent movers and anticipated fiscal year 1982 FMRs equal to the 40th percentile of all rents paid by recent movers. It is estimated

(Continued)

subsidy.[13] Regardless of how large an interest-rate reduction was provided, a rental housing financing subsidy of this sort would be appreciably less costly than current lower-income new construction programs but would benefit principally better-off persons.[14] If subsidized projects were used to house large numbers of very-low-income tenants, either supplementary rental assistance would be required--appreciably increasing total program costs--or the poorer tenants would have to pay much larger shares of their incomes toward housing than they do under present lower-income assistance programs.

Ease of Administration and Local Discretion

The present set of federal housing programs requires that state and local governments and housing developers learn the operating details of numerous program variants, and probably confuses many households seeking aid. Under the current system, localities are granted some discretion in determining the mix of housing assistance programs offered within their jurisdictions. For each of the last few years, however, the Congress has specified the nationwide division of funds between new construction and existing-housing assistance.

Providing housing aid primarily or exclusively through vouchers might reduce local administrative burdens, but would also diminish discretion by reducing the number of available subsidy devices. On the other hand, under a voucher program funds could be allocated directly to smaller jurisdictions than under present new-construction programs, because under a voucher system there

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12. (Continued)
that shifting from the 1981 benchmarks to the proposed 1983 levels would reduce the FMRs/payment standards by about 15 percent, after adjusting for housing cost increases over that two-year period.

13. Figures assume an average effective life of 20 years on a 40-year mortgage.

14. As discussed further in Chapter V, the net federal expense of a rental housing subsidy could be reduced by requiring that project owners repay some part of their subsidies when they dispose of their properties.

would be no concern regarding what minimum allotment of funds would be needed to support a feasible housing project.

Block grants would maximize local discretion but could also increase state and local administrative burdens, particularly in the early program years as those goverments took on additional program-design and management tasks. A block grant could also increase the burden on developers, financial intermediaries, and others involved with the production of housing who might have to learn the operating details of many different locally designed programs.

The administrative burden and degree of discretion associated with any multiple-program approach would largely depend on the design of the individual elements and on the nature of any mechanism that might be employed for coordinating the component programs. The administrative burden associated with a separately administered new-construction financing subsidy, in particular, would depend primarily on the degree of continuing federal oversight of assisted projects after construction was complete.

CHAPTER V. PROGRAM-DESIGN ISSUES AND OPTIONS

If the Congress adopts any of the policy alternatives discussed in the preceding chapter, it will also have to resolve numerous issues associated with the design of the programs. This chapter discusses issues and options likely to arise in designing vouchers, block grants, and production subsidies.

HOUSING VOUCHER ISSUES AND OPTIONS

Issues to be resolved in designing a voucher program--or in amending the Section 8 existing-housing program to resemble more closely a voucher approach--include:

- Who should be eligible to receive aid and how assistance should be rationed locally;

- Whether to establish maximum rent levels;

- Whether payments should be made directly to households or--in the case of renters--to their landlords; and

- How the program should be funded.

Household Eligibility and Rationing of Aid

Eligibility for housing vouchers could be limited by household income and by tenure (that is, whether the family rents or owns its dwelling). In general, the more inclusive the eligibility criteria the less the aid would be targeted toward those most in need and the smaller would be the proportion of the eligible population that could be served at any given level of federal expenditure. Whatever eligibility limits were established, however, federal budget constraints make it highly unlikely that all eligible households could be served in the immediate future. For this reason it would be necessary to continue rationing aid at the local level.

Income Limits. By its very nature, a housing voucher program would be targeted on very-low-income households. Assuming an average annual payment standard or subsidy cap of $3,600 and an expectation that tenants contribute 30 percent of their adjusted income toward their own housing expenses, no family subject to that payment standard who had an adjusted annual income greater than about $12,000 could qualify for aid. Put differently, at that income level--corresponding to just under 50 percent of the projected 1983 median family income for the nation as a whole--the voucher payment to which a family would be entitled would drop to zero, because 30 percent of the family's adjusted income would exceed the payment standard.

Because eligibility for vouchers would be automatically limited in this manner, one option available to the Congress would be to make anyone qualifying for a non-zero payment eligible, subject to the appropriation of funds. If this approach was adopted, eligibility would vary across local markets because of differences in housing costs. Also, the eligibility limits would be adjusted automatically whenever the market-specific payment standards were changed. Applying this approach, and assuming an average payment standard of $3,600, approximately 11.2 million renters would be eligible for vouchers in 1983. About 3.2 million of those households could already be aided under current rental assistance programs, leaving 8 million households currently unserved.[1]

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1. Under any voucher program, the number of households who would seek aid or eventually qualify for payments would probably be appreciably smaller than the number of those eligible. In two EHAP sites in which open-enrollment voucher programs were operated, about two-thirds of all eligible renters were enrolled at some time during the first three program years, and approximately one-half of all eligible renters actually received assistance payments at some time during that period. As of the end of the third program year, 45 percent of all eligible renters in one site and 38 percent of all eligible renters in the other site were receiving payments. Initial occupancy of physically inadequate housing and low potential benefits accounted for most failures by eligible households to qualify for payments. See Ira S. Lowry, Experimenting with Housing Allowances: Executive Summary of the Comprehensive Final Report of the Housing Assistance Supply Experiment (The Rand Corporation, April 1982). Based on these participation rates, some have argued that a nation-
(Continued)

Another option would be to limit eligibility to households with incomes below some percent of the area median family income, as is currently done under the Section 8 and public housing programs. Because eligibility would already be limited in the manner described above, however, if the average payment standard was set at about $3,600, any eligibility limit much greater than about 50 percent of the area median would be largely redundant. Eligibility limits below that level would target aid on a smaller population but could also create a benefit "notch," whereby someone with an income one dollar below the eligibility limit might qualify for a sizable payment and thus be better off than a neighbor earning one dollar above the limit. Also, under such a system, better-off persons living in wealthier areas might be eligible for assistance while less-well-off persons living in poorer jurisdictions would be ineligible. If this general approach was used to establish eligibility limits, the Congress might, therefore, choose either to place some absolute dollar income limit on eligibility nationwide or to establish somewhat higher percent-of-area-median limits for persons in the lowest-income localities.

If this approach was adopted and eligibility limits were set at 40 percent of the area median family income approximately 8.8 million rental households might be eligible for vouchers in 1983. About 2.8 million of those households could be assisted under current programs, leaving 6 million families yet to be served.

Tenure Restrictions. Although vouchers are generally viewed as a mechanism for aiding renters, they could also be used to assist homeowners. Findings from the housing allowance experiments show that a voucher program for homeowners would involve few additional administrative requirements and might generate greater housing improvements than comparable assistance to renters.[2] On

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1. (Continued)
wide entitlement voucher program could be obtainable in the near future, although still at a substantial increase in federal expenditures. By one estimate, moving to an entitlement voucher program in the 1980s would require about $7 billion in additional outlays per year. See Jill Khadduri and Raymond J. Struyk, Housing Vouchers: From Here to Entitlement (The Urban Institute, December 1980).

2. When given the opportunity to participate in a voucher program, eligible homeowners enrolled at a lower rate than (Continued)

the other hand, assisting homeowners as well as renters would nearly double the number of eligible households. This would dilute available assistance while aiding persons less likely to be living in substandard dwellings and more likely to be able to finance their own home repairs. If homeowners as well as renters were made eligible for vouchers, the Congress might therefore wish to limit the proportion of available assistance going to owner-occupants. The Congress might also want to require that homeowners repay some or all of their subsidies out of any capital gains they realize when they sell their homes.[3]

Rationing Aid. Whatever eligibility limits were established for a voucher program, localities would almost certainly still have to ration aid, because it is unlikely that all income-eligible households could be served immediately within present budget constraints. Such rationing already occurs under present housing assistance programs, guided in part by federal regulations. Under a voucher program, the Congress might wish to establish preferences or set-asides for certain classes of households to direct local agencies in selecting recipients. Agencies could be required, for example, to grant preference to households displaced from their present homes, to families with especially heavy housing-cost burdens, or to persons living in deficient housing. Applying either of the latter two criteria carries some risk of penalizing frugal households and those that value physically adequate housing sufficiently to seek it out without aid. Another alternative would be to target voucher assistance on households

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2. (Continued)
renters but a larger share of those homeowners who did enroll eventually qualified for aid. Homeowners who repaired their units in order to qualify for assistance spent slightly less on average than did the owners and occupants of rental units. On the other hand, voucher payments appear to induce a significant amount of voluntary improvements to owner-occupied dwellings--a result not observed among rental units. See U.S. Department of Housing and Urban Development, Experimental Housing Allowance Program: Conclusions, The 1980 Report (February 1980); and John E. Mulford and others, Housing Consumption in a Housing Allowance Program (The Rand Corporation, forthcoming).

3. Such recapture provisions already apply under the Section 235 homeownership assistance program and the FmHA Section 502 homeownership loan program.

with persistently low incomes--households who are especially likely to be living in physically deficient units as a matter of necessity.[4]

Rent Limitations

A second voucher issue concerns whether to establish maximum allowable rent levels or to permit households access to the entire housing market.

Prohibiting assistance recipients from renting units costing more than specified maximums--as is now done in the Section 8 existing-housing program--would limit households' out-of-pocket housing costs but would also restrict their housing choices and would confine the additional housing demand generated to a narrower band of the market. That, in turn, could result in larger rent increases for recipients while increasing inflationary pressures on nonparticipants renting units in the same market segment. By contrast, limiting the size of the subsidy while allowing recipients to rent any physically adequate unit regardless of cost would broaden beneficiaries' housing choices and would dissipate demand, thereby reducing inflationary pressures.

Experience in the housing allowance experiments and in the Section 8 existing-housing program provides information concerning the apparent effects of allowing voucher recipients unrestricted choice among physically adequate housing units. Under the uncapped housing allowance program, recipients chose units with rents that distributed themselves fairly widely around the payment standards, with large numbers of households selecting lower-cost units and many other households choosing units renting for more than the benchmark amounts. By contrast, under the Section 8 existing-housing program--where the Fair Market Rents act as both subsidy caps and rent maximums--the great majority of all households choose units renting for within a few dollars per month of the maximums. Initial rent increases upon entering the programs also differed appreciably. Tenants joining the uncapped housing allowance program while remaining in physically standard units

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4. For an analysis of the implications of targeting aid in this manner, see Sandra Newman and others, Poverty, Housing Deprivation and Housing Assistance (The Urban Institute, January 1982).

experienced rent increases averaging less than 2 percent, compared to 6 to 26 percent average rent increases experienced by comparable Section 8 existing-housing recipients.[5] Some observers suggest that the Section 8 rent ceiling may even act as a floor, signaling landlords as to what rent levels both tenants and administering agencies will accept and encouraging property owners to raise rents to those levels. Indeed, in a 1976 survey, a substantial number of Section 8 landlords reported that they raised their rents specifically to meet the Fair Market Rent amounts.[6]

The choice between a capped and an uncapped program also has implications for program costs. Under a capped program, such as Section 8 existing-housing, continuing pressures to raise the maximum allowable rents can be expected as the only means of expanding recipients' housing choices. Such increases, in turn, raise federal expenditures. Under an uncapped program, by contrast, the payment standards could be increased more slowly as a means of controlling program costs without automatically making large portions of local housing markets inaccessible to voucher recipients. If the subsidy caps were set too low, however, the size of the subsidy itself could begin to seriously limit participants' housing choices.

Nature of the Payment

Another design issue is whether payments should be made directly to assisted households or--in the case of renters--to their landlords. Making cash payments directly to assisted households presupposes that they can be relied upon to meet their obligations as tenants and that the federal government need not--or should not--intervene in the relationship between a tenant and a landlord. Conversely, making the payments to the property owners implies greater distrust of households and a more interventionist role for government.

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5. C. Peter Rydell and others, Price Increases Caused by Housing Assistance Programs (The Rand Corporation, October 1980).

6. U.S. Department of Housing and Urban Development, Lower Income Housing Assistance Program (Section 8): Nationwide Evaluation of the Existing Housing Program (November 1978), p. 64.