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Executive Summary

Moving to Work Agencies' Use of Project-Based Voucher Assistance

U.S. Department of Housing and Urban Development | Office of Policy Development and Research

Executive Summary

Over 2 million households receive federal housing subsidies that allow them to rent in the private rental market. The Housing Choice Voucher (HCV) program, funded by HUD, requires households to pay 30 percent of their income toward rent, and HUD subsidizes the remaining amount of the households' rent up to a certain threshold based on area housing costs. This rent policy aims to protect assisted households from excessive rent burden, but critics argue that pegging tenant contributions to income creates a disincentive to work. A rent reform that reduces housing subsidies and increases households' contributions to rent might therefore have effects on employment. This report examines the effects of one such reform on subsidy recipients' employment rates, average earnings, and housing subsidies.

The HUD Moving to Work (MTW) demonstration, launched in 1996, grants 39 selected public housing agencies (PHAs) the flexibility to implement strategies to increase cost-effectiveness, promote household self-sufficiency, and increase housing choice for assisted households.[1] These PHAs have special statutory authority to change many HCV program rules, including rent rules.[2] The present study evaluates the impact of a rent reform made by one PHA, the Santa Clara County Housing Authority (SCCHA), using its MTW flexibility. In 2013, federal budget cuts significantly reduced the budget for PHAs operating HCV programs. To avoid having to terminate households from the HCV program, SCCHA chose to increase the tenant rent contribution rate from 30 percent of adjusted income to 35 percent of unadjusted income.[3] It also changed the voucher size policy, which resulted in a smaller voucher size (fewer bedrooms) for some households.

The results of this study suggest that the SCCHA rent reform did not affect residents' employment rates and earnings, on average, throughout the 4 years following the implementation of the rent reform. The analysis also found that, as expected given the nature of the policy changes and the absence of effects on residents' earnings, the SCCHA rent reform reduced the average housing subsidy that the PHA paid on behalf of households. It did not find any evidence of an overall effect on the percentage of households still receiving any housing subsidies during the followup period. The SCCHA rent reform, however, may have reduced earnings for a subset of this population—the households affected by the change in the voucher size policy in addition to the increase in the tenant contribution rate.

The Santa Clara County Housing Authority Rent Reform

SCCHA increased its tenant contribution rate to the level at which the total savings from lower subsidies would allow the PHA to continue to serve all households in the HCV program at that time. SCCHA's projections of savings assumed that the increase in the tenant contribution rate would not cause residents of HCV households to work or earn less. They had little evidence on which to base these projections, however. Economic theory suggests multiple possibilities: On the one hand, increasing the tenant contribution rate effectively increases the "tax" on tenants' earnings (in other words, tenants keep a smaller portion of their earnings under the new policy compared with the former policy), creating a disincentive to work. If

[1] In 2016, Congress authorized HUD to expand the MTW demonstration to grant MTW status to 100 additional PHAs.
[2] Subject to public notification, approval of each PHA's board of directors, and HUD approval.
[3] This change was tempered in 2014 when the rate was reduced to 32 percent of gross income, but this is still substantially higher than the previous rate.

tenants did reduce their earnings, it would have resulted in SCCHA having to increase the subsidy levels, effectively counteracting the savings in housing assistance payments the housing agency hoped to achieve. On the other hand, tenants who can work may increase their employment to compensate for the loss of net income. A third possibility is that households may absorb their increased housing costs without changing their employment behavior, by reducing their spending or incurring debt.

The SCCHA rent reform consisted of two main policy changes:

- **It increased the tenant contribution rate from 30 percent of adjusted income (equivalent to about 27 percent of unadjusted income) to 35 percent of unadjusted income.** After 1 year, this percentage was reduced to 32 percent of unadjusted income. This policy change eliminated all allowances and deductions, including dependent and childcare allowances, deductions for medical expenses, and utility allowances. This new rent policy was applied to the rent calculations for all HCV households.
- **It changed the policy that determines the number of bedrooms on a household's voucher.** Under the former policy, household members of different generations, of the opposite sex over the age of 5 years old, and unrelated adults (other than significant others) were allocated separate bedrooms. The new policy allocated one bedroom to the head of household (with spouse or partner) plus one additional bedroom for every two persons regardless of age, generation, relationship, or gender. This policy change resulted in a smaller voucher size for 23 percent of all SCCHA households (not including senior households or households with people with disabilities).

In anticipation of the potential hardship that HCV households might face because of the rent reform, SCCHA offered two safeguards: hardship exemptions for households that experienced a sharp increase in rent share because of the new rent calculation, and financial and legal assistance for households at risk of eviction due to the rent reform. The hardship exemption policy allowed households to have childcare or medical deductions temporarily included in the calculations for their total tenant payment (TTP) for a 90-day period. The eviction prevention assistance program provided financial assistance to cover unpaid rent or to cover a security deposit if a household had to move because of the rent reform. The program also included free legal services to prevent eviction.

Data and Methods

The study sample includes the cohort of nonelderly, nondisabled adults who were receiving HCV subsidies from the SCCHA program or one of the three selected comparison PHAs at the time the SCCHA rent reform was implemented in July 2013. The comparison PHAs are the Housing Authority of the County of Alameda, the Housing Authority of the County of San Mateo, and San Francisco Housing Authority. The effects of the rent reform are examined for up to 4 years after the rent reform. The analysis uses state unemployment insurance wage data to measure employment rates and average earnings and HUD's Inventory Management System/PIH Information Center data to measure households' housing subsidies and housing characteristics.

To estimate effects of the SCCHA rent reform on the study's key outcomes—employment and earnings—a comparative interrupted time series (CITS) analysis, a quasi-experimental design, is used. The CITS analysis uses the trends in earnings and employment before the SCCHA rent reform for the SCCHA group and a comparison group and measures how each group deviates from its pre-rent reform trend. The impact is the difference between the two groups' post-rent-reform *deviations* from their respective pre-rent reform trends.

To study the effects of the SCCHA rent reform on housing subsidy amounts and the percentage of households continuing to receive subsidies, the study uses an autoregressive difference-in-difference method.[4] A difference-in-difference estimation compares the change in each outcome between the period before the SCCHA rent reform and each year following the rent reform for SCCHA households with the change for households in the comparison PHAs, where no rent reform was implemented at the time. The models used in the present study are autoregressive in that they also control for pre-intervention values of the outcome measures. Although difference-in-difference is a widely used quasi-experimental approach, it is less rigorous than CITS because it does not account for potentially differing baseline trends in outcomes for the treatment and comparison groups.

Additional descriptive analyses were used to explore changes in housing characteristics before and after the rent reform that may be related to households' housing decisions, including unit characteristics, household composition, neighborhood poverty, and rent burden.[5]

Key Findings

The present study primarily aims to answer two questions: How does an increase in tenant rent share affect tenants' work behavior, and how does it affect households' housing outcomes? The following are key findings from the study's quasi-experimental analyses.

- **The SCCHA rent reform did not, on average, affect residents' employment rates and average earnings throughout the 4 years following the implementation of the rent reform.**

Exhibit ES1 presents the estimated effects of the SCCHA rent reform on average annual employment rates and average annual earnings for nonelderly, nondisabled adults for each year of the followup period. The results show no evidence of effects on the percentage of nonelderly, nondisabled adults who were employed or on their average earnings across the 4 years of followup. In Year 1, for example, 50.8 percent of SCCHA households had some earnings in a given quarter, which is estimated to be only 0.5 percentage point lower than what it would have been in the absence of the SCCHA rent reform, and the impact estimate is not statistically significant. If, as these findings suggest, households did not increase their earned income to compensate for the reduction in their housing subsidies, they would have experienced reductions in their net income. For households that did not increase their income over time, these reductions in net income could have been persistent. Households who did increase their income over time would have experienced smaller increases in net income compared with the increases they would have experienced in the absence of the rent reform.

- **The SCCHA rent reform reduced the average housing subsidy that the PHA paid on behalf of households.**

[4] It was not feasible to use the CITS method to estimate the effects of the rent reform on housing subsidy amounts and continued housing subsidy receipt during the followup period, because housing subsidy data were not available for the full sample for the 4 years before the rent reform.

[5] It was not feasible to use a difference-in-difference analysis for these analyses because data on these outcomes were available only for households that were still receiving subsidies, and not all households continued to receive subsidies for the full 4 years after the implementation of the rent reform.

Exhibit ES.1 Impacts on Average Quarterly Employment Rate and Annual Earnings (Nonelderly, Nondisabled Adults)

Outcome	SCCHA Rate or Average	Estimated Effect	P-Value
Employment Rate			
Year 1	50.8	-0.5	0.604
Year 2	54.5	0.0	0.972
Year 3	56.6	0.1	0.929
Year 4	57.5	0.1	0.941
Earnings (2017 $)			
Year 1	11,187	46	0.897
Year 2	13,549	143	0.763
Year 3	16,198	200	0.738
Year 4	18,538	509	0.484
Sample Size			34,075

SCCHA = Santa Clara County Housing Authority.
Notes: Samples consist of households headed by adults who were not seniors or adults with disabilities. The set of comparison group public housing agencies includes the Housing Authority of the County of San Mateo, the San Francisco Housing Authority, and the Housing Authority of the County of Alameda. Impacts were estimated using a comparative interrupted time series model. The impact estimates represent the estimated amount by which the SCCHA actual employment rates or average earnings deviate from the predicted employment rates or earnings levels in the absence of the rent reform. All earnings impacts are reported in 2017 dollars. The p-value indicates the likelihood that the estimated impact (or larger) would have been generated by an intervention with zero true effect. Statistical significance levels are indicated as: *** = 1 percent; ** = 5 percent; * = 10 percent.
Source: California Employment Development Department individual-level aggregate unemployment insurance data

Exhibit ES2 presents the estimated effects of the SCCHA rent reform on the average amount of housing subsidy and the percentage of households receiving any housing subsidy at the time of followup.[6] The average household housing subsidy in the month before the implementation of the rent reform was $16,764 per year. As expected, the SCCHA rent reform reduced the average amount of housing subsidy that households received. This effect is probably a direct result of the increase in the tenant contribution rate from 30 percent of adjusted income to 35 percent of gross income and the other policy changes implemented as part of the rent reform. In the first year after the rent reform was implemented, the average annual household subsidy was estimated to be $1,593 less than it would have been in the absence of the rent reform. In the second year, when the tenant contribution rate was reduced to 32 percent, the effect was slightly smaller: The average household subsidy was $1,548 less annually than it would have been in the absence of the rent reform. In the third year, the rent reform reduced the annual subsidy by $1,329.

Overall, there is no clear evidence that the SCCHA rent reform influenced the percentage of households that lost their subsidies or left the subsidy program. This finding suggests that the increased tenant contribution did not drive housing subsidy amounts down to zero for a large proportion of households and that the increased rent burdens did not lead a large proportion of households to leave the housing subsidy program.

- The SCCHA rent reform may have reduced earnings for a subset of the population—the households that were affected by the change in the voucher size policy in addition to the increase in the tenant contribution rate.

A subgroup analysis estimated effects of the SCCHA rent reform separately for the

6 Effects on housing subsidies were estimated for nonelderly, nondisabled households. A nonelderly, nondisabled household is defined as a household where the head of household and any spouse or co-head are under 62 years old and not disabled.

Exhibit ES.2 Impacts on Housing Subsidies (Nonelderly, Nondisabled Households)

Outcome	SCCHA Average or Rate	Estimated Effect	P-Value
Total Annual Housing Subsidy ($)			
Year 1	14,335	-1,593	0.000***
Year 2	13,414	-1,548	0.000***
Year 3	13,481	-1,329	0.000***
Any Housing Subsidy Receipt (%)			
Year 1	99.2	0.5	0.013**
Year 2	92.9	-0.4	0.368
Year 3	87.5	-0.9	0.137
Sample (Total = 15,490)	7,109		

SCCHA = Santa Clara County Housing Authority.
Notes: Samples consist of households headed by adults who were not seniors or adults with disabilities. The set of comparison group public housing agencies (PHAs) consists of the Housing Authority of the County of San Mateo, the San Francisco Housing Authority, and the Housing Authority of the County of Alameda. Utility allowance data were not available for San Mateo and are therefore not included in San Mateo's housing subsidy measures. Sample sizes may vary because of missing values. Impacts were estimated using an autoregressive difference-in-difference model, controlling for the past receipt of housing subsidies and other baseline characteristics of sample households. The impact estimates represent the estimated amount by which the SCCHA annual housing subsidy or housing subsidy receipt deviate from the predicted levels in the absence of the rent reform. To assess differences between the research groups, chi-square tests were used for categorical variables and two-tailed t-tests were used for continuous variables. The p-value indicates the likelihood that the estimated impact (or larger) would have been generated by an intervention with zero true effect. Statistical significance levels are indicated as: *** = 1 percent; ** = 5 percent; * = 10 percent.
Source: MDRC calculations using HUD Public and Indian Housing Information Center data

residents who were affected only by the tenant contribution rate change (77 percent of the study sample) and the residents who were affected by the voucher size rule change in addition to the tenant contribution rate change (23 percent).[7] The findings for the residents affected only by the tenant contribution rate increase mirror the estimated effects on the full sample: there was no evidence of effects of the rent reform on employment rates or average earnings through the 4 years of followup. The residents also affected by the voucher size rule change, however—who faced especially deep cuts in their housing subsidies and very high levels of rent burden if they did not move to smaller units—may have reduced their earnings in response to the rent reform. The negative effect on earnings for this subgroup is statistically significant in Years 3 and 4 following the policy change, at about $2,200 and $2,340 respectively, suggesting that some residents affected by both policy changes may have reduced their employment by this time. Employment and earnings trends over the followup period were rising for both SCCHA and the comparison group, so this estimated negative effect on average earnings means that for SCCHA residents in this group, earnings did not increase as quickly or as much as they would have in the absence of the rent reform. Descriptive findings (which do not indicate causality) suggest that some households in this subgroup moved to units with fewer bedrooms after the rent reform, but that levels of rent burden for this subgroup were especially high following the rent reform. A tight housing market in Santa Clara may have made it difficult for some families to find new housing with fewer bedrooms at an affordable rent.

Conclusion

The present study of the effects of a rent reform implemented by SCCHA provides evidence, from one location, that rent policies that increase the tenant contribution rate by a moderate amount (from 30 percent of

[7] One limitation of this analysis compared with the full-group analysis is that it was only possible to include one of the three selected comparison group PHAs in the comparison group.

adjusted income to 35 percent of gross income, later to 32 percent of gross income) do not create a substantial disincentive to work or significantly increase the likelihood that households may lose their subsidies. It also provides suggestive evidence that implementing a voucher size policy that requires some households to relocate to a different unit (with fewer bedrooms) to avoid even deeper cuts in housing subsidies may have adverse effects on some households in the context of a housing market where affordable housing options are very limited, and that short-term safeguards that PHAs provide to households may not fully prevent longer-term hardship.

The findings from the present study cannot predict how tenants may change their work behavior if the size of their tenant contribution rate increases by a larger amount than what was implemented in SCCHA. Although the increase from 30 percent of adjusted income to 35 percent of gross income (and later 32 percent of gross income) did not, on average, change employment or earnings among SCCHA tenants, it is possible that a higher increase may affect tenants' work behavior. The negative effects on earnings that were found for the group of households that were affected by both the tenant contribution rate increase and the voucher downsizing—and therefore experienced particularly deep cuts in their housing subsidies—are suggestive of this possibility.

The combination of findings that the SCCHA rent reform led to deep and lasting cuts in housing subsidies for households and that, on average, household members did not increase their earnings to compensate for the reduction in subsidies means that households absorbed their higher housing costs. Therefore, households' material hardship is an important consideration. This study did not include measures of households' material hardship beyond a measure of rent burden, and therefore cannot assess how this increase in rent burden translated into their experiences with material hardship.

It is important to understand how this type of rent reform may be expected to vary based on the context, and studies in multiple locations that represent diverse housing and labor markets are needed to examine this question. Future studies of rent reforms that might result in reduced housing subsidies should also carefully measure households' experiences with material hardship, including food insecurity and their ability to cover medical expenses.

Nevertheless, the present study begins to address one aspect of housing subsidy policy—how increasing the tenant contribution rate affects households' employment, earnings, and housing subsidies—where strong evidence is lacking. Two additional studies are currently under way that also evaluate changes in how tenant rent share is determined: The HUD-funded Rent Reform demonstration tests a rent reform model in four PHAs that caps the tenant contribution toward rent for 3 years, and the second cohort of the HUD study of the current MTW expansion is intended to investigate the effects of tiered rents (where tenant rent share is determined based on which income band household income falls into) and stepped rents (where tenant rent share is increased by a set amount at regular intervals according to a rent share schedule) in 10 PHAs with newly granted MTW status. Taken together, this set of studies will build a body of evidence that will inform future HUD and PHA decisions about the most effective rent policies to implement.

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EQUAL HOUSING OPPORTUNITY

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