Designing an Alternative Rent Policy for the Housing Choice Voucher Program

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Abstract

In 2013, four Moving to Work (MTW) agencies joined the Rent Reform Demonstration to design and test an alternative approach for subsidizing private-market rents paid by families participating in the Housing Choice Voucher program. The new policy's goals are to support tenants' efforts to increase their earnings, reduce the administrative burden on public housing agencies, and protect families from increased hardship, all while remaining cost-neutral relative to the existing rent policy. This article describes the trade-offs associated with different reform options and the process through which the four agencies considered those trade-offs and came to a consensus on an alternative policy to test.

Introduction

The Housing Choice Voucher (HCV) program, funded by the U.S. Department of Housing and Urban Development (HUD) and administered by local public housing agencies (PHAs), offers tenant-based rental subsidies to approximately 2.2 million low-income households, enabling them to live in privately-owned housing units. Authorized by an amendment to Section 8 of the U.S. Housing Act of 1937 (and commonly referred to as “Section 8”), this roughly $24 billion program is a vital component of the nation’s safety net.¹

For decades, however, calculation and administration of rental subsidies for the voucher program have been controversial, especially as applied to families headed by working-age, nondisabled

¹ Funding level is for fiscal year 2020 (National Low-Income Housing Coalition, 2020). For a general description of the voucher program, see Center for Budget and Policy Priorities (2017a). Tenant-based vouchers are “portable” vouchers, meaning that if a household moves, the family may take the subsidy with it and use the voucher with a new landlord of its own choosing, as long as the housing unit meets the PHAs quality standards. The HCV program also includes “project-based vouchers,” which are subsidies tied to specific housing units through contracts between the PHA and managers or owners.
adults. Critics assail the policy as complex and expensive for PHAs to administer and difficult for families to comprehend. Many believe it discourages, rather than supports, tenants’ efforts to increase their employment and earnings. Numerous stakeholders have advocated reform of the traditional rent subsidy system to simplify the administration of vouchers, support work, and contain the system’s average per-family costs to save taxpayers’ dollars or serve more income-eligible families. Policy reform has been elusive, however, because balancing competing objectives related to the administrative burden on PHAs, system costs, tenant work incentives, and housing affordability has made it hard to achieve agreement and because there is no strong evidence of the effects of alternative approaches.

To produce evidence, HUD launched the Rent Reform Demonstration, an initiative to design and carefully evaluate an alternative rent system for tenant-based vouchers. HUD selected MDRC to coordinate the design process and evaluate the new policy through a randomized controlled trial, working closely with HUD and a small number of PHAs that have Moving to Work (MTW) status. Only MTW agencies were considered for the Rent Reform experiment because they are the only PHAs authorized by Congress to make changes in rent rules. Although some MTW agencies (not in the demonstration) were already experimenting with alternative policies, none of those reforms had been subject to rigorous evaluations with random assignment research designs or other strong research methods using comparison groups.

This article discusses how the demonstration design team, composed of staff from HUD, several PHAs, and MDRC (including this author, who led the MDRC team) and its partners, formulated the alternative rent policy. Drawing on the study’s baseline report that I co-authored (Riccio, Deitch, and Verma, 2017), I highlight the reforms the team considered, trade-offs associated with different reform options, and the process for coming to consensus on a consistent alternative rent policy that several PHAs agreed to test.

We began design of the demonstration in 2013, selected PHAs to participate in 2014, and identified eligible families for the study sample in 2015. The evaluation is currently underway, and early and interim results are available in published reports (Riccio and Deitch, 2019; Riccio, Verma, and Deitch, 2019). Four PHAs joined the demonstration:

- Lexington-Fayette Urban County Housing Authority in Lexington, Kentucky (generally referred to as the Lexington Housing Authority)
- Louisville Metropolitan Housing Authority in Louisville, Kentucky

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3 Only about one-fourth of income-eligible families receive Housing Choice Vouchers due to funding limitations (Center for Budget and Policy Priorities, 2017b).
4 The MDRC design team included technical-assistance housing experts from the Bronner Group and Quadel Consulting, research experts from Urban Institute and Branch Associates, and professors John Goering (City University of New York) and Ingrid Gould-Ellen (New York University).
San Antonio Housing Authority in San Antonio, Texas

District of Columbia Housing Authority in Washington, D.C.\(^5\)

These four MTW agencies agreed to help finalize the new policy to be tested, to operate that policy alongside HUD's traditional rent policy, and to comply with the needs of the evaluation, which included randomly assigning eligible households to a group that would be subject to the new policy or to a control group that would remain subject to the existing rent rules. A total of 6,665 households are included in the study. Households that were headed by elderly or disabled adults (as defined by HUD) were not eligible for the study. The nonelderly/nondisabled households that were eligible for the study could include other members who were elderly or disabled, however.

The Rent Reform Debate

HUD's traditional rent rules for HCV families establish how much of its income a family must contribute toward its rent and utilities and how expensive a housing unit a family is permitted to rent with a government subsidy.\(^6\) A typical voucher family is expected to contribute 30 percent of its adjusted monthly income—that is, its net income after certain deductions are made from its pretax income—or 10 percent of gross income (whichever is greater).\(^7\) Moreover, monthly income is derived from the family's annual anticipated adjusted income, which itself is an annualized estimate of current income. The family's expected contribution based on its current/anticipated adjusted income is referred to as the family's “total tenant payment” (TTP).

The concept of tying families’ rent contributions to their incomes was incorporated into law through a provision of the Housing and Urban Development Act of 1969, which amended the Housing Act of 1937. Sponsored by Massachusetts Senator Edward Brooke III, and commonly known as the “Brooke Amendment,” it pegged tenant contributions in public housing at 25 percent of adjusted household income. Brooke rents, as they were called, were applied to the Section 8 program when it was established in 1974 and were incorporated into the HCV program when it succeeded Section 8. The tenant contribution was raised in 1981 to 30 percent of a household’s adjusted income (or 10 percent of gross income, if greater).

Once a family's TTP is established, the PHA calculates the amount of subsidy it will provide. The PHA pays the difference between the family's TTP and the housing unit’s “gross rent.” The gross rent is the amount of rent charged by the landlord for the unit (referred to as the “contract rent”) plus an allowance for basic utilities that are not included in the contract rent. The subsidy amount cannot exceed the PHAs payment standard (or maximum subsidy) for the local area, which is based


\(^6\) Throughout this paper, mentions of HUD's “current” or “traditional” rent policy for voucher holders refer to the national rent policy in effect for traditional PHAs before the passage and implementation of the Housing Opportunity Through Modernization Act of 2016 (HOTMA).

\(^7\) HUD rules specify what resources count as income. For example, earnings and cash payments from welfare and other government benefit programs count, while food stamps and Earned Income Tax Credit payments do not. For a full explanation of HUD’s existing rent rules, see HUD’s Housing Choice Voucher Program Guidebook (U.S. Department of Housing and Urban Development, 2001).
on Fair Market Rents in the area. Payment standards, which vary by the number of bedrooms in a rental unit and by local housing markets, are intended to ensure that families have access to safe and decent housing, while also limiting the amount of the subsidy provided to any given family (to contain government costs). This subsidy is referred to as the housing assistance payment (HAP). If the gross rent exceeds the payment standard, the family is responsible for that extra amount in addition to its TTP. The TTP plus that extra amount make up the family's total housing cost, which HUD calls the “family share” of rent and utilities. At the beginning of a new lease, however, a family's total expenditures for the unit must not constitute more than 40 percent of its adjusted income to ensure that families do not enter leases they cannot afford. A family is only permitted to pay additional rent above 40 percent of adjusted income if the extra amount is necessary for the family to remain in a current housing unit (for example, if the landlord raises the rent).

Families are required to undergo annual recertifications through which the PHA determines whether they remain eligible for the voucher program and, if so, the PHA adjusts their TTPs and subsidies to reflect their anticipated incomes for the coming year. The PHAs also conduct interim recertifications to adjust families' TTPs and subsidies when their incomes change before their next annual review.

Since the enactment of the Quality Housing and Work Responsibility Act in 1998, PHAs have also been permitted to establish minimum TTPs, typically referred to as “minimum rents,” of up to $50 per month. A family subject to a minimum TTP would pay at least that amount, regardless of its income, unless it received a hardship exemption from the PHA.

Making housing affordable for low-income families has been the primary rationale embraced by Congress for the percentage-of-income rent policy. While this policy means that a family will pay more if its income grows, it will also pay less if its income falls—an important safety net feature. Low-income-housing advocates have staunchly defended this policy as essential to protecting vulnerable families and children.

At the same time, the percentage-of-income system has been criticized by public housing industry groups and others as allegedly having unintended negative consequences. One major concern is the belief that it depresses tenants' work effort. This belief is because 30 percent of every extra dollar they earn is added to their TTPs and reduces their subsidies. This implicit “tax” on their earnings may lead some tenants to conclude that work “doesn’t pay,” especially because increasing income may cause loss of other income-related government benefits, such as Supplemental Nutrition Assistance Program (SNAP) benefits (food stamps). Moreover, housing subsidies phase out entirely when income rises beyond a certain point. If, on average, tenants work less than they otherwise would because of this policy, it might also tie up subsidy dollars that could otherwise be used to provide housing assistance to other needy families. Income-based rents are also thought by some critics to discourage family formation and to keep some adult household members off the

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8 An area’s Fair Market Rent represents a point on the distribution of all rents charged by private landlords for standard housing units. It is typically set at the 40th percentile, meaning that 40 percent of all housing units in the area would rent for no more than that amount. A PHA may set its payment standards, for units of varying sizes, from 90 percent to 110 percent of the published Fair Market Rents for its area and may adopt higher or lower levels with HUD approval.
lease because the incomes of those adults, if counted toward household income, would decrease a family's HAP and increase the family's contribution to rent and utilities.

Other criticisms focus on the complexity of the rules that must be followed to determine and verify families’ incomes and calculate their TTPs and subsidy amounts and the staff time and effort required to revise these calculations when families’ incomes rise or fall, generating a substantial administrative cost for PHAs. Many of these rules are also thought to be difficult for tenants to understand.

These criticisms, described in the HUD-funded Study of Rents and Rent Flexibility (Abt Associates Inc., Urban Institute, and Applied Real Estate Analysis, Inc., 2010). and other papers (Castells, 2020; Government Accountability Office, 2012; Public Housing Authorities Directors Association, 2005; Riccio, Deitch, and Verma, 2017), were a crucial touchpoint for HUD, the PHAs, and MDRC and its partners in designing the alternative rent policy for the Rent Reform Demonstration.

**Goals Established for an Alternative Rent Policy**

HUD set four main goals for the new rent policy that would be tested with the Rent Reform Demonstration. HUD sought a policy that would:

1. Increase the financial incentive for tenants to work, increase their earnings, and advance toward self-sufficiency.
2. Simplify the administration of the voucher rent system to improve transparency, reduce the burden on PHAs and households, and reduce administrative costs.
3. Minimize any increases in PHAs’ average housing-subsidy expenditures and, ideally, reduce those costs, with the aim of making the alternative policy cost-neutral relative to the traditional policy.
4. Continue to provide a safety net for tenants who cannot readily work, who lose jobs, or who could not increase their incomes.

**The Design Process**

To develop a new rent model, the MDRC team worked closely with HUD and, initially, with nine PHAs that had expressed interest in joining the demonstration; the final group was made up of four agencies that actually joined. It was vital to design a policy in close partnership with PHAs because they brought real-world expertise to the process, and also because it was unlikely any PHA would implement a new rent policy and join an evaluation if it had little or no say in the policy design and no sense of ownership over the policy. The consultation process sought to identify a common set of approaches all candidate PHAs would be willing to adopt.

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9 The housing agencies that did not join the demonstration are the Housing Authority of Baltimore City, the Cambridge Housing Authority, the Chicago Housing Authority, the Massachusetts Department of Housing and Community Development, and the Santa Clara County Housing Authority. Although these PHAs were helpful during the design process, they were contending with a variety of other policy reforms or new initiatives that made it difficult for them to participate simultaneously in the Rent Reform Demonstration.
The MDRC team reviewed with HUD and the PHAs a range of possible rent reform ideas, including those discussed in the Study of Rents and Rent Flexibility (Abt Associates Inc., Urban Institute, and Applied Real Estate Analysis, Inc., 2010). That study collected perspectives on rent reform options from voucher recipients, residents of public housing, waiting-list applicants, and PHA staff members.

When the four PHAs agreed to join the demonstration, HUD officials, the PHAs, and the MDRC team had reached a preliminary agreement on a general approach to a new rent policy. This approach included changes in how TTPs and subsidies would be calculated (such as eliminating deductions and setting a lower percentage-of-income rate), introducing or increasing minimum rents, extending the recertification schedule, limiting interim recertifications, establishing hardship policies and other safeguards to protect affordability for families, and simplifying the calculation of utilities costs. MDRC then used statistics to assess how the new approach might affect two types of outcomes: (1) families’ net income, taking into account earnings, work-related expenses, housing subsidies, and other government income transfer benefits; and (2) PHAs’ housing-subsidy expenditures. Each round of results was discussed with HUD and the PHAs as they considered adjustments to the preliminary alternative rent model.\textsuperscript{10}

Throughout the design process, the HUD-PHA-MDRC team conferred with national and local representatives of the low-income-housing advocacy community and housing agency interest groups about the design options under consideration. Some of these experts, along with several academics and executive directors of other PHAs, were eventually included on an expert panel that reviewed the near-final alternative rent model and the evaluation research design.\textsuperscript{11}

The result of those consultations, analyses, and reviews is an alternative rent model that we arrived at through debate about the options and trade-offs described in detail in the next section. Exhibit 1 summarizes the end product of our design process, comparing HUD’s traditional rent policy to the alternative tested in the Rent Reform Demonstration.

\textsuperscript{10} For details on these analyses, see Riccio, Deitch, and Verma (2017) and MDRC’s demonstration design paper (MDRC, 2016), available upon request from MDRC. The analyses concerning family net income used Urban Institute’s Net Income Change Calculator for a set of hypothetical families (for example, families where the number and ages of children varied). The PHA analysis used several years of national housing-subsidy expenditure data obtained from HUD covering all non-Moving to Work PHAs in the country, and similar housing-subsidy expenditure data covering several years from several Moving to Work agencies that were being considered for the Rent Reform Demonstration, including the four agencies that finally joined the study.

\textsuperscript{11} These representatives included the Center on Budget and Policy Priorities and the National Low Income Housing Coalition. Other expert panel members included representatives from the Public Housing Authorities Directors Association, the National Association of Housing and Redevelopment Officials, and the Council of Large Public Housing Authorities; the executive directors of the Cambridge and Seattle housing authorities; and several academic experts.
### Exhibit 1
Comparison of the Rent Reform Demonstration’s Alternative Rent Policy to HUD’s Traditional Policy (1 of 2)

<table>
<thead>
<tr>
<th>Component</th>
<th>Traditional HUD Policy</th>
<th>Alternative Rent Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total tenant payment (TTP)</td>
<td>30 percent of adjusted monthly income (that is, total countable anticipated income, minus deductions) or 10 percent of gross income, whichever is higher.</td>
<td>28 percent of gross monthly retrospective income (that is, gross monthly income over the previous 12 months), with no deductions or allowances. Countable income estimate for setting a family’s TTP and housing subsidy is based on 12-month retrospective income.</td>
</tr>
<tr>
<td>Minimum TTP</td>
<td>Up to $50 per month, at public housing agency (PHA) discretion</td>
<td>$50 to $150 per month, depending on the PHA. All families pay a minimum amount of rent directly to their landlords, to mirror the landlord-tenant relationship in the unsubsidized rental market.</td>
</tr>
<tr>
<td>Assets</td>
<td>Family income from assets is counted in determining a family’s TTP</td>
<td>Family income from assets is ignored when total asset value is less than $25,000, and families do not need to document those assets.</td>
</tr>
<tr>
<td>Recertification period</td>
<td>Annual recertifications.</td>
<td>Triennial recertifications.</td>
</tr>
<tr>
<td>Interim recertifications</td>
<td>At an agency’s discretion, families report any income increases when they occur, before the next scheduled recertification. Families may request interim recertifications whenever their incomes fall by any amount.</td>
<td>Earnings gains do not increase TTP for 3 years (that is, until the next triennial recertification). Interim recertifications to account for income reductions are limited to a maximum of one per year (referred to as “restricted interim recertification”), and only when a family’s average gross income over the most recent 12 months drops by more than 10 percent from the retrospective estimate that was used to establish the TTP currently in effect.</td>
</tr>
<tr>
<td>Utilities</td>
<td>Where the contract rent does not include utilities, a utility allowance is provided based on a detailed schedule that takes into consideration voucher size (the number of bedrooms covered by a family’s voucher) and various other aspects of the type of housing unit.</td>
<td>A simplified utilities policy that is tailored to a standard base rate for utility costs that varies according to the voucher amount, with additional payments available to families paying higher costs related to the type of heating (for example, electric or oil heat) and water and sewer charges.</td>
</tr>
</tbody>
</table>


Exhibit 1

Comparison of the Rent Reform Demonstration’s Alternative Rent Policy to HUD’s Traditional Policy (2 of 2)

<table>
<thead>
<tr>
<th>Component</th>
<th>Traditional HUD Policy</th>
<th>Alternative Rent Policy</th>
</tr>
</thead>
</table>
| Hardship policy | If the PHA has a minimum TTP, it must suspend that minimum TTP for families who are unable to pay it because of specified financial hardships. Short-term hardships (lasting 90 days or less) require the suspended minimum to be reinstated after the hardship period ends and to be repaid according to a reasonable payment plan. | Families qualify for consideration of a hardship-based remedy if:  
- The family’s monthly TTP exceeds 40 percent of its current or anticipated monthly gross income.  
- The hardship cannot be remedied by the one interim recertification permitted each year.  
- The family faces eviction for not paying rent or utilities.  
- The family meets other criteria determined by the PHA.  
Hardship remedy options include the following standardized list:  
- Allowing an additional restricted interim recertification beyond the normal one per year.  
- Setting the family’s TTP at the minimum level for up to 180 days. (This remedy can be renewed at the end of that period if the hardship persists.)  
- Setting the family’s TTP at 28 percent of its current gross income (which may be less than the minimum TTP), for up to 180 days (except in Lexington). (This remedy can be renewed at the end of that period if the hardship persists.)  
- Offering a “transfer voucher” to support a move to a more affordable unit. |
| Grace period  | Not applicable. TTP is always based on current income.                                    | At the triennial recertification, if a family’s current gross income is more than 10 percent lower than its average gross retrospective income over the last 12 months, the family will have its TTP calculated at that time based on current income rather than retrospective income, and this TTP will remain in effect for 6 months. During this grace period, families can still qualify for a hardship-based remedy. |

Note: The “Traditional HUD Policy” column shows the national policy in existence for the non-Moving to Work tenant-based Housing Choice Voucher program population before the enactment of the Housing Opportunity Through Modernization Act of 2016. With a few exceptions, the PHAs participating in the Rent Reform Demonstration have continued to implement that policy.

Rent Reform Options and Trade-offs

As it began its work, the design team recognized that any reforms it considered would come with trade-offs related to the larger goals of the Rent Reform Demonstration. For example, some reforms, taken by themselves, might increase the financial incentive for tenants to work, but also increase the cost of the voucher program. They might even put some tenants at risk of greater hardship if they cannot work. Some reforms might substantially reduce the PHAs’ administrative burden and costs but come at the expense of work incentives, cost-containment, or tenant protection. The design team weighed these trade-offs for each element of reform under consideration.

(1) Flat rents or income-based rents?

One fundamental question was whether to stick with income-based rents or switch to flat rents. Flat rents base the subsidy a family receives on the size of the housing unit (for example, the
number of bedrooms) rather than on a family’s income. This approach is simpler than the Brooke rent, and it prioritizes work incentives but weakens a rent policy’s safety net functions. Because a family’s rent contribution and subsidy amount would not be tied to its income, a family could increase its income without penalty, creating a strong work incentive. At the same time, families with the lowest incomes would experience a higher rent burden (that is, they would contribute a larger proportion of their incomes toward rent and utilities). In addition, a drop in income would cause families’ rent burden to increase, and possibly increase their risks of material hardship and even eviction, unless mitigated by a hardship policy.

A stepped rent policy is a variant of this approach, whereby the flat rent based on the size of the unit increases gradually over a period of years, regardless of changes in a family’s income. By raising the rent gradually, it would give families time to increase their incomes.\(^\text{12}\) Still, fixed or stepped rents might increase financial hardships and risk of eviction, especially for the lowest-income families, even if the policy led some families to increase their earnings. Worried about this possibility and the challenge of winning the support of housing advocates for such a policy, the design team chose to stick with an income-based approach for the Rent Reform Demonstration.

(2) Tiered rents?

One popular reform idea that continues to link families’ rent contributions to their incomes is a tiered rent policy. Under this approach, income bands are created, and a fixed rent is established for each band or tier. All families with incomes falling within the same tier pay the same \(TTP\). The primary purpose of a tiered rent is simplification. It is presumed to be a policy that is easier for PHA staff to explain to tenants and for tenants to understand. In addition, if income bands are wide enough, families with incomes at the low end of the band would have some incentive to increase their earnings, because their rent contributions would not go up as long as their incomes stayed within the band.

One potential drawback to a tiered rent policy with wide bands is that, because all families within a given band would pay the same \(TTP\), those families at the low end of the band would have a relatively higher rent burden than families at the high end. In addition, wide income bands with large differences in \(TTPs\) from one band to the next could create sizable work disincentives for tenants whose incomes approached the top of a band (so that a small jump in income resulting in a shift up to the next band could result in a big increase in \(TTP\)). These problems could be mitigated by creating narrow income bands. Narrow bands, however, would reduce the potential work incentive derived from keeping \(TTPs\) constant within an income band.

The design team ultimately did not choose this approach primarily out of a concern that the income tier strategy might not offer a powerful enough work incentive. Furthermore, the team was also concerned that such a policy would not be much simpler to administer than HUD’s traditional rent rules if other reforms in the rent determination process were not also addressed.\(^\text{13}\)

\(^\text{12}\) A separate HUD demonstration with newly designated MTW agencies is intended to test a version of a stepped rent policy. For more information, see “Moving to Work (MTW) Expansion—Cohort #2” at https://www.hud.gov/program_offices/public_indian_housing/programs/ph/mtw/expansion/cohort2.

\(^\text{13}\) HUD’s separate rent reform demonstration focused on new MTW agencies is expected to test a tiered rent strategy combined with a number of other reforms, alongside a stepped rent policy. For more information, see “Moving to Work (MTW) Expansion—Cohort #2” at https://www.hud.gov/program_offices/public_indian_housing/programs/ph/mtw/expansion/cohort2.
(3) A longer recertification period?

A potentially strong incentive to encourage increased work and earnings would be to allow more years to pass before families are required to have their eligibility for the voucher program and their TTPs redetermined—a process commonly referred to as “recertification.” A change in the recertification timeframe from an annual recertification schedule to a longer recertification period means that no matter how much families earned during that period, none of the increased earnings would go toward higher contributions for rent and utilities (as would be true under traditional rules). An extended recertification period could also reduce the administrative burden: PHA staff would spend less time conducting one-on-one sessions with families, and families would spend less time having to document and report their incomes to the PHA.

A 3-year recertification approach also risks increasing PHAs’ HAP expenditures. Some tenants will increase their earnings from one year to the next, despite having to pay higher TTPs. A cap on their TTPs, which prevents their subsidies being reduced, means that PHAs would forego naturally occurring subsidy reductions for as long as the cap remains in place. These higher-than-normal HAP expenditures could more than outweigh the savings that might be achieved in administrative expenses. Thus, when lengthening the recertification time period, potential benefits of increasing work incentives and reducing administrative burden must be balanced against the likelihood of increased HAP expenditures. With these concerns in mind, the design team initially considered limiting the extension of the recertification period to 2 years. It ultimately decided, however, to adopt a 3-year recertification schedule, with the view that the demonstration should test a bolder strategy for increasing work incentives.

The triennial recertification schedule adopted for the Rent Reform Demonstration means that families assigned to the alternative rent are not required to report any increases in income to the PHAs during that 3-year period. In addition, any increases in income to the household that come from adding new spouses, domestic partners, or other adults to the lease during that period will not affect their TTPs or housing subsidies (as long as those additions do not require a larger unit size).

Of course, some employed tenants may lose their jobs during the 3-year period, which would make it difficult for them to pay their expected TTPs if those TTPs were to remain fixed. To protect such families against financial hardship, it was important for the new policy to include a number of safeguards, which are described in a later section.

According to the alternative policy, families whose earnings increased during the 3-year period would begin paying a higher TTP in the fourth year, after completing their triennial recertifications. This policy would allow the PHAs to begin recouping some of the subsidy reductions they had to forego for families whose incomes grew while their TTPs were capped. Although these families would begin paying higher TTPs in the fourth year, their new TTPs would be capped for another 3 years, allowing them to avoid until the next triennial recertification the implicit tax on their subsequent earnings gains that might discourage them from working more. This cycle would continue for as long as the families received Housing Choice Vouchers (assuming the alternative rent rules were an ongoing policy).
(4) Gross or adjusted income?

Under traditional rent rules in the HCV program, a family generally pays 30 percent of its adjusted income (after certain deductions from its pretax income) for rent and utilities, or 10 percent of its gross income, whichever is higher. Under those traditional rules, the amount of annual income counted toward the TTP is reduced using the following deductions: $480 for each dependent; $400 (total) for having one or more elderly family members or family members with disabilities; reasonable child care expenses that enable a family member to be employed, actively seek employment, or further his or her education; certain medical, attendant, and auxiliary apparatus expenses for elderly family members and those with disabilities; and expenses for the care of household members with disabilities. (As previously mentioned, households in which the head of household was elderly or disabled according to HUD’s definitions were not eligible for the Rent Reform Demonstration, but otherwise eligible households could include other members who were elderly or disabled.)

The process for computing a household’s TTP under these rules, particularly when it involves estimating childcare and medical-related and disability-related expenses, is widely considered to be complex and error-prone. For the Rent Reform Demonstration, the design team generally favored eliminating all deductions and basing the calculation on gross income to simplify the calculation process and reduce errors. The idea of eliminating childcare deductions, however, which could represent a substantial loss to families with high childcare costs and possibly discourage parents from working, raised special concerns.

Under the traditional rent rules, childcare deductions are based on anticipated unreimbursed childcare expenses for the coming year (or until the next scheduled review of income). In practice, actual costs can be difficult to anticipate, particularly for parents who move in and out of jobs, whose childcare providers change, whose childcare needs change (for example, if their work shifts change), whose children make a transition to a free preschool program, or who become eligible for an external childcare subsidy during the course of the year, and when more than one adult in the household is working. It is not clear how reliably these types of changes—some of which might result in TTP increases or decreases—are reported to PHAs between annual income reviews under the traditional rent policy. The design team recognized, however, that it would be vastly more difficult to estimate anticipated childcare expenditures accurately 3 years into the future, as

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14 The potential complexity is readily apparent from the following HUD guidance for PHAs on how to estimate the child care deduction when calculating a family’s TTP: “Reasonable child care expenses for the care of children including foster children, age 12 and younger, may be deducted from annual income if all of the following are true: the care is necessary to enable a family member to work, look for work, or further his/her education (academic or vocational); the expense is not reimbursed by an agency or individual outside the household; and the expenses incurred to enable a family member to work do not exceed the amount earned. When more than one family member works, the PHA must determine which family member is being enabled to work because child care is provided. This is necessary because the child care allowance cannot exceed the income that family member earns. A good general rule is to assume that the child care expenses enable the lowest paid individual to work, unless this is obviously not the case. When a family member works and goes to school, the PHA must prorate the child care expense so that the portion of the total child care expense that is specifically related to the hours the family member works can be compared with the amount earned. PHAs must determine whether child care costs are ‘reasonable.’ Reasonable means reasonable for the care being provided. Reasonable costs for in-home care may be very different from reasonable daycare center costs. Families may choose the type of care to be provided.” See Chapter 5 of HUD’s Housing Choice Voucher Program Guidebook (U.S. Department of Housing and Urban Development, 2001).
would be required for a rent policy using triennial recertifications. Retaining such deductions in the context of triennial recertifications, it was feared, might have imposed even more administrative burden on staff and more unfairness in the determination of families’ rent contributions.

The design team also considered that only a small percentage of households make use of the existing childcare allowance under traditional rent rules. MDRC analyses showed that fewer than 9 percent of working-age, nondisabled voucher holders assisted by non-Moving to Work agencies nationally, and fewer than 11 percent in the PHAs participating in the Rent Reform demonstration, used these allowances. In part, these low rates reflected the fact that many families who might have benefited from the deductions were not employed. It is also possible that some employed parents relied on family members or friends to care for their children while they worked.

Although it eliminated the childcare deduction, the design team decided that, for the purposes of the Rent Reform Demonstration, all families already receiving that deduction at the time of random assignment would be excluded from the study so that they would not have to forfeit an existing benefit. Families who were enrolled in the study and assigned to the new rent rules group, however, would not have access to the childcare deduction as long as the study continued. Although this policy would constitute a loss to the minority of families who would otherwise have used the deduction, those families, like others, stood to benefit from the 3-year cap on their TTPs, which could leave them with more resources to help cover at least some of their future childcare expenses.

(5) **Exclude income from assets in calculating gross income?**

Under the traditional rent policy, if a family has assets (such as bank accounts, stocks, and bonds), the income from those assets (such as interest or dividends) must be reported, verified, and included in the income base used to calculate the family’s TTP. HUD guidelines state that when assets are $5,000 or less, the actual income from assets is to be counted. When assets exceed $5,000, the PHA must determine the actual income from those assets and an imputed income based on a passport savings rate established by HUD. It then applies the greater of these two estimates to the income base. Typically, however, few voucher holders have assets that produce enough income to have a meaningful effect on their TTPs. Thus, in another step toward the demonstration’s simplification goal, the design team decided that, under the alternative policy, if a family had assets worth less than $25,000 in total, any income generated by those assets would be ignored for the purposes of computing the family’s TTP. In the rare instances that assets exceed that threshold, the income from those assets above the threshold would apply. Moreover, the families would not be required to document assets that they attested were worth less than that amount. In addition to reducing the administrative burden on staff (and families), ignoring income from assets worth less than $25,000 might also encourage families to try to increase their assets through increased earnings and savings.

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15 This estimate is based on MDRC calculations using 2011 HUD national data from PHAs included in the modeling exercise.

16 See U.S. Department of Housing and Urban Development (2001). HUD streamlining provisions issued in 2016, however, allowed PHAs to accept families’ certification without third-party verification that they did not own assets valued at $5,000 or more.
(6) What percent of gross income?

The decision to rely on gross income rather than adjusted income in calculating a family's TTP under the new rent policy raised some concerns that initial TTPs would be higher for families than they would be under traditional rules. Although their TTPs would be capped for the subsequent 3 years, families might experience a higher rent burden at the start of that period. To address this concern, the design team considered applying to the income base a rate lower than the traditional 30 percent to determine a family's TTP. It first had to consider what the implications might be for PHAs' subsidy payments because lower TTPs would mean higher subsidies, and the higher subsidy expenditures would continue through the 3-year recertification period when TTPs were capped.

Before the design team agreed to adopt a lower rate, MDRC's statistical modeling analysis compared how the TTPs and net incomes of certain types of families might change if TTPs were calculated using different percentages of family income (20 percent, 27 percent, and 28 percent), after taking into account families' housing costs, earnings, work-related expenses, taxes, and government benefits. The analysis also showed how those different rates might affect each of the four PHAs' total housing assistance payments on behalf of families during a 4-year period and the possible effect of such a policy on national housing assistance expenditures. The 28-percent rate was selected because a lower rate would have put the PHAs (and HUD's national budget) at risk of incurring much higher HAP costs, reducing the likelihood the alternative rent policy would achieve its cost-neutrality goal over 4 years.17

(7) Current/anticipated or retrospective gross income?

The traditional rent policy's method of calculating a family's TTP applies the 30-percent-of-income rate to the family's annual current/anticipated adjusted income. Of course, families' incomes can rise and fall unexpectedly. The traditional rent policy addresses income volatility by scheduling income reviews annually and allowing unlimited interim recertifications to adjust TTPs between annual reviews. The demonstration design team recognized, however, that offering families the opportunity to lock in a TTP based on current/anticipated income for 3 years may create an incentive for some families to lower incomes just before their scheduled recertifications. In theory, some family members might be tempted to quit their jobs, reduce their hours of work, or avoid looking for new jobs, so that the family's base income used in calculating its TTP for the next 3 years would be as low as possible (thus maximizing the family's subsidy for that period). This practice could result in unnecessarily low TTPs and unnecessarily high public subsidies.

The extent to which voucher holders would actually resort to such practices was unknown. The design team had to weigh the relative merits of relying on an arguably simpler strategy (current/anticipated income) that risked generating higher HAP expenditures versus a more administratively burdensome strategy (retrospective income) that might help limit extra HAP expenditures and also protect the new policy from claims that it encouraged families to “game the system,” potentially harming its public reputation and support.

17 Further details on the modeling work are available in MDRC’s demonstration design paper (MDRC, 2016) available upon request from MDRC.
With these trade-offs in mind, the design team decided to base TTP calculations on retrospective income. In practice, this policy means that under the alternative rent policy, a family's TTP is calculated using their reported and verified income during the prior 12 months—the “look-back” period—unless the family qualifies for a safeguard option.\textsuperscript{18} The average monthly gross income during the prior 12 months is multiplied by 28 percent to determine the TTP.

Simply relying on retrospective income, however, could put some families at risk of excessive rent burdens. For example, if a family member had been working steadily but was laid off just before the family’s recertification that will set its TTP for the next 3 years, the family may not be capable of paying a TTP based on its retrospective income. Furthermore, a tenant may have difficulty finding a new job quickly, or finding a new job that pays as much as the old one, no matter how hard the person tries, especially during a weak economy. Alternatively, a family member may have recently suffered a disability or may have retired from work and moved to a lower, fixed income. Thus, simply setting a family's TTP on the basis of its prior income—income that may be impossible to restore in future years—could leave some families with too high a rent burden, creating financial hardship for them and even putting them at risk of eviction. The alternative rent policy's safeguards (discussed later in this paper) were intended to accommodate the fact that some losses in family income will be permanent or long-lasting, whereas others will be transitory, and that it is not always possible to tell in advance which will be which.

\textbf{(8) A limited number of interim recertifications?}

The adoption of a 3-year recertification schedule meant that interim reviews and adjustments would no longer be made when families’ incomes grew during that period. What should be done, however, when their incomes dropped? Under HUD's existing rent policy, families who lose income can get their TTPs reduced and subsidies increased at any time. Some PHA representatives on the demonstration design team advocated changing this feature by placing restrictions on interim recertifications when families' incomes fall. In their experience, many tenants requested TTP reductions repeatedly during the year, and often for small reductions in income, which took staff time to complete. They and others on the design team recognized, however, that some access to interim adjustments was necessary to help families avoid falling into hardship in the face of substantial income losses, which they may have incurred through no fault of their own. Therefore, a balance had to be found between minimizing frequent, and small, interim TTP adjustments and protecting families from increased financial hardship.

It was decided that families would be allowed one interim recertification each per year, at which time its TTP could be lowered. In addition, to keep the PHAs from having to make frequent adjustments for relatively small changes in income, an interim reduction would only be permitted when a family's average income from the prior 12 months fell by more than 10 percent below the

\textsuperscript{18} This calculation excludes any nonwage sources that stopped providing income by the end of that period because the family can no longer count on them. For example, if a family had been receiving Temporary Assistance for Needy Families (TANF) or unemployment insurance benefits but is no longer receiving them, the income from those benefits would be excluded. Income from family members who were removed from the voucher program is also excluded (for example, income from a spouse or other adult who died, who was incarcerated, or who was removed for other reasons during the previous 12 months). Imputed welfare income—that is, TANF income forfeited when a parent does not meet her or his TANF work requirement—is still counted if the family is still enrolled in TANF.
retrospective income previously used to compute its TTP. As discussed in a later section, however, the new policy's hardship provisions allowed families to apply for a TTP reduction anytime its TTP exceeded 40 percent of its current/anticipated gross income. In other words, the restriction on interim recertifications would limit families' options for counteracting small-to-moderate income losses, but another strategy would address severe income losses.

(9) A minimum TTP?

A potentially controversial issue was whether to include a minimum TTP (also commonly referred to as a “minimum rent”) in the alternative rent policy, and if so, at what amount. All PHAs across the country were already authorized to set minimum TTPs of $50 per month under the Quality Housing and Work Responsibility Act of 1998, although not all did so. Given enduring policy questions about minimum TTPs as part of a rent subsidy policy, HUD urged that this provision be tested as part of the Rent Reform Demonstration. Among the four participating PHAs, however, some were concerned that introducing this feature would provoke strong local opposition from tenant advocacy groups. Two decisions helped to secure agreement on this issue: (1) each PHA would be able to set the amount of its minimum TTP, and (2) the new rent policy's hardship provisions would protect the lowest income tenants from severe hardship.

The minimums the PHAs set varied widely. At the low end, the Louisville Metro Housing Authority selected a $50 minimum, which is the minimum rent permitted under the existing federal legislation. The District of Columbia Housing Authority implemented a $75 minimum, which was roughly equivalent to the inflation-adjusted value of the $50 minimum permitted when that law was enacted. The San Antonio Housing Authority introduced a $100 minimum, which was double the $50 minimum that the PHA had already implemented for its general voucher population before the Rent Reform Demonstration began. The Lexington Housing Authority implemented a $150 minimum TTP, which it had adopted before joining the demonstration.

If families paying the minimum TTP early in the 3-year period steadily increased their incomes, they would continue to pay only the minimum TTP for the remainder of that period. This offered a substantial financial benefit for such families, but it was also a reason not to set the minimum too low because it could remain in place for several years, even as families' earnings rose, a very low minimum could substantially increase the PHAs' housing subsidy expenditures (relative to traditional rent rules). It was expected, however, that only a minority of families would be affected by the minimum TTP, because most were already paying above the specified levels before being enrolled in the Rent Reform Demonstration.19

(10) Who should pay the landlord the minimum rent?

Under the traditional rent policy, families are responsible for paying the rent portion of their TTPs directly to their landlords, and for paying the utility companies for their utility costs (if utilities are not included in the lease). The PHAs pay directly to the landlords whatever rent subsidy amount is

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19 Using HUD data from December 2012, MDRC estimated that about 69 percent of households in non-Moving to Work agencies paid $100 or more in rent, and 85 percent paid at least some amount to owners.
owed to them. In some cases, however, families' TTPs are so low that their utilities payments consume most or all of their TTPs, so the PHA directly pays most or all of the rent owed to the landlords.

During the demonstration design phase, HUD officials expressed concern that families in this situation would have no direct financial relationship with their landlords. This aspect was considered undesirable for at least two reasons. First, HUD officials worried that it would not help families get in the habit of making an on-time rental payment each month, as they would need to do if they rented in the private housing market after exiting the voucher program. Second, in the absence of a regular, rent-paying relationship, they may be less inclined to demand from landlords the level of maintenance and other services they are entitled to receive.

The design team therefore decided that under the new rent policy, all families would be required to pay at least the minimum TTP amount to their landlords. This practice would not put families at any additional risk of not paying or underpaying their utility bills because it does not change the family's total subsidy amount. Rather, part of the subsidy that the PHA would normally pay a landlord in these circumstances would be redirected to the family in the form of a higher utility allowance reimbursement payment (or UAP), allowing the family to meet its utility costs and pay the landlord the minimum rent.

**(11) Protections from excessive rent burden?**

The adoption of minimum TTPs, the elimination of deductions, and the reliance on retrospective income posed a critical challenge for the demonstration design team: How would the new policy ensure that families would not be placed at a greater risk of incurring an excessive rent burden that would cause serious financial hardship, and possibly eviction? Here the goals of increasing the financial incentive to work, simplifying the administration of the rent subsidy system, and containing HAP expenditures came into some tension with the goal of protecting families. The design team thus had to identify a set of safeguards to protect families from being required to pay TTPs they simply could not afford, without disregarding the other goals of the Rent Reform Demonstration. The approach they finally adopted included several basic safeguards that would be routinely applied and a hardship policy that included standardized elements but also allowed some PHA discretion.

One safeguard concerned disabilities. If at any time a family became designated as a disabled household (according to HUD's definition), the PHA would immediately recalculate the family's TTP based on its current/anticipated gross income (rather than retrospective income), without waiting for its next triennial recertification.

For other families, interim recertifications were an important safeguard when reductions in income occurred. As previously discussed, however, interim recertifications were restricted to one per year and only when a family's more recent retrospective income fell by more than 10 percent of its previously calculated retrospective income.

Another provision applied at the beginning of each 3-year period between triennial recertifications. If at that time a family's current/anticipated gross monthly income for the coming year was substantially lower than its average gross monthly income for the past 12 months (that is, more than 10 percent
lower), the PHA would automatically set a temporary TTP based on the family's current/anticipated income (or the minimum TTP, whichever is higher) for a full 6-month “grace period.”

This grace period was intended to protect the family temporarily from a high rent burden while it tried to restore its income to its prior level (for example, through a new job search for a voucher holder who recently lost a job). At the end of the 6-month grace period, the temporary TTP expires and the family is switched automatically to the “regular” TTP amount based on its retrospective income. Six months was chosen as a grace period to align with the normal period allowed for recipients of federal unemployment insurance benefits to find new work. Of course, some tenants will have difficulty replacing their lost earnings within 6 months—or, perhaps, ever—making other protections necessary, which included an interim recertification or hardship remedy that would commence at the end of the grace period.

The design team recognized that a family could suffer a severe drop in income at any time during the 3 years before the triennial recertification, and that the more routine grace period and interim recertification features would not be enough to protect them from an excessive rent burden. A more robust hardship policy would be needed. To address this challenge, the design team had to make decisions pertaining to three critical issues: (1) what circumstances should qualify families for a hardship remedy, (2) what should those remedies be, and (3) what process should be followed in administering the remedies and responding to complaints by tenants who contend that they were unjustly denied a hardship remedy? The design team sought to standardize the hardship policy as much as possible across the four PHAs, so that the protections offered to tenants by the rent policy would not vary with contrasting ideologies or tendencies toward greater or lesser leniency, or with idiosyncratic administrative practices.

**Conditions that qualify a family for a hardship remedy**

All four PHAs and HUD agreed that a family would be considered eligible for a hardship remedy if at least one of the following criteria was met:

- The family’s total monthly rent exceeds 40 percent of its monthly current/anticipated gross income (including imputed welfare income).
- The family faces a risk of eviction for nonpayment of rent—including utility shutoffs for nonpayment of utility bills that could lead to eviction.
- Other exceptional circumstances, as determined by the PHA (expected to be rare).

In arriving at the 40-percent threshold, the design team recognized that how much of rent burden was “excessive” was a subjective decision, and it looked to other benchmarks to help it decide. For example, it took into account the fact that HUD regulations set an affordability standard that allowed voucher holders to enter into new leases that would require them to pay up to 40 percent of their adjusted income in rent and utilities. (In these cases, the household’s family share would exceed its TTP.) The design team also looked at other subsidy programs and noted that SNAP rules include excess shelter costs in calculating SNAP benefits when an applicant’s shelter costs exceed...
50 percent of net income. With these benchmarks in mind, 40 percent of gross income seemed to be a reasonable threshold for defining excessive rent burden for the alternative rent policy.

This hardship criterion was intended to allow the PHAs to waive the minimum TTP when the minimum TTP accounted for more than 40 percent of a family’s current/anticipated gross income, and to reduce TTPs for families who were paying above the minimum but nevertheless met the 40-percent threshold. Three of the four PHAs agreed fully with these provisions; Lexington was the exception. It objected to reducing families’ TTP below the agency’s previously established $150 per month minimum TTP under any circumstances short of a household becoming defined as disabled. Thus, the hardship criterion that applies in Lexington specifies that a family’s TTP must exceed the 40 percent threshold and be greater than the $150 minimum rent.

Two other options were considered but rejected in defining qualifying conditions. One was to exclude from eligibility any families whose incomes fell because tenants quit their jobs. Concern was expressed about using public subsidies to compensate for voluntary unemployment. It was agreed, however, that the circumstances surrounding a tenant’s exit from a job were often murky, and investigating those circumstances could take considerable staff time. Also, in some cases, these investigations may never clearly conclude whether the tenant quit for what were deemed “justifiable” reasons. This qualifying condition was thus considered impractical for the alternative rent policy.

A second concern related to families hit with a household member’s unexpected medical bills and drug costs not covered by insurance, making it difficult for the families to pay their rent and utilities; this circumstance could possibly expose them to eviction, even if their incomes did not fall. It was decided that the circumstances of such families could vary widely, and other families may face serious financial emergencies unrelated to medical costs, making it difficult to establish a blanket policy that would be appropriate in such cases. Instead, the design team opted to include two other qualifying conditions for a hardship remedy: a high risk of eviction and other special (and unusual) circumstances. PHAs would have the flexibility to deem certain families facing those circumstances as worthy of a hardship remedy on a case-by-case basis, with the expectation that these criteria would be used sparingly.

**Hardship remedies**

As part of its effort to standardize the hardship provisions, the design team specified a menu of four remedies from which all PHAs would choose while allowing each agency the discretion to decide which to apply in any given situation:

1. Allowing an additional interim recertification beyond the normal one-per-year option. This additional recertification could lower a household’s TTP (but only as low as the minimum TTP) until the next triennial recertification.

2. Setting the household’s TTP at the minimum TTP level for up to 180 days.

3. Setting the household’s TTP at 28 percent of current income (which may be less than the minimum TTP, except in Lexington) for up to 180 days.
4. Offering a “transfer voucher” to support a move to a more affordable unit (including a unit with lower utility expenses).

At the end of the hardship period, the family's regular TTP would be reinstated, and the family would not be required to repay the amount it would have paid otherwise. If the hardship continues, the family may request an extension of the hardship remedy. The hardship remedy period cannot be scheduled to end after the family's next scheduled triennial recertification.

The hardship process

Despite having standardized criteria for qualifying for a hardship remedy and a standardized menu of remedies, PHAs retained considerable discretion in operationalizing aspects of this policy. In most cases, families had to request a hardship remedy in writing by completing the hardship request form and supply information and documentation that supported their hardship claims. It was important that the PHAs establish processes for reviewing and acting on these requests in a fair and impartial manner, and that families had a reasonable opportunity to appeal if their requests were denied. To that end, the demonstration design team considered a multi-step process in which each PHA would set up a similar hardship committee to review hardship requests and address tenants’ grievances. The PHAs argued, however, that this process would be too cumbersome and burdensome to administer, and that their pre-existing procedures for handling tenant disputes of any kind would suffice. Ultimately, with the understanding that all PHAs would adopt the same hardship criteria and set of remedies, and that families whose requests were denied would have adequate opportunities to appeal, it was decided that each PHA would determine its own procedural steps for granting hardships and processing appeals.

(12) What about utilities?

Utility expenses are a crucial component of shelter costs, and calculating them is complex for PHAs. For many voucher holders, some or all utilities expenses are included in the contract rent paid to the landlord, but for others, utilities are a separate cost. Under traditional rent rules, PHAs help to cover these expenses through a “utility allowance.”

PHAs review and, if necessary, update their utility allowance tables annually (through market surveys and analyses that take into consideration the type of dwelling), and apply them in determining each family's gross rent, taking into account particular characteristics of the family's dwelling unit and type of heating system. The process is widely viewed as complicated and error prone. The PHAs in the Rent Reform Demonstration therefore agreed that the new rent policy should include a more streamlined (and less error-prone) approach to calculating the utilities component of a family's TTP.

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20 For example, a family must provide proof of the following: loss of eligibility for a federal, state, or local assistance program; loss of employment or reduction in work hours; an eviction letter; a document indicating utilities may be shut off; or a document indicating the family is at risk of eviction. To request a hardship remedy based on the risk of eviction for nonpayment of rent or utilities, a family must provide to the PHA a notice from the landlord of nonpayment of rent and the landlord's intent to terminate the family's tenancy or a notice from a utilities company warning of a utilities shutoff. PHAs may set a time limit within which they must receive a copy of this notice from the tenant (for example, no more than 10 business days from the date that the tenant received the notice from the landlord or utility company).
The design team explored a variety of options, looking most closely at the following four strategies:

1. Eliminating utility allowances altogether and basing a family’s subsidy on the payment standard, even if its gross rent (that is, the contract rent owed to the landlord plus expected utilities costs, if utilities are not included in the lease) is below the payment standard.

2. Eliminating utility allowances and basing a family’s subsidy on a payment standard set equal to 100 percent of the small area Fair Market Rent for rental costs in the area in which its unit is located, and paying up to that payment standard.

3. Applying the SNAP (food stamp) standard utility allowance set by state or local SNAP agencies and used in calculating SNAP benefits.  

4. Paying a flat rate utility allowance based on the number of bedrooms required for a given household size (voucher size), with some provision for extra costs.

MDRC’s statistical modeling exercise examined how these options were likely to affect families’ net incomes and TTPs, as well as PHAs’ HAP expenditures (relative to the traditional rent and utilities rules). The analyses revealed that the likely effects of the first three alternatives varied across housing agencies to a degree that was considered unacceptable for a potential national rental policy. In addition, they were likely to increase HAP expenditures (relative to estimated expenditures under traditional rules) by amounts deemed to be too high, putting the cost-neutrality goal beyond reach.

The design team settled on the fourth option, which was based on an approach previously developed by the District of Columbia Housing Authority. According to this approach, using local area utility rates (which were to be updated periodically), each PHA in the demonstration specifies a standardized utilities base rate that varied only according to the size of the voucher (that is, the number of bedrooms covered by a family’s voucher). It then specified a few “add-on” amounts for units that were dependent on more expensive utilities. The particular add-ons varied from agency to agency depending on the types of utilities more common in the area. For example, the PHA in Washington, D.C., includes an add-on payment for units relying on electric heating, which is more expensive than gas heating. It includes another add-on for water and sewer costs when the tenant is responsible for these expenses.  

It was hoped that the new utility schedule would result in fewer errors in calculating utility allowances, primarily because it requires housing specialists to gather and take into account much less information about the characteristics of a rental unit.

**Predicting the overall effects of the alternative rent policy**

Exhibit 1 summarizes the key features of the final policy that emerged from the design process and how these features compare with HUD’s traditional rent policy. Taking all of these features

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21 This number is a fixed dollar amount that states update annually. It applies statewide and is not based on an individual household’s actual costs. Some states set separate amounts for heating and cooling, non-heating/cooling (for example, other electricity, water, trash collection), and telephone only.

22 The PHA estimated that its new approach cost the agency about the same as the existing utility allowances.
into account, MDRC's statistical modeling showed that under the new rent rules, when families increased their earnings (especially through full-time employment), their net family incomes were likely to increase more than they would under the traditional rent rules. These increases would be achieved primarily by holding their TTPs and housing subsidies constant in the face of earnings gains during the 3 years leading up to their next triennial recertifications, thus allowing them to keep more of their increased earnings.

For PHAs, the statistical modeling predicted that the new policy would cause the agencies’ total expenditures on housing subsidies for the families receiving the new rent rules to be higher during the first 3 years than they would be under traditional rent rules. This increased expenditure was expected largely because families who increased their earnings, and who would therefore have had their subsidies reduced under traditional rules, would instead receive the same level of subsidy until their triennial recertifications took place. However, the analysis also predicted that in Year 4, housing-subsidy expenditures under the alternative rent policy would be somewhat lower than under the traditional policy, even assuming that the new policy did not have a positive effect on families’ earnings. In part, this prediction reflects the assumption (supported by the modeling exercise) that, on average, TTPs recalculated in Year 4 would be based on average earnings that would be higher than the average earnings of the same families’ recertifications 3 years earlier because of normal increases in work and earnings over that period of time (that is, increases that would have occurred even in the absence of the new policy). In addition, the policy’s minimum rent, the absence of deductions, and limits on interim recertifications in the face of income declines would begin to generate higher TTPs for families still on the voucher program in Year 4. It is at the point of that triennial recertification that PHAs would begin to recoup the housing-subsidy reductions they had foregone during the previous 3 years when TTPs were capped.

The modeling exercise also showed that in the absence of an employment impact, the cumulative housing-subsidy expenditures through the first 4 years of the policy may be somewhat higher for families receiving the new rent rules compared with families subject to the traditional policy. If the new policy has a modest employment impact, however, those subsidy expenditures may reach (or come very close to) a “break-even” level, achieving the cost-neutrality goal of the new policy.

Of course, it was impossible to predict with certainty what would really happen under the new rent policy. The exercise was helpful to the policy designers, however, because it illustrated possible trade-offs among different options considered for the demonstration. The randomized trial now underway is providing more definitive evidence on how the new policy affects families and PHAs.

**Conclusion**

Designing the new rent policy for the Rent Reform Demonstration was a challenging process because it sought to balance multiple, sometimes competing, objectives related to tenants’ work incentives, administrative simplification, cost-neutrality, and tenant protection. The demonstration design team weighed the pros and cons of a variety of reform options, from entirely jettisoning the Brooke Amendment linking rent to family income, to myriad ways of altering exactly how rents could be tied to income. The process had to contend with initially different views on features like minimum rents, adjusted vs. gross incomes, retrospective income, recertification schedules,
hardship policies, and utilities policies. It is thus noteworthy that, despite some differences in perspectives, all four very different PHAs and HUD reached a consensus on the core elements of the new policy.

On many issues, these different views were not cleanly split along the lines of institutional affiliation. Rather, they simply reflected different insights, ideas, and experiences that individual members of the design team brought to the discussions. Perhaps most critical to reaching a consensus, however, was finding a way to accommodate some local adaptations important to the PHAs. These adaptations especially involved the issue of minimum rents, which they knew would be of great concern to the local advocacy groups in their communities, and on the procedures for administering the agreed-upon hardship remedies. Also important to getting PHA buy-in on a common policy was the care taken by HUD to avoid creating the impression that it was trying to pressure the PHAs to adopt any particular approach, rather than allowing the collaborative process to play out. The fact that HUD chose an intermediary (in this case, MDRC) to organize and manage the design process may also have helped. The evaluation of the final model is slated to be completed by 2024.23

Acknowledgments

The author would like to thank Elizabeth Rudd for her excellent guidance and feedback on earlier drafts of this paper. Thanks also go to other HUD staff, PHA staff, external advisors, and the MDRC team who were involved in the design of the Rent Reform Demonstration, and on whose work this paper draws.

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23 An overview of the demonstration and links to published reports can be found on MDRC’s website at https://www.mdrc.org/project/rent-reform-demonstration#overview. Links to individual reports can also be found on the HUD User website at https://www.huduser.gov/portal/home.html.
Designing an Alternative Rent Policy for the Housing Choice Voucher Program


