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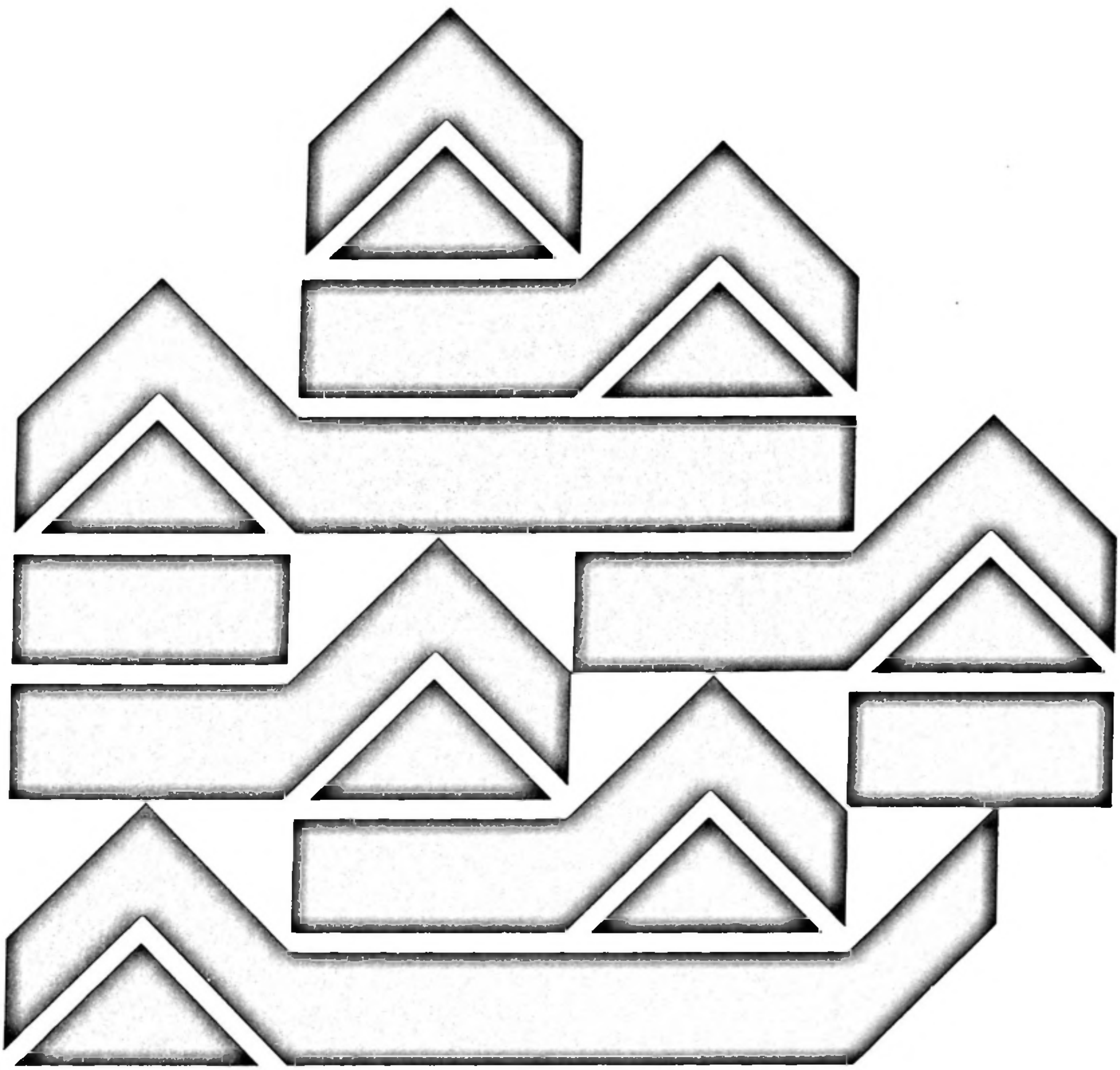
Lower Income Housing Assistance Program (Section 8)

Nationwide Evaluation of the Existing Housing Program



LOWER INCOME HOUSING ASSISTANCE PROGRAM (SECTION 8)

NATIONWIDE EVALUATION OF THE EXISTING HOUSING PROGRAM

by

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and Lorene Yap

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FOREWORD

One of the most promising ways to provide adequate housing for low- and moderate-income families is HUD's Lower Income Housing Assistance Program, usually known as Section 8. Through subsidies, this large and ambitious program helps bridge the gap between the housing low-income families can afford and the housing considered adequate in their communities.

This report, which deals with the Existing Housing component of the Section 8 program, is significant because it systematically evaluates a program as it is being implemented. As we know, the more usual process is to wait until a program has begun to run into trouble before studying it. In this case, the research on which the evaluation is based was done early. And the question it sought to answer was <u>not</u> "What has gone wrong?" but "Is the program working?" The answer is <u>yes</u>, Section 8 Existing <u>is</u> working.

In all areas of the country, in all types of housing markets, Section 8 Existing--which was designed to be administered by a broad range of delivery agents, including traditional local housing authorities and other state and local governmental bodies--is generally easy to administer. Still more important, the program is providing substantial assistance to those who participate in it.

The findings in this report are more than facts on paper. They have already been used to improve the implementation of the program and in designing program alternatives such as the moderate rehabilitation component of Section 8 Existing. The data are also contributing to policy decisions.

The research goes on. We are concerned to update the findings, to learn how the program changes as it matures, and to cover those areas not touched on in this first report. We have also begun to examine the other two components--Section 8's New Construction and Substantial Rehabilitation programs.

Between August 1974, when the enabling legislation was passed, and the end of the 1978 fiscal year, HUD has reserved $1.35 billion in annual assistance payments in the Section 8 Existing program. It is a pleasure to share with you a detailed evaluation showing how these funds are being spent.

Donna E. Shalala
Assistant Secretary for Policy
Development and Research

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INTRODUCTION

This report summarizes the results of a nationwide evaluation of early experience in the Lower Income Housing Assistance Program (Section 8) for Existing Housing. It is based on information collected in late 1976.

The data collection and initial analysis were performed by three contractors for the Division of Housing Research of HUD's Office of Policy Development and Research. Each contractor covered a specific sector of the nation, and each devised its own research methodology. However, about 25 percent of the data collected were responses to a uniform set of "core" questions on key topics. This core information was analyzed by The Urban Institute after it was weighted to be representative of the program nationally.

The primary purpose of this paper is to report findings related to these core questions, but some sectoral findings are also presented that are important to coherent discussion of particular subjects.[1]

The Lower Income Housing Assistance Program (Section 8)

The Section 8 Program provides housing subsidies to low- and moderate-income families. These subsidies are designed to compensate a family for the difference between the cost of housing it can afford

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1. For a more detailed summary of findings based on the separate questions asked in each sector, the reader should consult U.S. Department of Housing and Urban Development, Office of Policy Development and Research, Lower Income Housing Assistance Program (Section 8): Interim Findings of Evaluation Research, February 1978.

(defined as a percentage of adjusted family income) and the cost of standard housing in the locality where it resides. The program consists of the following three components, each of which relies on a different mechanism for supplying housing to families.

- The Existing Housing Program, in which households find existing housing units in the private market. The units are inspected by Public Housing Agencies (PHAs) to make sure they are of standard quality. The PHAs then make rental payments to the owners on behalf of the households.

- The New Construction Program, in which HUD guarantees to private developers of new housing projects, prior to their construction, that it will provide subsidies to income-eligible households who apply directly to the project's owner to rent units.

- The Substantial Rehabilitation Program, which operates in a manner similar to the New Construction Program, but assists in the rehabilitation of existing structures that require more than routine or minor repairs.

This paper deals only with the Existing Housing Program. The interim evaluation considered the New Construction Program, and the findings have been summarized in an earlier report.[2]

The Section 8 Existing Housing Program is administered by Public Housing Agencies, most of which are existing Local Housing Authorities that manage conventional public housing as well. (See the Glossary at the back of this report for definitions of these and other program concepts.) The Existing Housing Program operates only in those areas where a Public Housing Agency applied to HUD upon invitation and was awarded an Annual Contributions Contract providing for the subsidy of a specified number of units. For this reason, the PHA was selected as the basic unit of analysis in evaluating program administration.

2. Ibid.

Research Methodology

The three sectors into which the country was divided for research purposes are delineated by the map on page xii.

In each sector a sample of 30 PHAs was chosen from among those with at least one unit under lease as of June 1976. Public Housing Agencies were classified by the size of their initial housing unit allocation and by whether they were located in a metropolitan or non-metropolitan area. A specified number of PHAs within each of the strata were then randomly selected. The contractors collected data from these PHAs and from HUD Area Office records and conducted interviews with staff members of Area Offices and PHAs and with some 1,600 households and 700 landlords.

Data collection and analysis focused on the following program elements considered essential to the successful establishment of a new program.

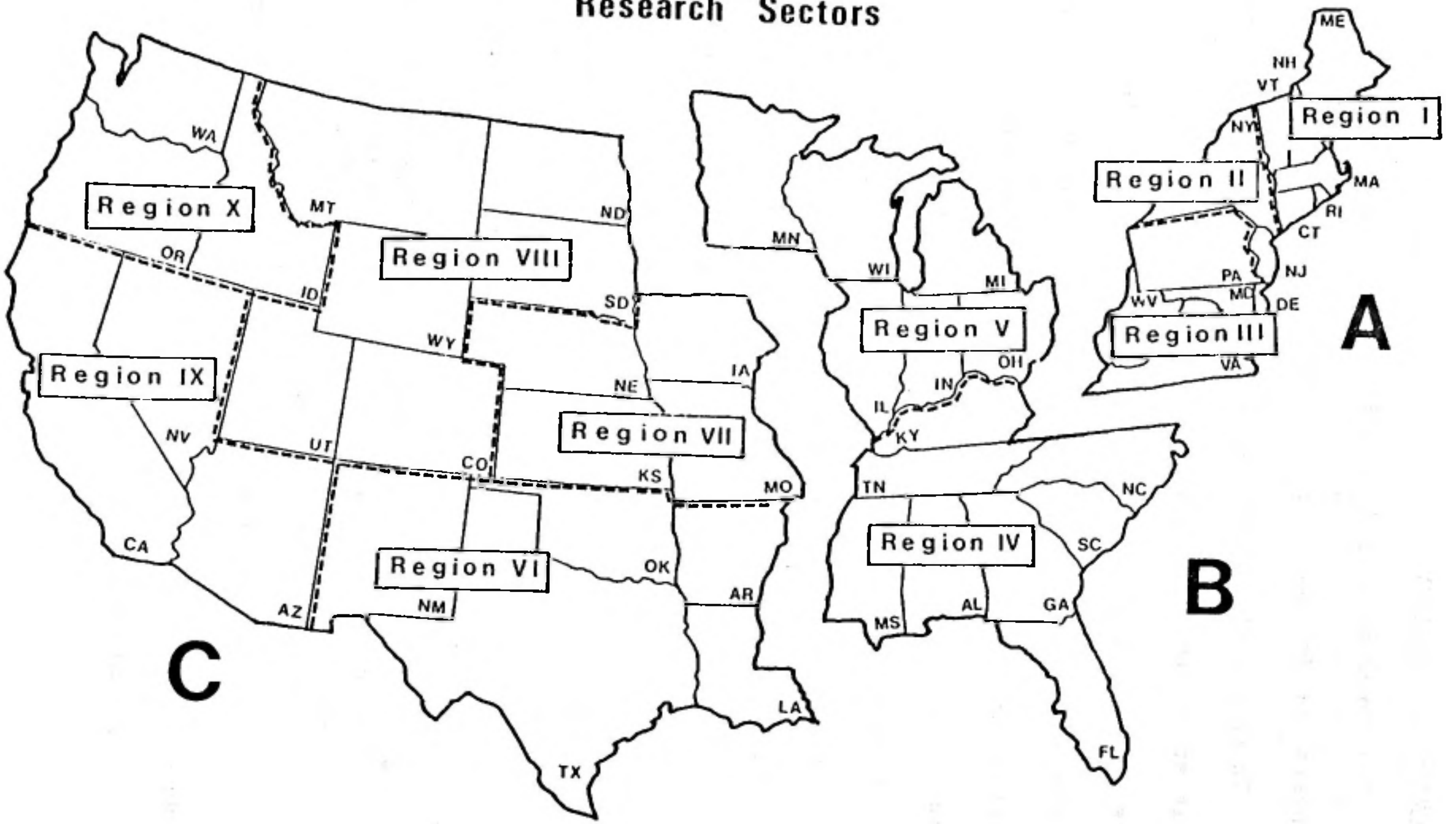
- The pattern of participation by households with different income levels and demographic characteristics.
- The willingness of landlords to rent to subsidized tenants and to accept program requirements.
- A PHA's ability to choose the best ways of performing functions essential to administering the program, such as outreach, income certification, and assistance with the search for housing.

Special attention was paid to the effects of two program constraints whose operation defines the nature of the housing subsidy provided families in the program: the housing quality requirement which hinges on the inspection standards that units must meet to become

Figure 1

SECTION 8 RESEARCH PROGRAM

Research Sectors



eligible for payments; and the rent ceiling, or Fair Market Rent, which limits both the maximum subsidy a family can receive and the maximum rent that can be charged for a housing unit in the program.

About This Report

The nationwide data on which this analysis is based is derived by aggregating the core data from each sector to the national level, using appropriate population weights. More details on the sample selection and the statistical framework for the core analysis are available in the supporting volume to this paper,[3] which also includes tables displaying results of the core analysis in greater detail than could be appropriately included in the body of this report.

Most findings reported in this paper are based on core data. In those cases when information comes from a research sector only, the findings are identified by the notation (A), (B), or (C) to indicate the sectoral source of the data.

A detailed comparison of the Section 8 Program with other housing programs is beyond the scope of this paper, which focuses largely on the program itself. In some instances experience with the Experimental Housing Allowance Program (EHAP) is used as a yardstick for interpreting findings.

The sectoral findings of each contractor are available from the National Technical Information Service. The bibliography contains a list of these publications.

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

Acknowledgments

The Section 8 Research Program is a responsibility of HUD's Division of Housing Research, under the direction of Jerry J. Fitts. HUD staff who developed, managed, and reviewed this research effort include Gilmer Blankespoor, who was Section 8 Research Program Manager from early 1976 until September 1977, Garland Allen, Jane Gilbert, Martin Levine, Harold Williams, Terry Connell, and Evelyn Glatt. Jill Khadduri has been Research Program Manager since September 1977.

The data were collected and analyzed for three sectors of the country by three separate contractors: Contract Research Corporation, Urban Systems Research and Engineering, and Westat Research.

The authors of this paper are members of The Urban Institute's Housing Division. John Dirkse, Peter Greenston, Robert Sadacca and Timothy Ling, also of The Urban Institute, developed the statistical methodology for aggregating the core data on which the paper is based. Sarah James, Peter Greenston, and Robert Sadacca participated in the interpretation of the core findings.

HIGHLIGHTS

The Section 8 Existing Housing Program is innovative in several important respects. First, it is the only ongoing federally-sponsored housing program that allows participating households to freely choose units in the marketplace. It subsidizes the difference between the cost of a unit and a maximum of 25 percent of a household's adjusted income, as long as the unit is in sound condition and its rent falls within predetermined local limits. Second, the program can be implemented at the local level by virtually any kind of administrative unit--councils of government, social service agencies, and other types of administrative units with no previous experience administering housing programs--as well as by traditional Local Housing Authorities (LHAs). Finally, compared to many previous housing programs, the Section 8 Program gives localities considerable discretion both in shaping program objectives and in deciding how administrative functions are to be conducted. These innovative features led the Department of Housing and Urban Development to mount a comprehensive research effort to monitor the implementation of the program in its first year of full operation and to assess its initial impacts on the people it served and on the housing stock. The findings of that research are presented here.

The Section 8 Existing Housing Program has achieved some early successes in terms of its implementation and its impacts on people and housing units. Highlights from the analysis of core data follow.

Findings on Household Participation

- Recipients were generally representative of the eligible population except that a disproportionately large share of elderly women and non-elderly female-headed households with children participated.

- About half the recipient households had members who were elderly, handicapped, or disabled.

- Over a third of the recipients were minority group members and over three-fourths were households headed by women.

- The majority of all recipients (82 percent) were very-low-income households with an average annual gross income of about $3,000.

- The working poor--households whose income was derived solely from wages--comprised 18 percent of recipients and 27 percent of non-recipients (defined by this study as unsuccessful participants, see Glossary). Households with income solely from welfare or benefits comprised 71 percent of recipients and 60 percent of non-recipients.

- The Section 8 Program served households in suburbs, small towns, and rural areas, as well as central cities.

- The number of recipient households that moved equalled the number that remained in their pre-program unit.

- The preferences of recipients for moving or renting in place were fulfilled. Forty-seven percent of the recipients had expressed a desire to move when they entered the program, and the majority of these (87 percent) did so successfully. Ninety percent of the recipients who expressed a desire to remain in their pre-program units were able to do so.

- The most important reason cited for moving was to reduce overcrowding.

- Recipients who chose to remain in their original units did so because they liked the unit, the neighborhood, their neighbors, and/or their landlord. Many elderly recipients were not interested in moving and wanted to rent in place. Stayers perceived some constraints to moving. They thought they (1) could not find a better unit, (2) were unable to rent another unit because of family size or lease requirements, or (3) moving was either too expensive or too much trouble. Large families thought they were constrained from moving more often than others.

- Sixty percent of the movers thought that their new unit was in better condition than their previous unit.

- For the average recipient, housing expenses were reduced by approximately half, from 40 to 22 percent of gross income. Under the program, the average recipient's out-of-pocket contribution was $67 per month, and the average government subsidy was $103 per month. On the average, program recipients were contributing $55 per month less for rent than they were before becoming recipients.

- Recipients who remained in their pre-program unit experienced an average rent increase of approximately 28 percent. Rent increases were large for those with pre-program rents below $50, and small (about 5 percent on average) for those with pre-program rents above $150.

- Movers' housing expenditures increased about 70 percent, from $105 to $180 per month. Movers also received program benefits through a reduction in crowding--35 percent increased the number of bedrooms, and 20 percent had a decrease in household size.

- One-third of all recipients changed neighborhoods while two-thirds of all recipients stayed in their original neighborhoods.

- Recipients and non-recipients were satisfied with assistance in locating eligible units provided by the agencies administering the program.

- Non-recipients who searched for housing looked at twice as many units as recipients who searched, and they received landlord refusals at an equal rate. It appears that as many as 60 percent of the non-recipients did not search.

Findings on Landlord Participation

- The program recruited many owners and managers of properties who had not previously participated in a federally-sponsored housing program, especially landlords owning a very small number of units and landlords occupying units on the same property as Section 8 recipients.

- Participating landlords generally operated small-scale real estate operations with ten or less units. Fifty-two percent of the landlords both owned and managed their Section 8 property. Forty percent of the landlords leased between one and ten units through their Section 8 participation, but those with smaller holdings leased a larger proportion of their total units under the program. Participating landlords have not been troubled with high vacancies or unusually high turnover rates.

- Single-family dwellings comprised 50 percent of all the units leased under the Section 8 Program, thus indicating that households were able to exert their choice in the market for the more typical and desirable units.

- Landlords did not consider Section 8 recipients to be problem tenants. At least 90 percent of the landlords found Section 8 tenants equally or more responsible than other tenants in maintaining property, paying rent, and getting along with neighbors. Ninety percent of the landlords also would consider leasing additional units to Section 8 recipients.

- Most landlords were recruited into the program by either current tenants or potential tenants. Landlords with large property holdings most often were recruited by agencies.

- Two-thirds of the participating landlords cited "personal considerations," such as "helping low-income tenants," as the most important reason for their participation, while one-third cited "financial or business considerations."

Findings on Housing Stock Quality

- Thirty-seven percent of all units ultimately subsidized required repairs (41 percent of movers' units and 33 percent of stayers' units).

- One-third of the landlords reported making repairs on their units to qualify for the subsidy. The average expense per repaired unit was $284. Landlords with small holdings repaired their units more often and at greater expense than landlords with large holdings. The most frequent repairs were electrical work, installation of storm windows, painting and plastering, and rebuilding outside stairs.

Findings on Program Administration

- All those involved in the program at the local level--participating households, households who applied but were unable to participate, landlords, and local officials--expressed a high degree of satisfaction with the program.

- As of June 30, 1976, 89 percent of the participating agencies in the Section 8 Program were traditional local housing agencies or combination housing and redevelopment agencies. The non-traditional agencies that participated were primarily councils of governments and social service agencies.

- Agencies actively provided a wide range of services to recipients and landlords. Agencies assisted in negotiating a third of the rents and leases, though they were not successful in obtaining lower rents for certificate holders. One-third of the agencies helped landlords choose tenants and determine the number of persons per unit.

- The average start-up fee per unit negotiated by agencies was $258. The average start-up fee was found to be sufficient to cover administrative costs. However, little relationship between fees and actual administrative costs was found.

- The ongoing fee was insufficient to adequately compensate most agencies. Agencies with small Annual Contributions Contracts (ACCs) were more likely to be undercompensated.

- Over 20 percent of all administrative costs were met by donations and in-kind contributions of local services and facilities.

- The maximum rents allowed by the program (Fair Market Rents) appeared to be adequate across units of different sizes and structure types.

- Half of the agencies used only the HUD acceptability criteria to determine the acceptability of housing units for use in the program. Over a third of the agencies combined HUD acceptability criteria with either state or local housing codes, while the rest used local codes exclusively.

- The program allowance for a credit to households who found a unit renting below the FMR (rent reduction credit) was not understood by most recipients and was received largely by stayers who never searched for units.

I. PATTERNS OF PROGRAM PARTICIPATION

The relationship among an agency, an assisted household and its landlord in the Section 8 Program for Existing Housing is innovative. Federal housing programs in the past have been structured in a different way. With Section 8, households not only have free choice of their housing unit and its location, they can be self-reliant in the private market rather than dependent on an agency.

In the lower income housing market, it is often understood that when a household rents a unit for a low price, no improvements or non-essential services can be provided by the landlord. The renter expects to receive a unit in "as is condition" with an unspoken understanding that any repairs and maintenance are to be done by the tenant rather than the landlord. Thus, the lower income household who rents is often expecting to receive only a roof over its head and is relatively powerless to negotiate with the landlord for more services. With Section 8 assistance providing potentially more rent, the assisted household is placed in a position where it becomes possible to negotiate with landlords for more services. These services may be in the form of repairs provided before initial occupancy, as a lease is signed, or in the form of continual maintenance and repairs provided by landlords once the household becomes a tenant. Theoretically, this and other program benefits should allow a change in the basic nature of the landlord-tenant relationship in the low rent market by changing attitudes and expectations of both parties.

With Section 8 there is no formal contractual relationship established between the administering agency and the household, but the household must comply with program rules to remain a recipient. The lease, required between the landlord and the household, is the formal contract which establishes their basic relationship. The agency's role is to certify that households and housing units are eligible and to pay the landlord the difference between what the household contributes toward rent and the actual contract rent. This portion of rent is obligated with a Housing Assistance Payments Contract between the agency and the landlord.

Given these basic interrelationships, actual findings about agencies, households and landlords who participated in the program are discussed below.

Participation by Public Housing Agencies

The Section 8 Program can be implemented at the local level by virtually any public body and is not restricted to Local Housing Authorities (LHAs) that have traditionally operated conventional housing programs. The program's administrative units, designated Public Housing Agencies (PHAs), can be LHAs, other local government units, or even agencies with no previous experience with housing programs, such as councils of governments, social service agencies, or planning organizations.

Relations with HUD

In order for a unit of government to participate in the Section 8 Program, it must first be designated a PHA at the local level and then upon invitation make a formal application to HUD for program support. If successful, the agency signs an Annual Contributions Contract (ACC), which spells out the number of units to be supported and the term by which PHAs are reimbursed for the costs of administration and support payments.

From the perspective of PHAs, HUD Area Offices (AOs) seem to have exercised considerable discretion in inviting them and other potential PHAs to participate in the program. In some areas all PHAs were invited, while in others only selected PHAs received invitations.

Once they received an invitation, some PHAs found applying so difficult that they contracted with private firms to prepare their applications. By and large, PHAs reported that the AOs were not particularly helpful either in providing technical assistance in the preparation of these materials or in helping with problems that arose in the conduct of the program, although some AOs did consistently provide useful information and advice to applicant PHAs.

Characteristics of PHAs

As of June 30, 1976, 89 percent of the agencies participating in the Section 8 Program were traditional LHAs or combination LHAs and redevelopment agencies. The remaining 11 percent were councils of governments, social service agencies, or other non-traditional PHAs.

Of the total, 40 percent had an ACC for a small number of units (1 to 76 units); 50 percent had 76 to 399 units; and 10 percent, 400 or more.

Of the PHAs sampled 43 percent said they served small cities or towns of less than 50,000 population. Relatively few PHAs said they served jurisdictions which included large urban areas of more than 250,000 (7 percent) or exclusively rural areas (7 percent). Some PHAs said they had jurisdictions which included more than one type of area. Over a third of the PHAs said their jurisdiction included some rural areas in addition to more urbanized areas. Approximately 15 percent of the PHAs indicated that their jurisdiction included a small city or town in addition to a more urbanized area. One-fourth of the PHAs said their jurisdiction included the suburbs of a small city or town in addition to a more populated area.

Over half of the sample PHAs reported that local government officials (mayors or county managers, for example) were very supportive of the program. Over 90 percent reported that the local news media were at least fairly supportive. This local support is reflected in the level of donations of free or underpriced services PHAs received locally for the conduct of the program. (See chapter VII.)

In a study of participation of LHAs in the Section 8 Program, it was found that local support and the character of local relationships have a bearing on whether or not an LHA applied for the program in the first place.[4] Participating LHAs were found to be somewhat more community- and tenant-oriented than non-participating LHAs. The study also found that those LHAs which were more successful with managing conventional housing programs (using criteria determined by research on public housing management[5]) tended to participate at a lower rate than LHAs with poorer performance in conventional programs. Finally, LHAs with larger jurisdictions, though not necessarily with larger programs, were found to be more likely to participate.

Participation by Households

There is a wide variety in the types of households that participate in the Section 8 Existing Housing Program. This variety is influenced by a number of factors that can best be described by tracing the process through which households become recipients of program support.

The process is fairly straightforward. Its key stages are outlined in figure 2. A local household completes an application to the program, and the agency determines whether the household is eligible. On the basis of this and other criteria, some applicants receive a certificate giving the household the right to find a unit for agency inspection. If the unit passes the agency's test of housing quality and is within the maximum allowable rent, the household becomes a recipient of program

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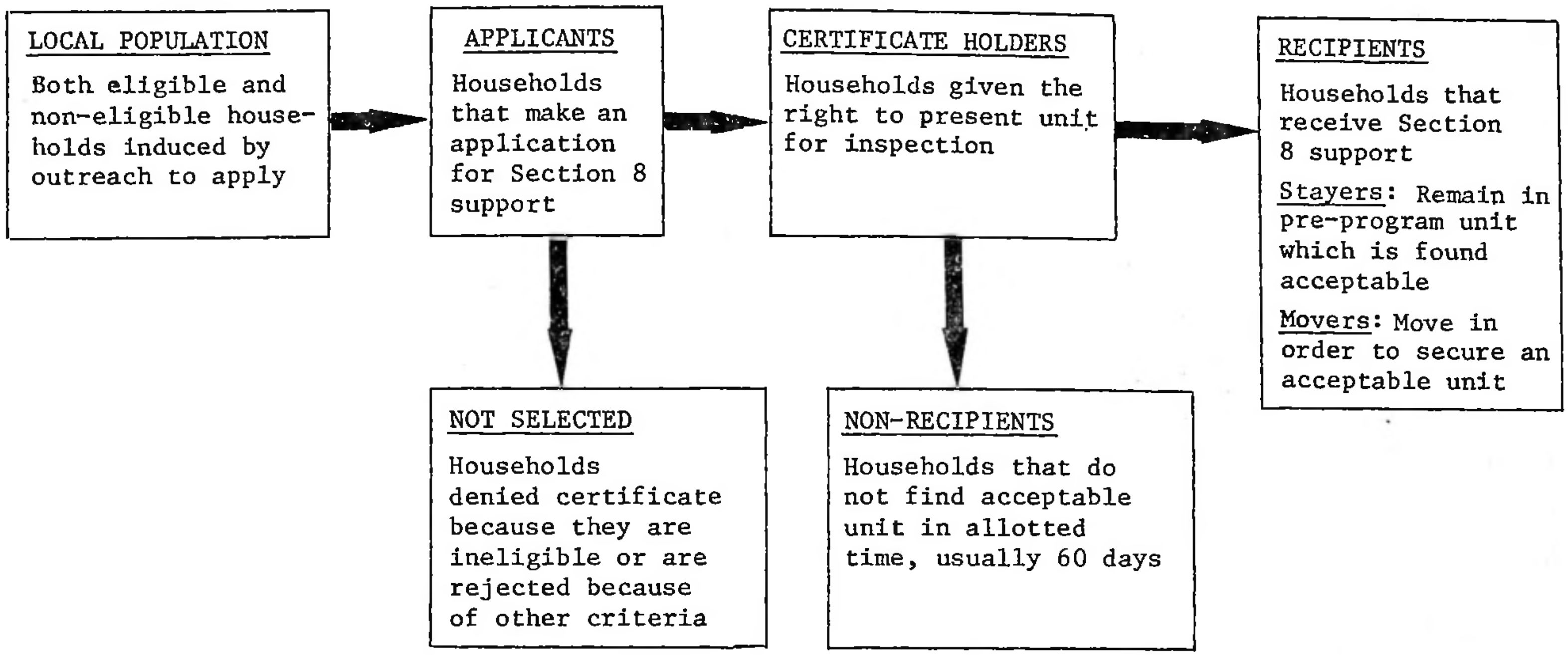
4. Sarah James and Peter Greenston, "Adoption of an Innovation: Local Housing Authority Participation in Section 8," The Urban Institute, Contract Report 240-03, April 1977.

5. Robert Sadacca et al., Management Performance in Public Housing, The Urban Institute, Washington, D.C., URI 61000, 1974.

Figure 2

HOUSEHOLD PARTICIPATION IN THE
SECTION 8 EXISTING HOUSING PROGRAM



support. Some households remain in pre-program units; others move to acceptable units in order to qualify.

Three different sets of participants at particular stages in the process (active certificate holders, recipients, and non-recipients) were examined in this study. Particular applicants were not followed through the process from eligible to recipient or non-recipient status.

From Eligible Population to Selection

According to the original Section 8 legislation in 1974, eligible households include all renters in a jurisdiction with an income below a given percent of the local median income for a family of a certain size, except single individuals who are neither elderly nor handicapped.[6] For example, for a family of four persons it is 80 percent of the median income of the area. In a separate estimate of the eligible population nationwide, around 11 million potentially eligible U.S. households were found.[7] Whether or not a particular household applies depends on the scope of outreach efforts, the household's awareness of and attitude towards public programs, whether its locality offers the

6. The exclusion of single individuals who are neither elderly nor handicapped was later changed. Now these individuals can be included under very limited circumstances. HUD regulations dated December 1977.

7. The eligible population nationwide was estimated by The Urban Institute using data from the Annual Housing Survey of 1976. The Census Bureau has, since 1973, been conducting the Annual Housing Survey (AHS) for the Department of Housing and Urban Development. The national AHS each year collects detailed information on the size and composition of the housing inventory and the characteristics of its occupants from a probability sample of all U.S. housing units. However, because of lack of data on household assets and handicapped or disabled status of non-elderly single individuals in the AHS it is not possible to obtain an exact estimate of the population eligible for Section 8.

program in the first place, and whether a given household assesses the program as one which provides enough benefit to make it worth the bother of applying. Most applicants hear about the program from friends, relatives, and landlords. The majority say they are attracted to the program because it offers lower out-of-pocket housing costs; improving housing is of secondary importance.

After a household applies, the PHA determines whether its income is within the eligible range. By statute, 30 percent of a PHA's units must be allocated to households with very-low-income (below 50 percent of the local median). Since PHAs are given a fixed number of units well below the number of eligible households in the jurisdiction, the number of certificiates that can be awarded is limited. Some PHAs offer certificates on a first-come first-served basis; others give priority to certain kinds of households, such as those with very-low-income or households in unsafe housing. The three contractors estimated that roughly half of all applicants received certificates.

From Active Certificate Holder to Recipient

For households, the critical step in the process is the move from active certificate holder to recipient status. The primary task in this step for households is finding a unit that can pass inspection and whose owner or manager will participate in the program. Three key questions relating to this process are: (1) What kinds of households are successful at becoming recipients? (2) What kinds of households are unsuccessful and how do they compare to those who succeed? (3) Are successful households representative of the eligible population?

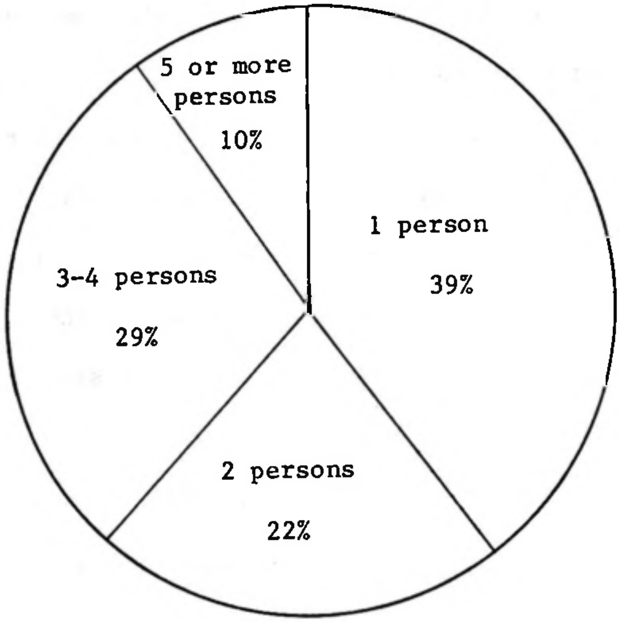
Because the data used to answer these questions are drawn from three independent samples, for technical reasons inferences drawn solely from comparing these must be tentative in character. Additional confirmation of comparisons is possible, however, because of the extensive findings about household participation in the Experimental Housing Allowance Program (EHAP).[8] Unless otherwise noted, the findings reported below are validated by both the Section 8 samples and comparable findings of EHAP.

Successful households. The program is serving households which are perceived to have very limited choices in the housing market. (Figures 3 through 6 provide an overview of selected characteristics of households who were successful and unsuccessful in becoming program recipients). Very-low-income households comprise 82 percent of all successful households. About 70 percent of recipients received income solely from benefits and welfare. The working poor, those with income solely from wages, constituted about a fifth of all recipients. Minority households

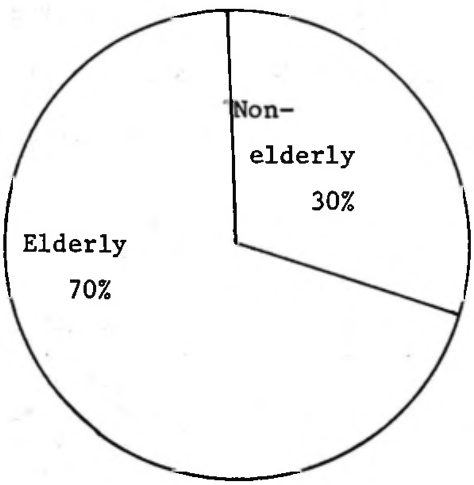
8. For more information on EHAP see Marc Bendick, Jr., and James P. Zais, "Income and Housing: Some Insights from the Experimental Housing Allowance Program," The Urban Institute, Washington, D.C., CR 249-9, 1978; A Summary Report of Current Findings from the Experimental Housing Allowance Program, U.S. Department of Housing and Urban Development, Washington, D.C., HUD-PDR-303, 1978; or David B. Carlson and John D. Heinberg, How Housing Allowances Work: Integrated Findings from the Experimental Housing Allowance Program, The Urban Institute, Washington, D.C., URI 21300, 1978.

Figure 3

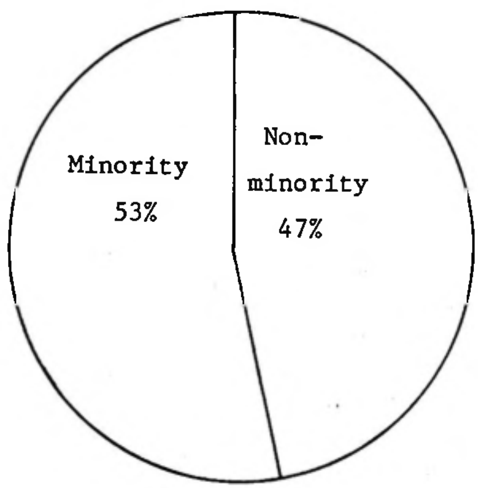
Family Sizes of Recipient Households



All recipients



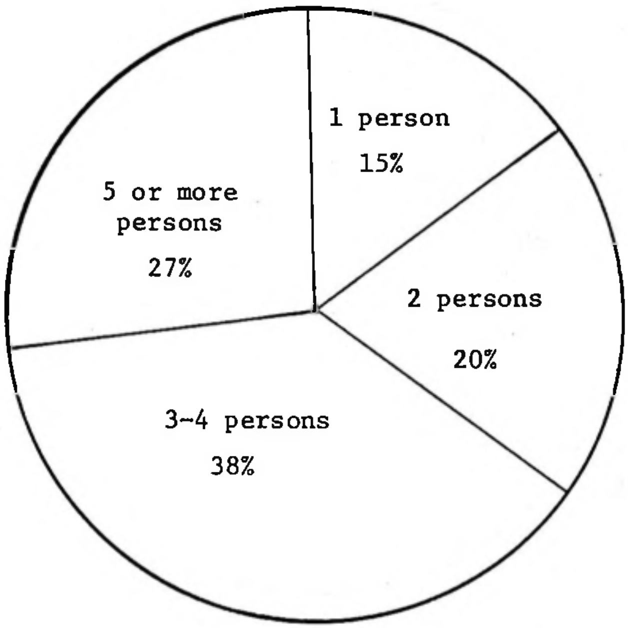
Households of one person



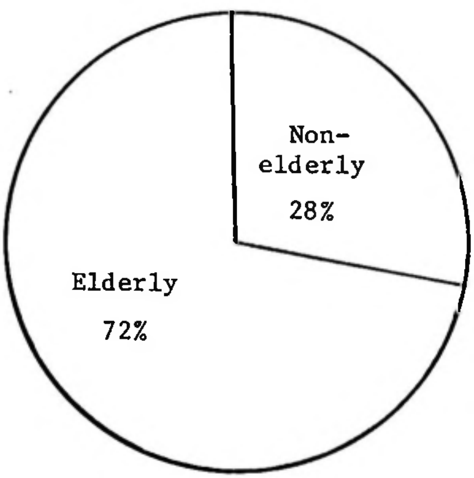
Households of five or more persons

Figure 4

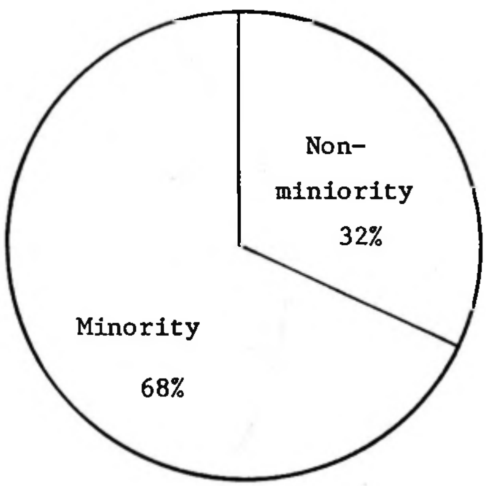
Family Sizes of Non-Recipient Households



All non-recipients



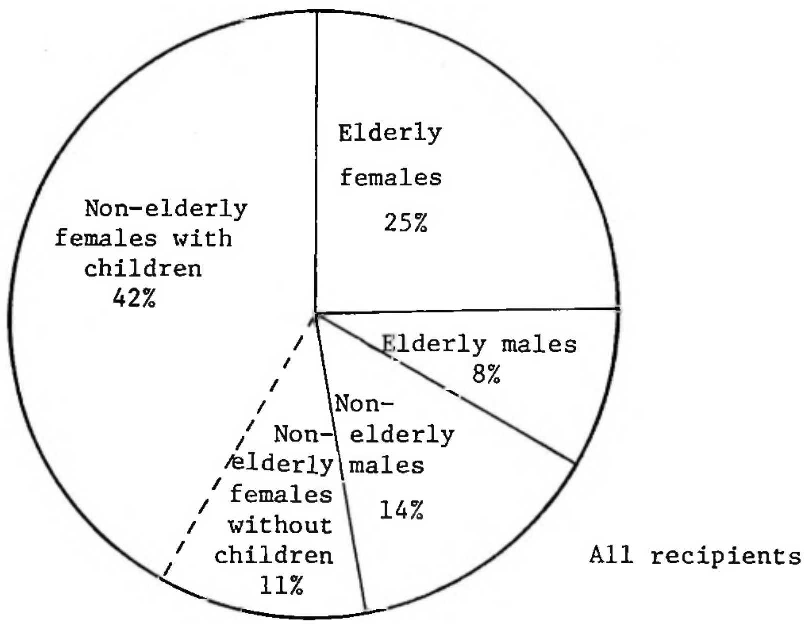
Households of one person



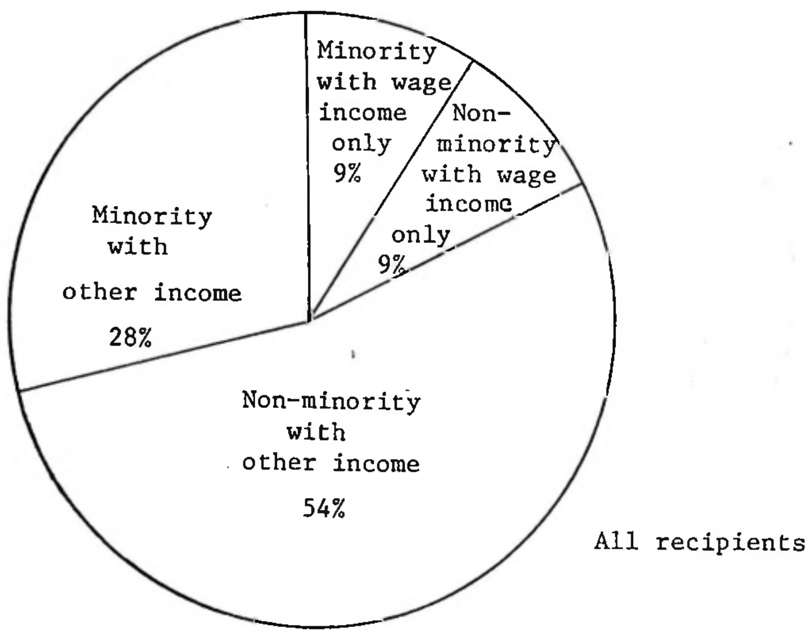
Households of five or more persons

Figure 5

Selected Demographic Characteristics of Recipients



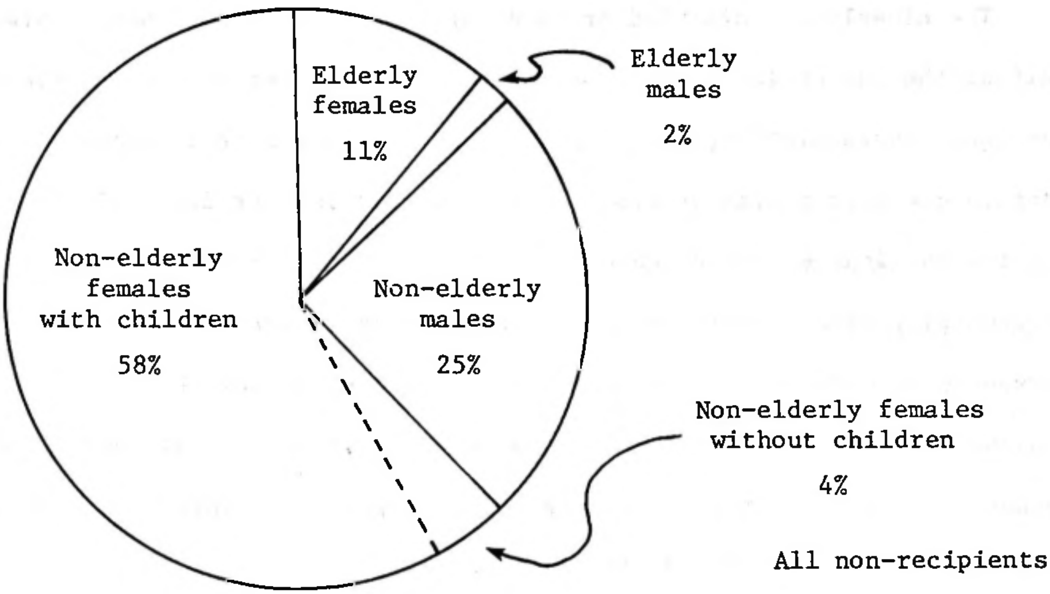
Age and Sex Status of Household Heads



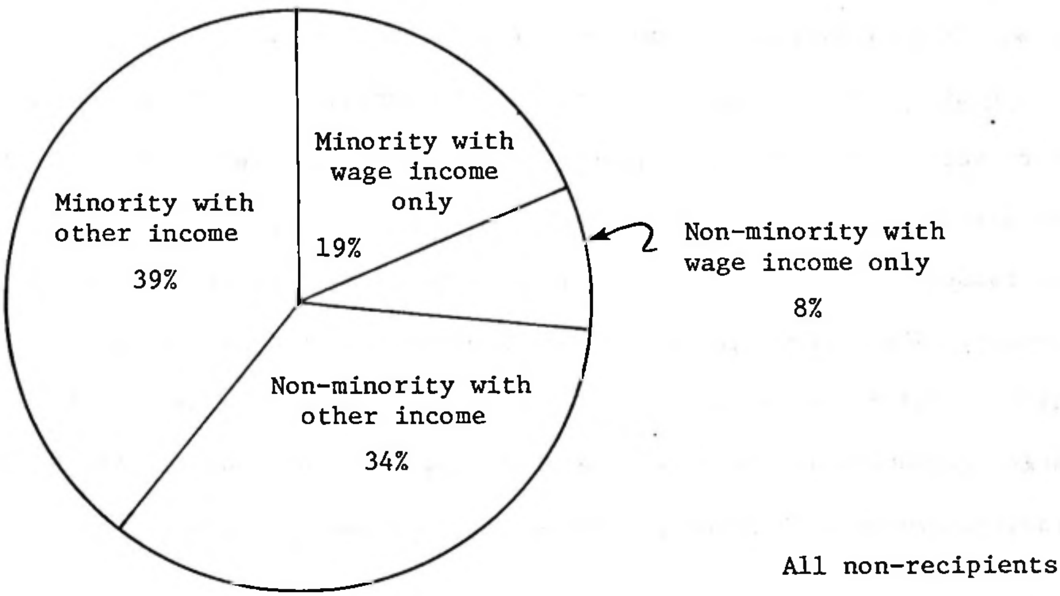
Minority Status and Income Source

Figure 6

Selected Demographic Characteristics of Non-Recipients



Age and Sex Status of Household Heads



Minority Status and Income Source

were over a third of all households who were successful at becoming recipients.

The elderly and disabled or handicapped accounted for approximately half of the households who became recipients. A third of the recipient households were elderly, and 18 percent of the recipient households contained either a head or spouse who is handicapped or disabled. Of all the handicapped and disabled recipients, 11 percent were headed by an elderly person. Handicapped households were 30 percent of all one-person households who were successful at becoming recipients.

Overall, female-headed households made up 78 percent of successful households. Non-elderly female-headed households with children comprise 42 percent of the Section 8 recipient population.

Small households were predominant among recipients; 39 percent were single individuals, and 22 percent had just two members. There were few families of five or more persons who were successful at becoming recipients. They represented 10 percent of all recipients.

Unsuccessful households. The program appears to serve some households better than others. Figures 4 and 6 provide a review of selected characteristics of unsuccessful households--non-recipients. Unsuccessful households were headed predominantly by non-elderly and female persons. They tended to have larger households: 65 percent of all unsuccessful households were composed of three or more members. The large households who were successful tended to be households headed by minority members. Non-recipients were predominantly (67 percent) very-low-income households. About 60 percent of non-recipients received income solely from benefits and welfare. The working poor were 27 percent of all non-recipients.

Comparison of successful and unsuccessful participants. Comparison of the distribution of recipients and non-recipients by age of head, minority status, family size, income, and source of income provides a rough assessment of the kinds of households that tended to be more successful than others (table 1). The elderly seemed to be considerably more successful than the non-elderly. While success decreased with household size, the striking success of one-person households reflects the fact that these households were largely composed of elderly individuals. Non-minority and very-low-income households tended to be somewhat more successful on the average at becoming recipients. Minority households tended to be considerably less successful even after controlling for family size. Households with some wages appear to be as likely as households that receive some welfare payments as part of their income to become recipients, although both groups were less successful than households that receive benefits.

Among the recipients (table 2), the income differences within selected demographic groups were generally as expected. The elderly had lower average incomes than the non-elderly, due largely to a greater proportion of elderly receiving either welfare or benefits (91 percent versus 61 percent). Male-headed families had higher incomes than female-headed families, reflecting the larger proportion of wage earners

TABLE 1

COMPARISON OF SUCCESSFUL AND UNSUCCESSFUL SECTION 8 PARTICIPANTS

	Percent of Sample of Successful Participants[a]	Percent of Sample of Unsuccessful Participants[a]	Ratio of Profiles Column 1 & Column 2
Age of head			
62 and over	33	13	2.6
Under 62	67	87	.8
Minority status			
Non-minority	63	42	1.5
Minority	37	59	.6
Family size			
1	39	15	2.5
2	22	20	1.1
3-4	29	38	.8
5 or more	11	27	.4
Income status			
Very-low-income	82	69	1.2
Low-income	18	31	.6
Source of income[b]			
Some wages	25	39	.7
Some benefits[c]	51	32	1.6
Some welfare[d]	34	42	.8
Other	16	17	.9

a. Numbers may not add to 100 due to rounding.
b. Numbers do not add to 100 because this was a multiple response question, e.g., households may have both wages and benefits.
c. Includes social security, retirement and pension plans, and VA pensions.
d. Includes AFDC and SSI payments.

TABLE 2

ANNUAL INCOME CHARACTERISTICS OF SUCCESSFUL AND UNSUCCESSFUL SECTION 8 PARTICIPANTS BY DEMOGRAPHIC GROUPS
(mean dollars)

	Successful Participants	Unsuccessful Participants
Age of head		
62 and over	$3,155	$3,511
Under 62	3,720	4,716
Minority status		
Non-minority	3,558	4,508
Minority	3,563	4,523
Sex		
Male	4,588	5,663
Female	3,262	4,075
Family size		
1	2,777	2,836
2	3,643	3,826
3-4	3,832	4,868
5 or more	5,182	5,526
Income status		
Very-low-income	3,094	3,805
Low-income	5,411	6,288
All households	$3,535	$4,521

among the male-headed households. Larger households (5 or more persons) had a higher annual income than smaller households (1-4 persons), which is probably attributable to the adjustment for family size when determining program eligibility. The one unexpected finding was that minority households had about the same annual income as non-minority households. However, this result is due in part to the larger percentage of elderly households among non-minority than minority households (45 percent versus 15 percent). Among the non-elderly, non-minority households had average annual income approximately $260 greater than minority households.

Generally, non-recipients had higher incomes than recipients. This is not surprising, as evidence from EHAP and from welfare programs has shown that households participate at a lower rate for a lower benefit. Households who have higher incomes may receive only a modest benefit from the Section 8 Program and, once they receive a certificate, they may decide that it is not worth the added inconvenience of meeting the program's requirements to bother with becoming a program recipient. EHAP evidence also indicates that higher income eligible households tend to be already living in higher quality housing. Therefore, some households who were unsuccesful in becoming Section 8 recipients may not qualify for subsidies with their existing unit because the rent may exceed the FMR, and they may not want to move to qualify. EHAP experience also indicates that, once they become program recipients, these households tend to move in and out of the program at a higher rate than lower income households because of changes in income-linked eligibility. Section 8 non-recipients are more likely to be in the labor market than Section 8 recipients. Perhaps they, like the EHAP households, do not expect to need assistance for a long enough period to justify the burdens of becoming a recipient.

Minority households experienced a lower rate of success than non-minorities. Based on landlord refusal rates, it does not appear that there was overt discrimination by landlords.[9] There were a variety of other factors, such as family size, that could affect the likelihood of a minority household attaining recipient status.

Recipients compared to eligibles. In addition to obtaining an estimate of the size of the eligible population, the Annual Housing Survey was used to estimate selected demographic characteristics of the Section 8 households that would most likely affect household participation (table 3). In terms of age and race, the successful participants are quite representative of the eligible population. However, there are several important differences in the composition of the successful recipients and the eligible population: a higher concentration of one-person households among the recipients (reflecting the disabled and handicapped which are not counted in the estimates of the eligible

9. For direct treatment of the issue of housing discrimination see Ann B. Schnare, The Persistence of Racial Segregation in Housing, The Urban Institute, Washington, D.C., URI 21600, 1978, and findings from an audit of real estate brokers and rental agents for compliance with Title VIII Fair Housing conducted by The National Committee Against Discrimination in Housing and analyzed by the Division of Evaluation, Office of Policy Development and Research, forthcoming January 1979.

TABLE 3

SELECTED DEMOGRAPHIC CHARACTERISTICS OF ELIGIBLE POPULATION AND SUCCESSFUL PARTICIPANTS

	Percent of Successful Participants[a]	Percent of Eligibles[b]
Age/sex of head		
Elderly head/spouse (62 and over)	33	37
Male head	(8)	(16)
Female head	(25)	(21)
Non-elderly head/spouse	67	63
Male head	(14)	(38)
Female head	(53)	(25)
Ethnic groups		
Non-minority	63	65
Minority	37	35
Black	(27)	(22)
Spanish American	(10)	(10)
Other	(1)	(3)
Family size		
1	39	25
2	22	29
3-4	29	31
5 or more	11	15
Non-elderly female heads with children	42	22

a. Numbers may not add to 100 due to rounding.

b. Estimate from the 1976 Annual Housing Survey of the income eligible population. Households with incomes less than the adjusted median income were considered eligible except for non-elderly single-person households. Assets were not available for use in determining eligibility, nor was handicapped or disabled status.

population); an underrepresentation of male-headed households among recipients; and overrepresentation among recipients of non-elderly female-headed households with children.

The Section 8 Program appears to be serving two very different populations. Though a classification based on age is very imprecise, the elderly and non-elderly have very different characteristics such as sources of income and household size and composition.

The elderly have an average annual gross income of $3,155, which is less than the average for the non-elderly ($3,720). The source of this income differs. The non-elderly are more likely to be on welfare or to be working, while the elderly are more likely to receive income from benefits (social security and other government or private retirement funds and pension plans). Forty-five percent of the non-elderly received income from welfare while only 13 percent of the elderly received welfare. Ninety-three percent of elderly received income from benefits, while 30 percent of the non-elderly had benefit income. Two percent of the elderly received income solely from wages, while 26 percent of the non-elderly had income exclusively from wages.

The differences in household size and composition are perhaps the greatest differences between the elderly and non-elderly. Eighty-one percent of the elderly lived alone while 38 percent of the non-elderly had three or more persons. Sixty-three percent of the non-elderly households were female-headed families with children. Only 1 percent of the elderly households fell into this category.

Other differences between the elderly and the non-elderly are age and race. An elderly household must contain a head or spouse of at least 62 years of age. The elderly household heads averaged 72 years of age. The non-elderly household heads averaged about 36 years of age. This finding implies that the program is serving relatively younger non-elderly households and relatively older elderly households. Of the elderly population 15 percent are minority households while minorities comprise 47 percent of the non-elderly population.

If one were to generalize about who is being initially served by the Section 8 Program, there are two distinct groups: non-minority elderly females living alone who are receiving income from benefits (social security), and non-elderly females living with their children who are receiving welfare who are both minority and non-minority.

Participation by Landords

In any jurisdiction, the effectiveness of the Section 8 Program is very dependent on the acceptance of the program by the landlords in the low-income housing market. The decision to participate is based on the relative importance to the landlord of possible increased financial returns, through higher rents or guaranteed rents and lower turnover rates, as compared to the increased restrictions on landlord actions associated with Section 8 regulations.

The Section 8 Program was the first participation in a government program for 77 percent of participating landlords. The major areas of interaction between the PHA and the landlord are housing unit inspection, lease negotiation, and program paperwork. Thirty-two percent of the landlords reported making repairs; these averaged about $285 per repaired unit. These repairs were perceived by Contractor A as normal maintenance, but landlord responses indicated that slightly fewer repairs would have been made for a non-Section 8 tenant. Only 39 percent of the landlords had used a lease prior to their program participation. In Sector A only a very small minority, about 3 percent, of the sampled landlords expressed dissatisfaction with the lease provision. The most unpopular feature was the inability to raise rent during the lease period in accordance with changes in operating costs. The paperwork was a problem for almost all landlords; 86 percent required PHA assistance in filling out the required forms.

Profile of Participating Landlords

The Section 8 Program has successfully entered a segment of the low-income housing market not previously served by government programs. The fact that the program encourages recipient search has resulted in a variety of subsidized units and landlords. At one extreme are the "large-scale" landlords who own a large number of units and properties and for whom real estate is often a full-time occupation. At the other extreme are the "small-scale" landlords who own just a few units and for whom being a landlord is only a part-time endeavor.

On the average, small-scale landlords were more extensively involved in the Section 8 Program than large-scale landlords. Participating landlords generally owned ten or fewer units in small buildings.

Across all sectors, between 33 and 45 percent of the landlords owned or managed just one property. Fifty-two percent of the sampled landlords were both owners and managers of their properties.

The number of Section 8 units managed by the typical landlord was small; 40 percent leased one to ten units. The number of units subsidized through Section 8 comprised a large percentage of the typical landlord's total holdings. On the average, a landlord committed 32 percent of his or her units to the Section 8 Program, though this ranged widely. Landlords with holdings of one to ten units committed 58 percent of their total holdings, while only 9 percent of the holdings of landlords with more than 100 units were committed to the program.

The most common type of structure owned or managed by a Section 8 landlord was a building containing between two and six units (57 percent of all landlords owned or managed this type of dwelling). The second most common structure (owned or managed by 48 percent) was the single-family dwelling, attached or detached. (Landlords could own or manage more than one type of structure.) The average age of all Section 8 structures was 30 years.

In fact, single-family dwellings (attached and detached) were over half of all units leased in the Section 8 Program. (In 1975, single-family dwellings made up 33 percent of the renter-occupied units in the nation, according to the Annual Housing Survey.) This indicates that Section 8 renters are exerting their choice in the marketplace. By participating in the Section 8 Program, they are able to realize their preference for single-family homes. The single-family home is an option which is seldom offered by other government subsidies to this sector of the market.

Landlords were encouraged by PHAs to participate in the Section 8 Program to reduce rental unit vacancies and turnover, but for the majority of participating landlords vacancies and turnovers had not been a problem. The average vacancy rate for all participating landlords was 3.5 percent. Contractors A and C found a low rental unit turnover. In Sector A, 68 percent and in Sector C, 48 percent of the participating landlords reported that the average length of tenant residency was more than two years. (The figures in the 1975 Annual Housing Survey show 48 percent of the renters had resided in the same unit for more than one year.)

A final factor in landlord participation is the relationship between landlords and their tenants. A landlord with a smaller number of holdings and units, a "small-scale" landlord, has a greater opportunity to interact with current and prospective tenants. At least one-third of the sampled landlords in Sector A and C were first informed of the Section 8 Program by a current tenant. In fact, 9 percent of the landlords in Sector A and 16 percent in Sector B said that the primary reason for their program participaton was that they knew the certificate holder personally. In contrast, "large-scale" landlords (operating more than ten units) in Sector A had usually first heard about the program from their local PHAs. For many landlords with smaller holdings, the

Section 8 Program was their first opportunity to participate in a government program. Regardless of the size of the landlord's operation, the Section 8 Program has a built-in feature which requires that the household and landlord perform certain kinds of activities together, which has altered the relationship between tenants and landlords. This aspect of the program will be discussed in chapter IV.

II. HOW REQUIREMENTS AND FEATURES AFFECT PROGRAM DELIVERY

The basic objective of the Section 8 Existing Housing Program is to use the non-luxury private housing market to provide housing assistance to low-income households. It is hoped that the financial burden of low-income households will be reduced and also that their ability to pay higher rents will prevent further decline in the quality of the stock in this sector of the private housing market. These overall policy objectives are embodied in the program requirements. This chapter describes the effects of these requirements and other program administrative features on program outcomes.

Program Requirements

The three major requirements of the Section 8 Program deal with the income and composition of eligible households, the maximum rent level of subsidized units, and the quality of these units.

Household Income and Composition

The household income and composition requirements specify which households are eligible for the Section 8 subsidies and the size of their housing assistance payments. Families and single individuals (if they are elderly, physically or mentally handicapped, disabled, or displaced) are allowed to participate.[10] A family of four with an annual income of less than 80 percent of the local median income is eligible.

10. Single individuals are now eligible under certain circumstances, see footnote 6, page 7.

This income limit ranges from 56 percent of the local median for a single individual to 100 percent for a family of eight or more.

The maximum housing expenditure per family is 25 percent of household adjusted income except for the neediest households whose rent is limited to 15 percent of gross income. These are large families (6 or more children) with very-low-incomes, very large families (8 or more children) with low-incomes, or families with "exceptional medical or unusual expenses." An additional program requirement is that at least 30 percent of the units leased in this program must be occupied by very-low-income families.

Maximum Rent Level

This requirement (Fair Market Rent, or FMR) establishes a maximum rent level for subsidized housing units of specified size in a Standard Metropolitan Statistical Area (SMSA) or in a non-metopolitan county group. FMRs include allowances for utilities, appliances, and maintenance services required for a rental housing unit of "modest design" in the private market.

The FMRs serve two purposes: (1) by creating an upper limit on gross rents eligible for subsidy, the FMR establishes a ceiling on government contributions--the difference between recipient contributions and the gross rent actually paid; and (2) assuming that there is a corresponding quality increase as gross rents increase, the FMR establishes an upper limit on the housing quality subsidized, so that units exceeding the "modest design" are not eligible for the program.

Setting and adjusting FMRs. A national housing program must be able to tailor its program requirements to the realities of diverse local housing markets without infringing on national goals. FMRs were initially established for a standard existing two-bedroom walkup apartment (with complete plumbing and separate kitchen) in each SMSA and non-metropolitan county group containing approximately 250,000 persons. The two-bedroom FMR was used as a base from which all FMRs for other unit sizes were derived. Different FMRs were set for elevator and non-elevator structures. The FMR schedules were designed to be modified annually by HUD Central to account for changes in rent levels and utility costs.

Public Housing Agencies have a limited amount of flexibility in tailoring the established FMR to local housing conditions, through the use of either exceptions to the current FMR schedule for certain types of units or permanent revisions to the established schedule. Initially all PHA requests for FMR exceptions and revisions had to be approved by HUD Central. Now a PHA, at its own discretion, may approve rents of up to 10 percent in excess of the FMR for as much as 20 percent of the units it is allowed; other exceptions require Area or Regional Office approval. Special revisions to FMR schedules still require a final approval from HUD Central.

Adequacy of the FMRs. If FMRs are set properly, they should control subsidy levels while permitting participating landlords to realize rental income commensurate with that for non-program properties.

Adequate FMRs should insure a sufficient supply of standard quality housing for participating households. Program rents tend to be closely related to FMR levels. If FMRs are too high, subsidy costs and housing prices may rise as landlords turn away non-subsidy households in order to rent to Section 8 certificate holders. FMRs that are too low may discourage landlord participation and reduce the average quality of units which qualify for subsidy. The time frame is also important in analyzing FMR adequacy. For example, the renting experience of the early recipients may be atypical of that of later recipients. The initial FMRs for a locality with a small number of Section 8 units may be adequate for the first allocation of units but it is uncertain there would be a sufficient supply of units under the FMR limit if the locality received twice as many units in a subsequent allocation.

Ideally, comprehensive measures of FMR adequacy which take into consideration factors such as housing quality and supply, unit vacancy and turnover rate would be used for each housing market. In a nationwide study of this nature it is not possible to consider all the interrelationships of these factors. Therefore, simple tests were used to measure FMR adequacy. They determine if FMRs approximate the median rent for units of different sizes, supply a number of units equal to the number of certificate holders, and allow program participants to rent eligible units without undue difficulty. It is difficult to determine which test is most appropriate since they overlap and they do not measure the interaction of FMRs with other program features. This section contains four such tests of the adequacy of the FMR, one based on perceptions of program participants and three objective tests.

Interviews with participants indicated that some were experiencing difficulty in locating eligible units. About 40 percent of the recipients who moved and about 70 percent of the non-recipients who searched said that finding a unit for less than the FMR was a major problem. Families with five or more members were particularly likely to report difficulty in finding units. These families were in fact a larger percentage of non-recipients than certificate holders, suggesting that if large units exist, the FMRs for those units are not adequate.

One measure of FMR adequacy is the ratio of the gross rents paid by successful program participants to the corresponding FMR. A ratio close to one (average gross rent almost equal to FMR) suggests that recipients are having difficulty locating rental units below the FMR. For all recipient households sampled, the average gross rent was 94 percent of the FMR. However, the renting experience of households varied by whether or not they had moved to become recipients. Movers had an average gross rent 3 percent less than the FMR, while stayers had gross rents that averaged 8 percent less. Detailed examination of the data show that 30 percent of all recipients were leasing units at rents between 97.5 and 100 percent of the FMR. Through the PHAs' use of discretionary exceptions, almost 18 percent were renting above the FMR.

There appeared to be little, if any, difference in the renting experience of successful applicants by structure type and number of bedrooms (table 4). The low ratio of gross rent to FMR for high-rise units may result from the 10 percent greater FMR given to units located in elevator buildings. Two of the sectoral contractors found no consistent differences between the rent for an elevator unit and a corresponding non-elevator unit. They concluded that the premium was inappropriate for lower rent units.

There was no significant difference in the ratio of gross rent to FMR across units by number of bedrooms. This implies that FMR adjustments for number of bedrooms are adequate. The units with four or more bedrooms had the lowest ratio of gross rent to FMR. This is contrary to the perceptions of Area Office and PHA staff in each sector, that FMRs were less adequate as the number of bedrooms increased.

Other evaluations of the adequacy of the FMRs have used market rents from the Annual Housing Survey to determine the availability of rental units below the FMR. Contractor A estimated the average market rent by unit size and quality in five SMSAs and found them within the FMRs though these units would probably be in lower-quality neighborhoods. Another attempt to determine the availability of rental units below the FMR used the Annual Housing Survey to directly estimate the proportion of the housing stock renting for less than the FMR. In 38 SMSAs, an average of 46 percent of the housing stock was available.[11]

From these simple tests, the FMR levels appear to be adequate nationwide though inadequate FMRs may still exist on a less aggregate

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11. Johathan Sunshine, Office of Management and Budget, Memorandum, October 21, 1977.

TABLE 4

RENTING EXPERIENCE OF RECIPIENTS

	Average Ratio of Contracted Gross Rent to Corresponding FMR	Percent of Units (rounded)
Rent level by structure type		
Structure type		
Single-family unit	.95	42
Row house	.95	9
Duplex	.95	12
Garden apartment	.96	29
High-rise	.92	9
Mobile home	.92	1
Rent levels by bedroom size		
Number of bedrooms		
0	.93	2
1	.95	36
2	.94	38
3	.94	21
4 or more	.92	3

level. The initial Section 8 recipients have successfully leased a variety of units, though some certificate holders have experienced difficulty in locating eligible units. This may not be a reflection on FMR levels, for the FMR is just one of the factors which determine the available pool of Section 8 units. This will be shown later in the chapter.

Housing Quality Requirements

The Section 8 Program requires that all subsidized units be at least a minimal level of quality. HUD has established basic criteria within the Section 8 Program regulations which, when applied, fulfill this quality requirement. The HUD standards, defined in the "performance requirements" and the associated "acceptability criteria," cover 13 areas of housing services, such as sanitary conditions, food preparation, heating, and security.

Public Housing Agencies were given considerable flexibility in selecting and enforcing a housing standard to fulfill this quality requirement in their jurisdictions. The PHAs could use the HUD standards exclusively, supplement HUD's standards with state or local codes, or use state and local codes exclusively. Forty-nine percent of the PHAs used the HUD code exclusively while 37 percent combined this code with either state or local codes. Local housing inspectors were used for all or some of the inspections in 60 percent of the sampled PHAs.

The purpose of this requirement, beyond the obvious one of preventing spending of federal subsidies for renting substandard units, is to increase the housing consumption level of the eligible low-income population and increase the housing services in the low-income market. By making subsidies contingent on passing a housing inspection, it was hoped that landlords with minimally substandard units would upgrade them to qualify for the program or households would move to standard units to qualify for the program.

A major program trade-off faced by PHAs is that between two goals: increased housing stock quality and who gets served by the program. The success of certificate holders in locating eligible units depends on their PHA's priority for meeting these goals. A very strict housing standard will have a positive effect on housing stock quality but an adverse effect on the participation of landlords, who must incur greater repair costs to participate, and on the success of certificate holders, who must move to become eligible for subsidies and search in a smaller pool of eligible units. In Sector A, PHAs appear to have been aware of this trade-off and have chosen a lower standard where housing stock quality is lower. In general, the housing standards used by all PHAs appear to be adequate in eliminating substandard units while certifying a sufficient number of eligible units to fill their Section 8 allocations. Approximately 75 percent of the prospective Section 8 units in which certificate holders requested inspections are estimated by PHA staff to have passed initial inspection, and about half of those that failed were estimated to have subsequently passed. (It should be pointed out that these units inspected may be typical of neither pre-program units nor Section 8 units, but of units in which active certificate holders wished to reside.)

Program Administrative Features

Three important features of the Section 8 Program deal with establishing utility allowances, conducting rent reasonableness tests, and determining the rent reduction credit.

Utility Allowances

When all utilities are not included in the recipient's contract rent, the PHA sets a utility allowance, its amount dependent on the size and the structural type of the unit and local climatic conditions. An accurate measure of utility costs is necessary to insure that the program provides benefits equal to those of recipients who do not pay their own utilities. Households that pay their own utilities have a gross rent composed of two components: the contract rent, which determines the housing quality recipients can purchase, and the utility allowance which, ideally, represents utility costs. For any gross rent level, the rental payment can be larger if the utility allowance is smaller. Thus, a utility allowance less than cost will allow recipients to purchase higher-quality units but only at additional personal expense. A utility allowance greater than cost will reduce the housing quality a recipient can purchase but will increase the recipient's subsidy.

Utility allowances were received by 75 percent of all recipients. The allowances received were often inaccurate. The allowances were both over- and under-estimates of costs, but on the average they were almost $7.50 less than costs. The distribution of the differences between cost and allowance was large: 35 percent were less than cost by at least $10 while 11 percent were overestimates of costs by at least the same amount. Excess utility costs increased recipient contributions to housing expenditures by approximately 10 percent.

The inaccuracy of utility allowances may have resulted from the difficulties PHAs encountered in developing allowances for a variety of units, or from a conscious effort to establish utility allowances at less than cost in order to lease-up as rapidly as possible. A PHA can increase the effective FMR and provide more units of somewhat higher quality to recipients by setting a utility allowance at less than cost. Since some people are willing to spend more than 25 percent of their income for housing, a low utility allowance may not discourage participation.[12]

Ten of the 30 PHAs sampled in Sector B reported that they had adjusted utility allowances on a case-by-case basis so that gross rents would be less than, or equal to, the FMR. In eight of these ten PHAs, the adjustments were made in less than 10 percent of all cases and averaged $15 per unit, although the majority were less than $5.

12. Jeanne E. Goedert and John L. Goodman, "Removing the Rent Ceiling in the Section 8 (Existing Housing) Program: Evidence from the Experimental Housing Allowance Program," The Urban Institute, Washington, D.C., CR 240-1, September 1976.

Rent Reasonableness Test

The rent reasonableness test, required of the PHA before a lease can be approved, is supposed to guard against the disruption of prevailing market rents by comparing the rent of a prospective Section 8 unit to an equivalent unit in the private unassisted market, taking into consideration unit characteristics such as location, size, and maintenance services. It is also aimed at minimizing costs by encouraging households to search for units with rents comparable to current rents in a particular neighborhood rather than units renting for less than the FMR. In other words, the test is meant to ensure that the FMR is a ceiling and not a target rent.

It is uncertain how often and how well the rent reasonableness test has been used. In Sector B, the test was not standard procedure, and several PHAs did not perform the test at all because they felt their FMRs were insufficient. It is highly unlikely that the rent reasonableness test has had a large effect on the units subsidized. It should be remembered that the early phases of the Section 8 Program were aimed at rapid lease-up, not cost minimization.

Rent Reduction Credit

The maximum gross family contribution of 25 percent of adjusted annual family income and the maximum rent level embodied in the FMR give certificate holders an incentive to rent the most expensive unit possible, one whose rent is equal to the FMR, since a household's contribution is limited to its maximum gross family contribution. The rent reduction credit (RRC) establishes a counterincentive to keep gross rents below the FMR by allowing certificate holders to share in the savings when a unit is rented below the FMR. In that case, the savings are divided, through a complex formula, between the certificate holder and the government in the hope that certificate holders will attempt to reduce their program contribution and concurrently reduce government subsidy costs.

The RRC has not functioned as planned. Very few certificate holders in Sectors A and C made a specific effort to obtain lower rents, and participants' understanding of it (and the FMR) was found to be very limited in the Sector B and C samples. Forty-six percent of all recipients received an RRC, and more than half of those who received it were stayers. The credit averaged about $8 per month.

Interaction of Program Requirements
and Administrative Features

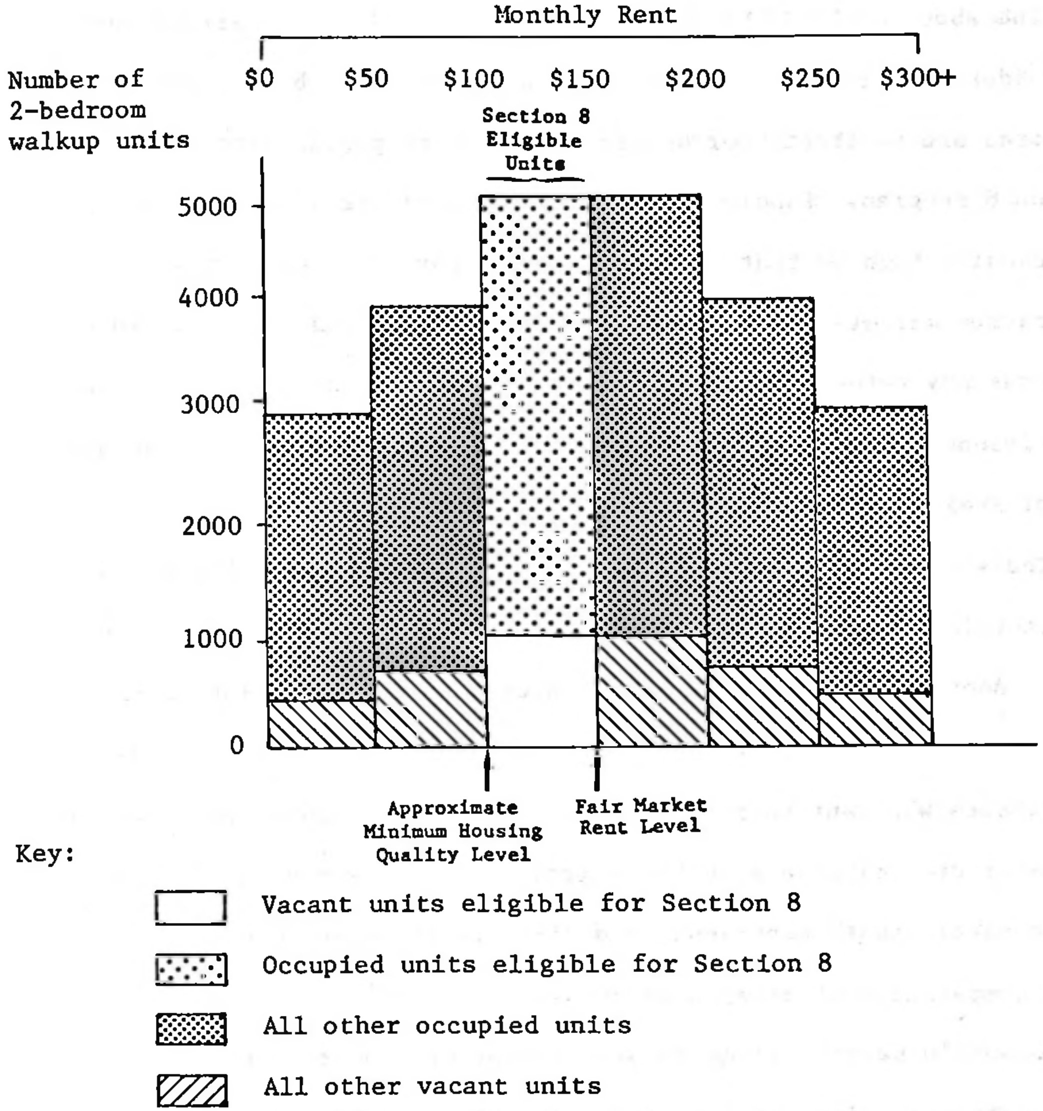
The program requirements and other program features do not work in isolation. Together, they affect (1) the volume and quality of available units, (2) landlord and household participation, and (3) program costs.

Three factors affect the number of available units of different bedroom size in any given housing market--the FMR, the housing standard, and the vacancy rate. The FMR and the housing standard determine the range of rents eligible for subsidy, with the FMR determining the maximum and the housing standard the minimum. The local vacancy rate determines the number of units available for rent at any one time. These factors (figure 7) interact to define this pool of eligible units through a wide range of rents. If the FMR for a two-bedroom walkup unit is $150 per month, as in the figure, participants must limit their search to units below or equal to this rent level. The rent associated with the minimum housing quality, as defined by the local housing standards, cannot be as precisely determined as the FMR, though at some rent level the chances of finding a "modest" quality unit will be so small that a minimum rent level can be approximated. In figure 7 the minimum rent level is assumed to be $100 per month.

In this hypothetical example, the area between $100 and $150 per month contains about 5,000 two-bedroom housing units, about 28 percent of the total housing units in this market; some of these units are occupied and some are vacant. The pool of rentable units from which Section 8 participants must choose is the area between $100 and $150 per month. It can now be seen that--by varying the vacancy rate, the housing standards, or the FMRs--the shaded area (as differentiated from the dotted area) between the two arrows can be increased or decreased, and the corresponding number of eligible housing units are thus increased or decreased. Unlike vacancy rates, housing standards and FMRs can be changed by Section 8 Program administrators. PHAs can increase the number of available units by: choosing a less stringent housing standard, underestimating the utility allowance (this would also increase the recipient's contribution level), and applying for FMR exceptions.

Figure 7

Distribution of All 2-bedroom Walkup Units by Rental Price for Hypothetical Housing Market



Source: Adapted from "Standard and Fair Market Rent Constraints on Section 8 Vacancy Pool," Westat Research, Inc. (Sector C Contractor).

In any jurisdiction the pool of eligible units must be evaluated with respect to the housing needs of certificate holders. An equal number of eligible units and certificate holders may not be sufficient if the mix of bedroom sizes and certificate holders' household size does not correspond.

The above analysis shows the pool of eligible and available units under ideal conditions. All of these units will not be available if landlords are hesitant, for whatever reason, to participate in the Section 8 Program. Landlords will only participate if the FMR is sufficiently high so that the program rent for their units will equal the private market rent for units of similar size and quality. Some landlords may refuse to participate in the program because they have a low opinion of government programs and program participants. The actual pool of available units may therefore be smaller than in the analysis.

The success of program participants in locating eligible units is not determined solely by the size of the pool of available eligible units. Another factor that must be taken into consideration is the size of the certificate holding population <u>and</u> the number of nonprogram participants who want to rent from the same pool of units relative to the number of available eligible units. Thus there may be instances of program participants experiencing difficulty in locating units because of the competition of other households.

Household participation is affected by program requirements and constraints and, directly, by landlord participation. A strict housing standard, relative to a given FMR, is more likely to cause certificate holders to move to become recipients and will result in a smaller pool of eligible units. Because certificate holders must search from this smaller pool of units, the likelihood that they will be successful is reduced. The lower the FMR, the more likely prospective households will have to reduce their housing consumption (e.g., rent down) to participate in the program. One way recipients can increase the pool of available units is by renting in place. In figure 7, the units available were only those that were vacant. A substantial number of certificate holders renting in place will reduce the number of certificate holders competing for the remaining units and perhaps increase the likelihood that movers will be successful in locating new units.

Program costs are affected by the size of the average subsidy and the administrative cost per certificate holder. The subsidy per recipient is the difference between the recipient's gross rent and the gross family contribution. The higher the FMR the more likely gross rents will be higher and result in higher subsidy costs. The other source of program costs is PHA administrative costs. Administrative costs are associated with the services PHAs provide, and each certificate holder absorbs some administrative service. The higher the attrition rate (the rate at which certificate holders fail to become successful participants), the larger the amount of uncompensated administrative resources spent since PHAs are only given fees for units that are actually leased. Although low FMRs may hold down household subsidy costs, this saving may be partly offset by increased administrative costs incurred in providing services to certificate holders who have difficulty finding a unit.

III. HOW HOUSEHOLDS RESPOND TO THE PROGRAM

Households certified by PHAs were given a choice of two ways to become program recipients, either moving to rental units meeting PHA established housing quality and FMR standards or remaining in their current units if they could be made to meet the same requirements and if the landlords agreed to participate. This chapter describes the preferences and successes of certificate holders as regards moving, and their experiences with searching. Households from the recipient and non-recipient samples are referred to in this chapter as "certificate holders," when the analysis focuses on the period when they were active certificate holders.

Preferences and Successes of Active Certificate Holders

The decisions made by active certificate holders about moving and not moving seemed to determine the likelihood of their becoming program recipients. More non-recipients than recipients wanted to move--74 percent as compared to 47 percent--when they became active certificate holders (table 5).

The prospect of moving to a different unit was an important aspect of the program for the majority of the active certificate holders who became non-recipients, but the desire to move varied among demographic groups. The elderly were the least likely to want to move, probably because they were personally attached to current units and neighborhoods, while large families and welfare families were the most likely

TABLE 5

RECIPIENTS AND NON-RECIPIENTS WANTING TO MOVE
WHEN THEY BECAME CERTIFICATE HOLDERS

Household Groups	Recipients (percent by group)	Non-recipient (percent by group)
Elderly	37	44
Minority	54	78
Large families (5 or more persons)	45	87
Very-low-income (non-elderly)	47	77
Female-Headed (non-elderly)	55	78
Non-welfare families	45	70
All households	47	74

to want to move, probably because the Section 8 Program provided an opportunity to reduce overcrowding.

Certificate holders who became recipients were very successful in achieving their preferences for moving or staying. Almost half (47 percent) wanted to move. Of these, 87 percent were able to move, while 90 percent of those who wanted to stay did so.

Of recipients who rented in place (stayers), 11 percent had wanted to move, though not all seemed to have searched for a unit. Of the stayers, families with non-elderly female heads--especially those receiving welfare--and minority families wanted to move more often than other groups.

By becoming recipients, most stayers got the program benefits they wanted, namely to remain in their current unit and to receive a reduction in rent burden. About 40 percent of stayers reported that they were more satisfied with their housing unit after it had been approved for the Section 8 Program (and presumably repaired as required). Stayers were more likely than movers to be elderly, non-minority, living alone, and receiving income from benefits or welfare (table 6).

The majority of recipients who chose to stay in place said that they made this choice because they liked their current unit (90 percent), and their landlord (82 percent); 55 percent of the stayers thought moving was too much trouble, or too costly (46 percent). About a third thought they would not be able to find a better housing unit.

TABLE 6

CHARACTERISTICS OF STAYERS AND MOVERS

	Percent by Group	
	Stayers	Movers
Age of head		
62 and over	41	25
Under 62	59	75
Minority status		
Non-minority	67	60
Minority	33	40
Sex of head		
Male	22	22
Female	88	88
Family size		
1	45	31
2	19	25
3-4	26	33
5 or more	10	11
Income status		
Very-low-income	82	83
Low-income	18	17
Source of income[a]		
Wages, not benefits nor welfare	25	26
Benefits or welfare, no wages	58	42
Welfare	29	40
Other	17	16

a. Numbers do not add to 100 because this is a multiple response question, e.g., households may have both wages and benefits.

Some of the responses given for not moving can be construed as negative. When recipients were asked prestructured questions about the difficulty they perceived they might have in moving, 65 percent of all non-movers perceived at least one constraint. Constraints included: the inability to find a better unit or rent another unit because of family size or the lease requirement, and the expense and trouble of moving. Three-quarters of large families thought they were constrained.

Households who successfully moved were more likely than stayers to be non-elderly, minority, and have larger families (table 6).

The two reasons for moving given most often by recipients were: the household had been overcrowded in the previous unit (45 percent), and the previous unit could not meet Section 8 standards (32 percent). Other reasons given by about one-fourth of movers were: their former neighborhood was unsuitable; their landlord refused to make necessary repairs; and their previous unit was undesirable. Elderly non-minority recipients, and non-elderly, large families who were minority or male-headed were more likely than the average mover to perceive that their previous neighborhood was unsuitable.

When the various reasons given for moving were tabulated for all movers, it was found that 43 percent may have moved partly for program induced reasons. These households either perceived that their former units could not meet program standards; their landlords were unwilling to participate in the program; or the rent in their previous units were higher than the FMR. Among movers, more large families and non-elderly female-headed families receiving welfare gave program-related reasons than any other group; elderly households gave the fewest reasons of this type.

Search Behavior Among Certificate Holders

Since the Section 8 Existing Housing Program is based on participants finding housing in the private marketplace, it is critical to understand how well they were able to cope in the search process. This section analyzes how well households did in the search process, including why some households apparently chose not to search. For those who did search, various aspects of the search process will be described, including the length of time movers and stayers took to obtain a lease, the number of units seen by searchers, and different search experiences of recipients and non-recipients.

There is a discrepancy in the household data on search; only 84 percent of movers were recorded as having looked for a unit. Because of this discrepancy the following analysis is qualitatively correct though not quantitatively precise.

Non-searchers

The majority of certificate holders, 60 percent of both recipients and non-recipients, appeared not to have searched for a unit.

Of the recipients who rented in place, only 11 percent had wanted to move and only 7 percent were recorded as having searched. It is easy to understand why stayers did not search. They were not forced to move, their current units were eligible for subsidy, and they did not want to move.

Of the non-recipients who did not search, the decision not to search seems to have been based on anticipation of failure in the marketplace. They perceived they would neither be able to find an available unit (69 percent) nor one within the allowable rent (33 percent). About 45 percent thought they would not be able to find a unit with enough bedrooms. Approximately 25 percent thought that they could not find a unit that would pass inspection, and about the same number thought that they could not get transportation to search or would not be able to explain to landlords how the program worked. (Of course the analysis has not determined whether this anticipation of failure was due to an actual tight housing market situation or to the hesitancy of households about negotiating in the marketplace due to their own insecurities or their inability to cope with searching.)

The failure of non-recipients to search for eligible units may also be related to their housing preferences and their perception of the program's ability to fulfill them. Participating households may learn more about the program after initial application, when given their certificate, and the increased knowledge of the recipient's responsibilities and of the program may discourage their participation. For example, the elderly expressed the greatest desire to rent in place. These households upon finding their present unit did not qualify or that their landlord would not participate may have terminated their participation rather than searching and moving to a new unit to become eligible for a subsidy.

Another reason for not searching which seems quite plausible may be that the cash benefits of the program were perceived to be insufficient. Households with this perception may have voluntarily terminated their participation. As shown in chapter I, non-recipients generally had higher incomes than recipients. The majority (70 percent) of low-income non-recipients expressed a desire to move, yet only about a third seemed to have actually searched for an eligible unit. The average decrease in out-of-pocket expenditures for low-income non-recipient households would have been about $1 per month as compared to a decrease in out-of-pocket expenditures for low-income recipient households of $29 per month (table 7). For low-income non-recipients the Section 8 benefits were probably insufficient to induce them to overcome the difficulties associated with leasing their current units under the program.

<u>Searchers</u>

Households who cannot or do not want to participate with their original units must search effectively in order to receive program benefits. About 40 percent of both recipients and non-recipients searched for an acceptable unit.

According to rough estimates by staff at the agencies in the sample, approximately 70 percent of all certified households found acceptable Section 8 units within the two month limit, about one month elapsing on the average between the issuance of a certificate and the

TABLE 7

DECREASE IN MONTHLY OUT-OF-POCKET HOUSING EXPENSES[a]

	Recipients	Non-recipients
Age of head		
Elderly	$44	$44
Non-elderly	51	31
Minority status		
Minority	45	18
Non-minority	53	51
Sex		
Male	40	22
Female	52	37
Household size		
1-4	48	32
5 or more	104	88
Income status		
Very-low-income	53	51
Low-income	29	1

a. The decrease in household monthly out-of-pocket housing expenses was estimated by subtracting pre-program from program costs for recipients and subtracting pre-program from estimated program costs for non-recipients. The estimates for non-recipients are affected by opposing biases, a downward bias (rent decrease smaller) reflecting the larger non-recipient average income and an upward bias (rent decrease larger) reflecting the larger size of non-recipient families. Unfortunately the relative size of each bias cannot be determined from the available data.

signing of a lease. Movers took an average of 1.3 months; stayers, 0.9 months. Both movers and stayers who searched examined about seven units, though fewer stayers received landlord refusals--25 percent versus 37 percent for movers.

Non-recipients who searched looked at almost twice as many units as recipient searchers--about 13. A larger percentage of non-recipients were minority-headed households, who might be expected to encounter housing discrimination. There is little direct evidence in the data to measure discrimination. However, the data did show that non-recipient searchers received direct refusals from landlords at a rate equal to recipient searchers.

Large units seemed more difficult to locate than smaller units. Recipient households with five or more members looked at an average of nine units, three more than average. Households of this same size were also a greater proportion of non-recipients than recipients.

As might be expected, recipients did not seem to have as many major problems in searching as non-recipients. For over 40 percent of recipients, the biggest problem was finding an available unit within the allowable rent limit. Finding a large enough unit, explaining the program to landlords, and obtaining transportation to search were considered major problems by about one-fourth of the recipient searchers, while the major problem for about one-fifth was finding a unit that would pass Section 8 inspection.

Not surprisingly, the problems were much greater for households whose searches were unsuccessful. While non-recipients ranked searching problems in the same order as recipients, the percentage of non-recipient searchers with major problems was much higher: finding an available unit (88 percent); finding a unit whose rent was below the FMR (59 percent); getting transportation to search for a unit (50 percent); finding a unit that would pass Section 8 inspection (about 45 percent); explaining the program to landlords (about 33 percent).

One problem households had was finding landlords to participate. Some 43 percent of the staff at the PHAs surveyed viewed this as a major problem. Although there was no comparable survey question for households, almost 20 percent of the recipients who moved indicated that their previous landlord was unwilling to participate. Moreover, in areas where the staff of PHAs viewed landlord participation as a problem, recipients who searched had more landlord refusals. The same association, however, did not hold for non-recipients.

Agency Assistance to Searchers

Assistance from the PHA in locating a unit may encourage households to search. It may also help households that are already searching to search more effectively. For less mobile households, like the elderly and handicapped, the agency's assistance may be especially important if they are to have an equal opportunity to participate in the program.

Agencies provided a range of assistance to households. Most agencies provided a printed description of the program to help households explain the program to landlords. Other kinds of assistance were usually given by most agencies only to selected households. They made referrals, helped in negotiating the rent, and distributed lists of available units or of landlords likely to have units to rent. A minority of agencies provided other selective assistance in leasing units, in providing transportation, and in helping special household groups. Checklists for inspecting units were distributed by some agencies. The majority of recipients (57 percent) and of non-recipients (65 percent) received such checklists.

Among recipients, more movers than stayers received and used search assistance. Lists of available units or of landlords with units to rent were given to 45 percent of the recipients who moved and to 19 percent of the recipients who rented-in-place. Of these households, 73 percent of the movers and 25 percent of the stayers actually used the lists. Over half (59 percent) of movers using lists successfully rented a unit on the list. Of all movers, 17 percent found their new unit through an agency-provided list; this included one-third of all the elderly who moved.

Checklists for certificate holder's use in inspecting units were received by two-thirds of the movers and by half of the stayers. More large families in each group claimed they were given checklists than any other group. The majority (88 percent) of all movers and 75 percent of all stayers who were given checklists actually used them. Despite the differences in assistance provided by agencies to movers and to stayers, the majority of both movers (88 percent) and stayers (96 percent) thought that the PHA gave them enough help in looking for a unit.

The type and amount of PHA assistance may not be the real reason why housheolds search. Motivation may be a more important factor. Households who are highly motivated may actively seek assistance from the PHA and aggressively search at the same time. Moreover, the extent to which a household searches may be more closely related to its expectation of success in the marketplace than to the assistance it receives.

The usefulness of assistance provided by agencies, as perceived by certificate holders, seemed to vary according to whether the household became a recipient or not. Although most households were generally satisfied with the PHA's assistance in searching for a unit, more recipient households (92 percent) than non-recipient households (76 percent) felt that the agency provided enough, or more than enough, search assistance. In addition, 55 percent of the recipients thought that they were able to make a better choice of a unit because of the information the PHA gave them.

Non-recipients do not seem to have received fewer PHA services than recipients, at least in terms of lists of available units and inspection checklists. Since a comprehensive inventory of PHA services is not available, there may have been more selectivity in providing these services than the data show. But in spite of this probable selectivity and the differing needs of households, there is relatively little variation, by household type, in households' satisfaction with the help received from the agency.

There also seems to be a need to encourage households to use the services already provided, as well as for PHAs to provide the assistance in a form more useful to households. For instance, not all households who received lists of available units actually used them. Some may not have needed to search, but even among non-recipients about 30 percent of households receiving such lists failed to use them. In some agencies, the lists may not be extensive enough or sufficiently up-to-date, and some households may need additional assistance in using the lists provided.

IV. HOW LANDLORDS RESPOND TO THE PROGRAM

There is no simple, typical response to the Section 8 Program by landlords, primarily because participating landlords vary so widely. More small-scale landlords have been shown to participate than large-scale landlords, perhaps because they are a larger proportion of the population of landlords. When large-scale landlords do participate in the program, their response seems to be somewhat different. Overall, landlords appear to be satisfied with their program participation. Ninety percent of those participating would consider leasing more units under this program.

There are two major ways a landlord can become aware of the Section 8 Program: through prospective program recipients, including current tenants, and through the outreach efforts of the local PHA. These two sources of program information have attracted two very different landlord populations, large-scale and small-scale landlords. Certificate holders were more likely to be the source of program information for small-scale landlords while large-scale landlords were more likely to be contacted and persuaded to participate in the program by the local PHA.

The predominance in the program of small-scale landlords is reflected in how landlords become program participants and their subsequent responses to the program. At least one-third of the sampled landlords in Sectors A and C were first informed of the program by a current tenant. In fact, 9 percent of the landlords in Sector A and

16 percent in Sector B said that the primary reason for their program participation was that they knew the certificate holder personally. In addition, 11 percent of the landlords in Sector A and 18 percent in Sector C first heard of the program from other certificate holders searching for a unit.

It is not known precisely why certificate holders are the major source of initial program information for small-scale landlords. These landlords may be more accessible to current and prospective tenants because they own fewer units or live in the same neighborhood. About a third of Section 8 landlords might have been more accessible to certificate holders because they actually resided on the same property they owned and managed. Perhaps sharing the same roof or property makes the landlord-tenant relationship more informal. Landlords who are resident owners and managers may also be providing slightly higher quality housing, as services and maintenance performed on units may well affect the landlord's own living environment as well as that of the tenants.

Certificate holders also appear to have a preference for low density housing units, a structural characteristic predominant among small-scale landlords' holdings. The typical dwelling leased in the program is in a two- to six-unit building.

It is understandable that a PHA would direct its outreach toward landlords with a larger number of units. A PHA reduces its outreach expenses by attracting one landlord who has one hundred units rather than twenty landlords who have only five units each. Also by attracting landlords with a large number of units, PHAs may be able to develop lists of available units more easily. Certificate holders who are having difficulty in locating an eligible unit may then be referred to a landlord or a unit on this list.

From the available data it is uncertain exactly how PHAs, certificate holders, and landlords interact. In particular it is uncertain whether PHAs are using their lists of available units as a last resort or as a primary method of placing certificate holders. It does appear that in the private market, without PHA intervention, small-scale landlords are actively participating in the program, including making repairs to their units.

The Section 8 Program is designed to give households a large role in the selection of their program housing units. Recipients have used this feature to fulfill a preference for low density dwellings. Small-scale landlords may be participating more intensely in the program than large-scale landlords because their holdings are composed of these lower density units. The units owned by large-scale landlords may be of equal quality but less desirable in the eyes of recipients because they are predominantly located in multifamily structures.

Reasons for Participation

The Section 8 Program was designed to provide landlords with financial incentives for participation through guaranteed rents and lower vacancies. These financial incentives do exist, though they were not the most important reasons given by landlords in Sector A for their participation. Two-thirds of the participating landlords cited personal considerations such as "helping low-income tenants" as the most important reasons for their participation, while one-third cited "financial or business considerations." Also in the Sector in which this question was asked (A) 16 percent of the landlords claimed participation in the Section 8 Program was more profitable than the private housing market for low-income households; 23 percent of the landlords found it less profitable and 61 percent found the two options equally profitable.

Participating landlords were surveyed to determine the program features they liked or disliked. The four aspects of the program the landlords liked were the guaranteed rent and higher occupancy level (57 percent); the social objectives of the program (42 percent); the selection and quality of the tenants (15 percent); and the reduction in risk, cost, and the increased ability to provide maintenance (15 percent). The aspects of the program the landlords disliked were: dealing with the PHA (17 percent); the amount of paperwork (12 percent); the FMR levels (11 percent); and the tenants selected (12 percent).

Landlords do not consider Section 8 recipients to be problem tenants (table 8). At least 90 percent of the landlords found Section 8 tenants equally or more responsible than other tenants in maintaining property, paying rent and getting along with neighbors. This was true of movers and stayers but slightly less true of movers.

TABLE 8

LANDLORD PERCEPTION OF SECTION 8 TENANTS RELATIVE TO OTHER TENANTS[a]

Selected problems with Section 8 tenants relative to other tenants	Percent of Landlords		
	More	Same	Fewer
Maintenance complaints	10	67	23
Property damage	10	56	33
Problems with neighbors	9	70	21
Lateness with rental payments	10	60	30
Non-payment of rent	7	54	39

a. This information is for sampled units where both the landlord and tenant were interviewed. However, the landlord's perceptions apply to all of his or her Section 8 tenants rather than to the tenants interviewed.

Incidence of Landlord Repairs

Thirty-two percent of the landlords reported that repairs, averaging $284 per repaired unit, were made to qualify for a Section 8 subsidy. Though Contractor A thought this was normal maintenance, landlord responses indicate fewer repairs would have been made for a non-Section 8 tenant. Among all the units that failed inspection in Sector C, 25 percent were not repaired by their owners and therefore remained ineligible. In the same sector, landlords with smaller holdings repaired their units more often and more extensively. Most landlords in the Sector C sample made the repairs themselves. In Sector B, twice as many small landlords (those with five or fewer Section 8 units) repaired their rental units as large landlords (those with more than five units). In Sector A, landlords owning more than 200 units who did make repairs were less likely to make repairs in excess of $250 than were smaller-scale landlords. However, it is not known whether this occurred because these landlords were reluctant to invest more money, or because their units required only minor repairs.

Changes in Rents

The pre-program and program rents for the same unit often differed. About 40 percent of the landlords who increased rents said they did so to cover increased operating and maintenance costs. About the same number said they raised rents to meet the FMR, and approximately 28 percent said they raised rents to cover costs of rehabilitation or upgrading. (Landlords gave multiple responses to this question.) When landlords who lowered their rents were asked for reasons, 65 percent gave no answer, while about 30 percent said they lowered rents to become eligible for the program.

Unfortunately, because of the method of sampling landlords and the questions asked, no information is available on rent changes of all Section 8 units. However, there is information on rent changes for Section 8 recipients who rented in place.

For all stayers average gross rents increased about 28 percent or $36 a month. Recipients who rented in place and who required repairs to their unit to quality for the program had a monthly increase in housing expenditures averaging 32 percent or $42. For recipients who rented in place without receiving repairs, average gross rents increased 26 percent or $33 a month. It appears, however, that large rent increases were associated with low pre-program rents (table 9). PHAs may have agreed to substantial increases in rents for units whose rents did not appear to have kept pace with market rents as in the case of long term tenants. Also for units with low pre-program rents, tenants and PHAs may have negotiated increased or additional services other than initial repairs needed to pass the housing inspection.

The gross rent of the average mover's Section 8 unit was $180 per month, $18 per month more than that of the average stayer (table 10). Across different family sizes, movers consistently had higher housing expenditures than stayers, though this varied from a low of $6 for a two-person family to a high of $27 for a family of five or more.

Though the initial upgrading of the low-income housing stock appears to be modest, future maintenance levels may be higher as a result of increased rents coupled with the change in the tenant-landlord relationship instilled by the program, and the oversight of the local PHA. Increased maintenance should generally improve or at least stabilize the quality of the low-income housing units which are being rented with assistance from the Section 8 Program.

TABLE 9

DOLLARS AND PERCENTAGE CHANGE IN GROSS RENTS FOR STAYERS

	Monthly Gross Rent Change	
	Dollars	Percentage
All Stayers		
Pre-Program Rent		
$5 to $50	106	267
$51 to $150	41	38
More than $150	9	5
Average Increase	36	28
Stayers Whose Units Required No Initial Repairs		
Pre-Program Rent		
$5 to $50	101	267
$51 to $150	36	33
More than $150	7	4
Average Increase	33	26
Stayers Whose Units Required Initial Repairs		
Pre-Program Rent		
$5 to $50	124	266
$51 to $150	50	27
More than $150	13	7
Average Increase	42	32

TABLE 10

AVERAGE GROSS RENTS PAID BY MOVERS AND STAYERS

	Movers	Stayers	Difference (Col. 1 minus Col. 2)
Age			
Elderly	$156	$143	$13
Non-elderly	186	174	12
Sex of head			
Male	180	179	1
Female	179	157	22
Race			
Non-minority	174	159	15
Minority	188	170	18
Size of family			
1	155	139	16
2	172	166	6
3-4	194	183	11
5 or more	222	195	27
Income status			
Very-low-income	177	159	18
Low-income	187	171	16
All recipients	$180	$162	$18

V. HOW RECIPIENTS BENEFIT FROM THE PROGRAM

This chapter reports on the three ways in which recipients benefit from the Section 8 Program: (1) through a reduction in rent burden, defined as the ratio of a household's rental and utility expenses to its income; (2) through an increase in housing consumption, meaning repairs and better maintenance of current units for those who do not move, and a move to a higher-quality unit for those who do move; and (3) through an opportunity to select their own neighborhood, by deciding to move away or choosing to remain in their present neighborhood.

Reduction In Rent Burden

Expenses for rent and utilities of all the recipients sampled (including persons who formed new family units in moving and only then began paying separately for their housing) averaged $115 per month before participation, or almost 40 percent of their gross income. For family units who paid housing expenses before participating, the average dollar outlay before participation was $123, or 41 percent of income.

By limiting a household's expenditures on housing to at most 25 percent of its adjusted income, the Section 8 Program reduced the rent burden of recipients by almost 50 percent. The average recipient's rent was 22 percent of gross income after participation, compared to approximately 40 percent before. The rent burden was about the same for those who stayed in place and those who moved, and there was not much variation in rent burden across types of households. The recipients contributed a relatively small part of their total housing expenditure--about $67. The government's contribution was $103. On the average, both stayers and movers reduced their monthly rent payment by about $55.

Increase In Housing Consumption

The housing benefits associated with participation--aside from the financial savings--are described separately for households who did not move and households who moved, since the changes in housing consumption for these two groups tend to be different.

Stayers

For families who rented in place, housing expenditures--rent plus utilities--increased about 28 percent. The data available measure only the initial program effects on housing consumption. Increases in stayer's housing consumption are measured only by the incidence of repairs, and not by increased maintenance or services. About 33 percent of the recipients who rented in place needed repairs on their units to qualify for a subsidy. They experienced an increase in housing expenditure of approximately $42. Units rented by elderly households seemed to need fewer repairs.

The majority (67 percent) of households who stayed in place, however, qualified without the necessity of initial repairs. These households had a rent increase of $33, presumably for rising operating costs only. In some cases rents were increased by landlords who had maintained constant rents over long periods to avoid burdening their tenants. This seems to have occurred primarily for elderly tenants on fixed income. Some landlords may have increased their rents to the FMR level solely to take advantage of the rent ceiling. (Over 35 percent of the landlords in the sample who raised rents gave a reason related to the FMR rent ceiling.)

Movers

For all households who moved, rents increased by about 70 percent, from $105 monthly in previous units to $180 monthly in Section 8 units. There was variation in the percent of increase experienced by different size families. Rents for two-person families increased 90 percent, while rents for one-person, three- to four-person and five- or more person families increased by 60 percent.

One reason for the large average increase is that about 11 percent of the mover households formed a new family unit in the process and therefore had no comparable cash expenditures before they applied to the program. Nevertheless, all mover households who did have cash expenditures prior to Section 8 averaged $118 per month before entering the program and therefore still had substantial rent increases. Since rental prices are rough indicators of housing quality, mover households can be said to have improved their housing.

Movers can also improve their housing through a reduction in crowding. About 35 percent of all mover households had an increase in the number of bedrooms, while 20 percent of the movers had a decrease in size of family.

Perceptions about the change in housing quality expressed by recipients who moved were even more favorable. About 70 percent thought that the condition of their new unit was better than that of their previous unit. About 60 percent thought the services provided by the new landlord were better, and almost 75 percent said they were more satisfied with their Section 8 housing than with their previous housing.

However, a small number of households suffered perceived reductions in housing quality. About 13 percent said that the new units were in poorer condition or had poorer landlord services than their former dwellings. Such households substituted a reduction in rent burden for housing quality. Whatever their reasons for moving into smaller or less desirable units, at least some of these households probably moved because their previous units did not qualify for the subsidy, did not meet standards, the landlord would not participate, or the rent exceeded the FMR. It is not known if these households made a decision to rent a lower quality unit, implying that the subsidy was more important than housing quality, or if they made an error in selecting their new units.

Opportunity for Neighborhood Choice

Changing Neighborhood

Nationwide, about one-third of all recipients moved to new neighborhoods. This represents about 70 percent of all movers. In Sector A, 78 percent of all movers changed neighborhoods. Of these, 26 percent moved to an adjacent or nearby neighborhood, 45 percent moved to a different section of the same city or town and 26 percent moved to another city or town (probably in a different jurisdiction within the same metropolitan area).

Nationwide, about 60 percent of the recipients who moved to new neighborhoods thought they had moved to a better neighborhood; about 22 percent thought they had moved to a similar neighborhood; and about 16 percent thought they had moved to a worse neighborhood. In Sector A, households perceived no increases in public services in their new neighborhoods though increases were perceived in the neighborhood's safety, condition of streets and dwellings, and convenience to transportation. In Sector C, the quality of schools in the new neighborhood increased for 70 percent of the households who judged their previous neighborhoods to have poor or fair quality schools. In this same sector, 76 percent of the movers who changed neighborhoods and considered their original neighborhood unsafe now consider their new neighborhoods safe. In Sector B, minorities and large families perceived greater improvement in neighborhood quality than was perceived by non-minorities and single persons.

Using a measurement of socioeconomic status based on median income and education and the percentage of white-collar workers, Contractor B found that recipients who moved out of their old neighborhoods moved into neighborhoods of above average quality. The same contractor found that large families, welfare recipients, and non-elderly-headed households were more likely to move to a new neighborhood than other household types.

Another measure of neighborhood improvement used in Sector B was median housing value of owner-occupied units. The median housing value for all neighborhoods where a Section 8 recipient resided was $16,350. Recipients who moved to different neighborhoods probably increased both housing consumption and neighborhood quality. The median housing value in the new neighborhoods was about $17,000.

Nationwide, the Section 8 Program has not appeared to have increased racial integration, since moves to more integrated neighborhoods appear to be exactly offset by moves to less integrated neighborhoods.

Moves by blacks to different neighborhoods were found by one contractor (B) to contribute to integration. Minority households were more likely to move to more integrated neighborhoods than non-minority households. Approximately 50 percent of these black households moved to neighborhoods with a lower percentage of black residents than their former neighborhoods; 29 percent moved to neighborhoods with a higher percentage; and 21 percent moved to neighborhoods with the same percentage of blacks. On the other hand, white households in the same sample moved to more segregated neighborhoods; only 8 percent moved to neighborhoods with a lower percentage of white residents. The net impact of Section 8 on integration in Sector B was zero, since 24 percent of the moves increased integration, and 24 percent decreased it. There was no attempt to gauge whether or not neighborhoods to which minority recipients moved were transition neighborhoods (i.e., rapidly becoming less integrated).

In Sector A, 53 percent of the households interviewed moved to neighborhoods with the same racial composition; 26 percent moved to areas more racially mixed and 21 percent to areas less racially mixed.

Remaining in Same Neighborhood

About two-thirds of all recipients remained in the same neighborhood they were in when they applied to the program. This was accomplished by either remaining in their current housing unit or by moving within their neighborhoods, as did about 12 percent of recipients.

The ability to remain in a neighborhood where family, ethnic, religious or social ties are strong was perceived as a program benefit. The majority of recipients who chose to stay in place said they made the choice because they liked their current neighborhood (84 percent), their neighbors (78 percent), or they wanted to remain close to friends and relatives (63 percent). Elderly households viewed the opportunity for neighborhood stability as a benefit. The majority, about 60 percent of both elderly recipients and of non-recipients wanted to remain in their pre-Section 8 unit.

The scope of this study did not permit the determination of whether recipients who stayed in their previous neighborhood did so because of lack of opportunities in other neighborhoods due to discrimination or lack of available units of the price and quality specified by the program. It was found that few of these recipients seem to have ever searched for units.

Nationwide, little is known about the characteristics of neighborhoods in which recipients chose to remain. In Section B the median housing value of owner occupied units in stayer neighborhods was $16,100, or slightly less than the median for all neighborhods where Section 8 recipients resided. Recipients who moved within a neighborhood lived in neighhorhoods that appear to be of lower quality, with a median housing value about $2,650 below average, although such households may have increased the quality of their units by moving.

Using a measure of socioeconomic status, based on median income and education and the percentage of white-collar workers, Contractor B found that recipients who did not move were living in neighborhoods slightly below average quality; those who moved to a unit within their original neighborhood were living in neighborhoods of average quality.

VI. IMPACT OF THE PROGRAM ON THE HOUSING STOCK

It was hoped that the Section 8 Existing Housing Program would encourage the maintenance of, and stimulate modest improvement in, local housing stocks. It was not expected that the program would have a general impact throughout the housing market or that it would result in the rehabilitation of a substantial number of housing units.

It is helpful to think of markets for rental units as three broad categories based on relative quality. The first category is mostly composed of higher-priced units that meet or exceed minimum levels of quality. The second category is composed of units that require modest ($50-$300) levels of investment in order to meet standards and are priced on the average somewhat lower than the first category of units. The third category is composed of low-priced units that require investment of more than $300 to meet minimum quality standards. Only a fraction of the units in the first and second categories could qualify for the Section 8 Program, when FMR levels are just high enough to support modest investments in improvements, but not high enough to support major rehabilitation.

Given the kinds of units potentially available, the Section 8 Program might have two direct impacts on the housing stock.

- Units requiring modest improvement would be brought up to standard in order to qualify for program support and would be maintained to the standard over time.

- Units initially found to require no repairs would be maintained to the standard over time.

In short, units requiring modest improvements would be kept from declining.

A full assessment of the longer-run impacts of the Section 8 Program especially in terms of ongoing maintenance and upgrading would be premature at this time. This study was based on an average of less than a full year's experience and the data apply only to initial repairs undertaken so that units could meet program requirements. By itself, this information on initial repairs is difficult to interpret. However, it can be put in clearer perspective by comparing it with the well-documented Supply Experiment of the Experimental Housing Allowance Program (EHAP).[13] After three years of experience, the particular variant of a cash-grant program tested at two EHAP sites produced findings of negligible housing stock impacts. However, EHAP differed markedly from the Section 8 Program in that its local administrators purposely took a passive role in recruiting landlords and in assisting households.

The Section 8 Strategy for Housing Improvement

The Section 8 Program attempts to deal simultaneously with several factors that limit the maintenance of units available to low-income households. Such households simply cannot pay sufficient rent to make

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13. Michael Springer, "Enforcing Housing Quality Standards: Some Findings from the Experimental Housing Allowance Program," The Urban Institute, Washington, D.C., CR 249-10, June 1978.

it profitable for landlords to provide a high level of maintenance. Equally important is the inertia found in the segment of the housing market available to low-income households. This inertia is reflected in how households find units as well as in relationships between landlords and tenants. Landlords rarely advertise vacancies, and tenants tend to limit their search for dwellings. Units tend to be offered without formal leases on a "take it or leave it" basis, and households are generally reluctant to make requests for services or repairs.

Implicit in the Section 8 Program is a threefold strategy to stimulate the improvement of housing units.

Economic stimulus: The additional purchasing power of recipients for quality housing and the program rent guarantees for quality housing encourage landlords to repair or increase the maintenance of their units.

Altered relationships: A variety of program requirements alter the existing landlord/tenant relationship in the low-income housing market, allowing each party to benefit from program participation.

Enforcement of housing standards: Annual physical inspection of units provides quality control and informs landlords and tenants of deficiencies that must be corrected if units are to continue to meet program requirements.

Economic Stimulus for Improvement

The Section 8 Program stimulated rent increases and repairs in some units as was shown in chapters III and IV. Additionally, landlords were assured by the PHAs that the allowable rent levels would be adjusted, at least annually, to reflect changes in market conditions, that landlords would receive a steady stream of payments from the PHA, and that compensation equal to some portion of the rent would be provided if a Section 8 tenant vacated a unit prior to the termination of the lease.

Thus, through rent increases plus assurances from the PHA, the Section 8 Program provided at least some of the stimulus necessary for housing improvement. This is in contrast to the EHAP experience at two sites (Green Bay and South Bend) where there were virtually no initial rent increases and the agencies in charge of the experiment gave no assurances to landlords about rent levels, systematic direct rent payments, or compensation for broken leases.

Altered Relationships

Public Housing Agencies undertook a variety of direct actions to make sure that landords and tenants respond in an appropriate fashion, i.e., the goal was to administer the program to make certain that the program's objectives were achieved. Given the broad discretion granted, PHAs could intervene in landlord/tenant relationships in a wide variety of ways.

Public Housing Agencies devoted considerable effort to recruit landlords and to explain the benefits of participation. As a result, PHAs were able to refer households to units whose landlords were willing to comply with program requirements. Nationwide 82 percent of all agencies provided some of their households with referrals to specific units. About a third of all recipients and non-recipients received a list of available units or landlords from their agency. Over half of recipients who received the list rented a unit which was included on the list. In the Sector A sample of recipients, 64 percent of households who moved in order to qualify for program support found their units through agency referrals. Further, all program-supported units required leases and most PHAs took an active role in convincing both parties that they could benefit from a lease. At least two-thirds of participating landlords sampled in Sectors A and C did not use formal leases prior to entering the program, and 89 percent of the landlords in Sector C eventually agreed that leases were beneficial.

Public Housing Agencies assumed an active role in landlord/tenant relationships on an ongoing basis. Rent support payments were sent directly from the PHAs to landlords, and PHAs served as a permanent third party in landlord and tenant disputes. In addition, PHAs undertook various actions to facilitate the effective participation of tenants and landlords, such as referring tenants to other local agencies to help resolve household problems and assisting landlords who applied for rehabilitation loans.

Enforcement of Housing Standards

Public Housing Agencies were allowed wide discretion in enforcement of housing standards. They could adopt HUD-formulated housing acceptability criteria or substitute the provisions of some local code in whole or in part. In general, local codes were somewhat more stringent than

HUD standards. There is evidence to suggest PHAs either selected or modified their code enforcement practices in response to the characteristics of local housing stock and to the demands of program administration. These adjustments are fully consistent with federal intent in regard to the scope of local administrative discretion.

Public Housing Agencies employed professional inspectors or used agency staff--or a combination of both--to enforce housing quality standards. Professional inspectors tended to be somewhat stricter, whereas agency staff inspectors were less skilled, perhaps, or under pressure to expedite the leasing-up of units. For the most part, the enforcement process does not appear to have been so strict that it created a major roadblock to participation. In Sector C, 95 percent of the sample of landlords did not believe the standards were too strict, nor did at least 88 percent of households sampled who failed to find acceptable units in Sectors B and C.

Failure Rates and Level of Repairs

The direct impact of the enforcement of housing standards is reflected in the rates at which inspected units required repairs in order to qualify for the program. On first inspection, 37 percent of all units ultimately occupied by recipients needed repairs (41 percent of the units of movers and 33 percent of units of stayers) to meet program standards. There was great variation in initial failure rates; some PHAs failed as many as 80 percent of units; others failed almost none at all. While there was no significant difference in failure rates between metropolitan and non-metropolitan areas, there were differences in the kinds of deficiences identified in the enforcement process. In metropolitan areas deficiencies tended to be more related to concerns with fire and general safety and in non-metropolitan areas with concerns about water and sanitary conditions.

Of all the potential units which PHAs inspected, 23 percent initially failed inspection. PHA staff estimated that of units that failed initial inspection, half were ultimately brought up to standards. Landlords who owned or managed small properties and owners of properties receiving larger rent increases were more likely to undertake repairs. The average cost reported by landlords for repairs (derived from the national weighted sample of repaired units) was about $284. While some units experienced major investments in upgrading, for the most part repairs were of a relatively modest character. Most frequent were electrical repairs, installation of storm windows, painting and plastering, and rebuilding of outside stairs. Again, the EHAP experience places these findings in perspective. The average cash outlay for initial repairs on repaired units for the two EHAP sites was $37-$39 per unit as reported by the dwelling occupant or could be estimated by the evaluator. Most frequently mentioned repairs were replacing a pane of glass, fixing a stuck window, and installing a handrail in a stairway.

These findings suggest that the Section 8 Existing Housing Program is having a beneficial short-run impact on local housing stocks, as it appears to have stimulated modest levels of initial repairs. The magnitude of this impact is about as great as can be expected, as Section 8 landlords received an estimated \$41 increase in monthly rental income (based on stayers) or \$492 additional per year to use for repairs and maintenance. The \$284 spent initially on repairs for one-third of program units, presumably by landlords who had cash in hand or access to repair loans, seems reasonable for a cash-grant-type housing program which uses one- or two-year leases. Other landlords may have planned to make repairs during the lease period after building a cash reserve, or to provide improved maintenance regularly. (In this study information was not collected on these aspects of housing improvement.) The findings further suggest that for stock impacts to occur at all, administrative agencies must undertake a variety of actions to overcome the inertia present in the segments of local housing markets available to low-income households.

VII. PROGRAM MANAGEMENT

The state, local, or county agencies administering the Section 8 Program range from small operations run by a single person on a part-time basis to sizable organizations, yet all PHAs face the same task of balancing the costs of processing program participants against the established compensation schedule. It is in the context of this complex managerial situation that this chapter reviews the general patterns of costs, the adequacy of administrative fees, and the conduct of program administrative functions.

General Cost Variations

Two sets of characteristics can be identified in the working environment of PHAs: (1) jurisdictional characteristics, which include economic, social, and geographic factors (including the quality of the local housing stock), and (2) institutional characteristics, which include the organizational structure of the PHA and its relation to other government agencies.

How do jurisdictional characteristics affect administrative costs? Jurisdictional characteristics can affect administrative costs by decreasing the likelihood that an applicant will succeed in becoming the recipient of a Section 8 subsidy. For example, the adoption of too strict housing standards generates burdens for landlords and households, with negative consequences for participation--and thus for administrative costs, since PHAs are compensated for successful participants only, and the farther an unsuccessful applicant goes through the application process, the more resources will be used without compensation for the PHA. In a tight housing market, to take another example, even a successful recipient will examine a larger number of units before finding an acceptable one; this involves more inspections and greater administrative costs.

How do institutional factors affect administrative costs? Such institutional factors as rigid work rules and the availability of services from other public agencies at little or no charge can limit a PHA's ability to adopt cost-reducing techniques or can affect administrative costs in other ways. In a highly bureaucratic structure, for instance, shifting personnel to non-Section 8 duties as program needs decline may not be feasible, and this means of reducing administrative costs will be lost to the PHA. On the other hand, previous experience with housing programs, especially Section 23, can have a favorable effect on administrative costs. Such PHAs can fill their Section 8 allocation by converting existing Section 23 units to Section 8 units with a minimum of administrative costs, while presumably receiving the same fee as a newly leased unit. (However, less than 10 percent of initial ACC units consisted of Section 23 conversions, and PHAs are now given a separate unit allocation for such conversions.) When the resources of other agencies (e.g., local inspectors, unused office space) are made available to PHAs in a spirit of interagency cooperation, these services are often provided free or at less than cost--advantages unavailable to other PHAs, although all receive the same administrative fees. Findings from Sector A and C suggest that the average dollar value to local PHAs of underpriced services was between 20 and 25 percent of costs PHAs submit for reimbursement.

Adequacy of Administrative Fees

Administrative costs of PHAs are compensated by HUD through two sets of fees: a one-time start-up fee for the costs of program initiation which can be adjusted up or down to take into consideration local circumstances and is targeted at $275 per leased unit, and a monthly ongoing fee, set at 8.5 percent of the local FMR or $15, whichever is greater, for administrative costs after units are leased.

Although a few PHAs found it difficult to keep initial costs below start-up fees, the three contractors found that the fee was more than sufficient to cover costs. Nationwide the average negotiated start-up fee was $258 per unit. In Sector C the fees seemed to bear little relationship to the actual costs, fees were estimated to range from $71 under actual cost to $124 over it.

According to all contractors, the ongoing fee undercompensated most PHAs, with agencies with small ACCs more likely to be undercompensated. One contractor (A) estimated monthly ongoing costs at $20-30 per unit.

Administrative Functions

The compensation PHAs receive for successful recipients determines the resources they have to spend on administrative functions. For the completion of each administrative function, there are different techniques with differing costs and program results. The choice of a technique and the allocation of resources for a particular service have a direct effect on the characteristics and search behavior of the recipient population and on landlord participation.

Outreach

Outreach efforts were directed at both households and landlords to inform potential participants about the Section 8 Program.

The media (radio, television, and newspaper announcements) were used most frequently to reach households, but less expensive methods (mailing, referrals from other agencies, and meetings with church and community groups) were also used. Nevertheless most recipients learned of the program from friends and relatives. PHAs wishing to serve a different mix of applicants must therefore target outreach efforts to particular groups.

Similar methods were used to reach landlords, but there was less emphasis on the media and more on personal contact by the PHA. About 45 percent of the landlords sampled first heard of the program from prospective recipients--either current tenants or searching certificate holders.

A high level of effort was expended on landlord outreach in Sector A in jurisdictions where no landlord had expressed an interest prior to the ACC signing and in areas where FMRs were or were perceived to be relatively low or where vacancy rates (and therefore the incentive for landlord participation) was low.

Application and Certification

The number of applicants in any PHA depends on the outreach effort and the ease of submitting the application used by the PHA to determine eligibility. In Sector A, more than half of the successful (and one-fourth of the unsuccessful) applicants required PHA assistance in filling out the application.

Pre-application screening. PHAs were eliminating households that were clearly not eligible for participation because of income or some other criterion before verification by using a screening procedure which took from two to thirty minutes. In Sector A, this procedure was associated with small PHAs and those with application backlogs. Seventy percent of the PHAs in that Sector used criteria not specified in program regulations to reject applicants, including those who wanted to leave the area or who were non-residents to begin with. In Sector C, 41 percent of the sampled PHAs used the screening procedure to eliminate about one-third of the applications. Since the entire verification process does not have to be used to eliminate non-eligible applicants, pre-application screening reduces administrative costs.

Verification and certification. PHAs used three non-exclusive techniques in verifying application information. Ninety-four percent of the PHAs used documentation supplied by the applicant; 89 percent used information from employers, social service agencies, and other third-party sources; and 17 percent used self-declaration of income (the least expensive method, but also probably the least accurate). Third-party verification, only slightly more expensive than recipient documentation, is considered the most accurate of all.

Housing Inspection

To insure that all units leased under the program are "decent, safe, and sanitary," PHAs were required to inspect all prospective Section 8 units. Units could be rejected or accepted as inspected and a lease negotiated, or conditionally accepted and a lease negotiated contingent on the completion of minor repair work. If initially rejected, the unit could be upgraded by the landlord and resubmitted for inspection.

As seen in chapter VI, the inspection procedure allowed PHAs much discretion in how and when inspections were performed, including the housing standard used, and the disposition of rejected units (e.g., rejected or conditionally accepted). In Sector A all units were not inspected, contrary to program regulations, in PHA jurisdictions where the manager believed inspections would do little to improve housing quality. Often conditionally accepted rental units were not reinspected. Many of the problems encountered were related to the design of the Section 8 Program. Pressure to improve housing quality encourages strict inspections, whereas pressure to lease up at a fast rate favors flexibility in the inspection process, especially in regard to hard-to-find multi-bedroom units.

Services

The three major areas of service provided by PHAs are: general information and briefings, assistance in the search process, and the fostering of tenant/landlord relationships. These were discussed in chapter III in terms of services received by households.

Information and briefings. Both certificate holders and landlords were provided with program information during formal PHA briefings. Information for certificate holders concerned housing quality, tenant responsibility, the search process, rent reduction credit, equal opportunity provisions, and utility allowances. Despite the briefings, the overall level of program knowledge and understanding among certificate holders was not found to be very high. Information for landlords concerned subsidy payments and unit inspections.

Search assistance. Some PHAs provided additional search assistance to selected households in the form of vacancy lists, referrals to specific units, and inspection checklists. Some received help in lease and rent negotiations and in transportation. It is not clear what criteria PHAs used in selecting households for such assistance.

Tenant/landlord relations. Public Housing Agencies provided assistance in tenant/landlord discussions concerning leases and complaints. They assisted in negotiating a third of rents and leases but were not very successful in obtaining lower rents for certificate holders. About a third of the PHAs assisted landlords in choosing tenants and determining the number of persons per unit.

Interactions Among Administrative Functions and Costs

The choice of techniques to be used in an administrative function affects administrative costs for that function and, indirectly, the costs of other administrative functions as well. For example: a less expensive outreach procedure may attract applicants with a high probability of program attrition or termination, which will subsequently increase program costs. It is important for program managers to be cognizant of such secondary costs when attempting to minimize overall costs, costs which are sometimes larger than the initial savings.

The cost environment is different for each PHA, but within each cost environment, jurisdictional and institutional characteristics interact with administrative functions to determine the costs each PHA will incur. A further constraint is the established administrative fee schedule, which sets the rate of compensation for administrative functions. PHAs can react in many ways to such cost pressures and to pressures to lease-up rapidly. They can:

- choose a less strict housing standard;
- increase client services;
- increase landlord outreach;

- increase the number of certificate holders without providing additional client services;
- send certificate holders to other jurisdictions; or
- select households more certain to become participants, such as non-movers.

In general, contractors found that the current administrative structure successfully implemented the Section 8 Program without significant program breakdowns or disorganization. But room for improvement remains. Two areas of concern are the considerable discretion exercised by PHAs at all levels of administration and the response of PHAs to budgetary pressures. For example, a PHA can change the composition of its recipient population by targeting its outreach and providing special assistance to the group to which it assigns the highest priority. In some cases the priority group may be the neediest households, which reflects a value judgment in distributing scarce resources. In other cases, the group chosen may be non-movers, which may merely represent the PHA's need to minimize administrative costs.

While it is difficult to predict the administrative behavior of PHAs in an expanded Existing Housing Program, it can be said with some assurance that PHA administrative behavior will have a definite and important effect on the achievement of overall program goals.

GLOSSARY

Respondent Definitions

Applicant. A household that has applied to a PHA and has been accepted as eligible, but has not received a certificate authorizing it to search for a unit.

Active Certificate Holder. A household which, at the time of the survey, had an active certificate of eligibility but had not received program monies or become a non-recipient.

Non-Recipient. A household that had obtained a PHA certificate authorizing it to search for a housing unit but had been unable to find a unit that met both the local housing quality standards and the requirement for a "modest" rent level after having held a certificate for more than 60 days. Such a household is receiving no money from the program. A non-recipient is also called an unsuccessful participant.

Recipient. A household that (1) has been certified by a PHA as eligible for participation in the program; (2) has an acceptable unit meeting program rent requirements and locally prescribed housing quality standards; and (3) has Section 8 funds paid to its landlord to assist with rent payments. A recipient is also called a successful participant.

Mover. A recipient household which relocated because of preferences or in order to be able to participate in the Section 8 Program.

Stayer. A household which uses the housing unit it lived in before becoming a recipient to meet the Section 8 Program requirements and is having Section 8 funds paid to its landlord for part of the rent. A stayer is also called a recipient who rented-in-place.

Searcher. Any recipient or non-recipient household which looked at one or more units in attempting to find a housing unit acceptable under program requirements.

Landlord. An individual, partnership, or corporation which owned, managed, or owned and managed at least one unit being leased to a recipient household.

Elderly Household. A household whose head or spouse is 62 years of age or older.

Disabled or Handicapped Households. A household whose head or spouse is physically or mentally disabled, or handicapped.

Income Definitions

Annual Program Income. All expected gross income to be received by adult family members from all sources during the twelve-month period following the date eligibility is determined. Income includes wages and salaries, commissions, fees, and tips; net income from business or property; interest and dividend payments; social security and other retirement benefits; public assistance; unemployment compensation, workmen's compensation and disability compensation; and alimony and child support payments. Items such as food stamps, lump sum inheritances, insurance payments, and capital gains; and educational scholarships are not included. (Note: The tables in this supplement which include income were all derived from Annual Program Income.)

Annual Family Gross Income. Equivalent to Annual Program Income, see definition above.

Annual Income. Equivalent to Annual Program Income, see definition above.

Annual Family Adjusted Income. Annual income less: (a) $300 for each minor, (b) medical expenses which exceed 3 percent of the annual income, and (c) unusual expenses.

Wages. Earned income from wages and salaries, commissions, fees, and tips.

Welfare. Income from public assistance, which includes federal, state and local government payments under the Aid to Families with Dependent Children Program and the Supplementary Security Income Program.

Benefits. Includes income from social security, and other government and private retirement funds and pension plans.

Other Income Sources. All other sources of income besides wages, benefits, and welfare. This category includes child support, alimony, and asset income.

<u>Exceptional Medical or Unusual Expenses</u>. Health care and medical expenses greater than 25 percent of gross annual income.

<u>Unusual Expenses</u>. Fees paid for child care and nursing care of children and disabled or handicapped family members which allow another family member to be employed outside the home. This adjustment to gross income cannot exceed the amount of income gained from this additional employment.

<u>Program Definitions</u>

<u>Local Housing Authority (LHA)</u>. A local body which is authorized by the state to operate Conventional Public Housing Programs.

<u>Public Housing Agency (PHA)</u>. A state, county, municipality or other government entity or public body which is authorized to engage in or assist in the development or operation of housing for low-income families.

<u>FMR</u>. The Fair Market Rent, which is the rent ceiling for subsidized housing units of specified size in a Standard Metropolitan Statistical Area (SMSA) or in a non-metropolitan county group, based on local average rents.

<u>Utility Allowance</u>. The amount allowed a household for payment of utility expenses which are not included in the contract rent. The allowance, set by the public housing agency, is dependent on the size and the structural type of the unit and local climatic conditions.

<u>Rent Reduction Credit</u>. A credit applied to a household's rental contribution through a formula administered by the PHA when the gross rent of the unit leased is less than the corresponding FMR. The purpose of this credit is to offer the household the incentive to shop wisely and rent below the ceiling.

<u>Low-Income</u>. A household is defined as having "low-income" if its annual gross family income does not exceed 80 percent of the median income for the area but is above the "very-low-income" maximum. The 80 percent maximum is for a family of four; adjustments are made for smaller or larger families.

<u>Very-Low-Income</u>. A household is defined as having "very-low-income if its annual gross family income does not exceed 50 percent of the median income for the area. The 50 percent maximum is for a family of four; adjustments to this maximum are made for smaller or larger families.

<u>Gross Family Contribution</u>. The percentage of annual income which a family must contribute under the program. The maximum gross family contribution is generally 25 percent of adjusted family income; households which have exceptional medical or unusual expenses, very-low-income and six or more minors, or low-income with eight or more minors pay 15 percent of gross family income.

<u>Household Subsidy</u>. The difference between the market cost of renting a Section 8 eligible unit (program expenditures) and the out-of-pocket housing expenses households incur as program participants (program costs to household).

<u>Gross Rent</u>. The contract rent stipulated in the lease plus the utility allowance (if utilities are not included in the contract rent).

<u>Program Costs to Household</u>. The out-of-pocket rental costs which must be paid by the household under the program. These costs consist of the gross family contribution plus the excess of utility expenditures over utility allowances (if applicable) less the rent reduction credit (if applicable).

<u>Pre-program Expenditures</u>. Total rental expenditures, consisting of shelter and utility expenditures, incurred by households before enrolling in the program.

<u>Recipients with Positive Pre-program Costs</u>. Recipient households who had cash rental expenditures before enrolling in the program as contrasted to those who did not pay cash for rent before enrollment and are considered to have a zero pre-program cost.

<u>Program Expenditures</u>. Total rental expenditures, consisting of shelter and utility expenditures by a household under the program plus the PHA's contribution. It does not include the administrative expense incurred by the PHA for each household.

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