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BALANCING INCOME TARGETING AND POVERTY DECONCENTRATION IN SUBSIDIZED HOUSING: THE CHALLENGE OF THE FEDERAL SECTION 8 PROGRAM

by

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ABSTRACT

This paper is an analysis of the impact of the repeal of Federal preferences for tenant selection in the project-based Section 8 program, with particular attention to the Greater Boston area. In 1996, the preferences specifying that households with serious housing problems had priority in public and assisted housing were repealed by Congress. Since then, most private owners of publicly assisted housing have been free to change their tenant selection procedures, no longer giving preference to those with the greatest need.

There are two prerequisites to witnessing any change in the income mix in these projects: implementation and ability. First, the repeal of the preferences must be implemented by state agencies and property owners. This analysis presents the interests of the decision-makers and suggests that most owners will have incentives to repeal the preferences. Second, once implemented, the projects in question must have the ability to attract higher income households. There are a number of features of Section 8 projects that would prevent this from occurring, including the Section 8 rent calculation and the location of most of the projects.

The analysis concludes that even at high levels of implementation and ability, the pace of change in the income mix will be slow. Increases in incoming higher-income tenants will be moderated by the natural turnover rate in the projects. Even with the slow pace of overall change, there will be a substantial number of units which would have been available for households experiencing severe housing problems that are allocated to higher income households with less need.

The paper concludes with recommendations that would prevent the loss of units for those with the highest level of need, while still allowing for economic integration in Section 8 projects. The primary recommendations are that the implementation should be context-specific, and that the projects should consider returning to the original intent of the Section 8 program--providing subsidy funds for only portions of projects. Thus HUD should seriously consider vouchering out portions of the Section 8 units in each project to create a more appropriate balance between income targeting and poverty deconcentration.

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CHAPTER 1
INTRODUCTION

When the Section 8 program was enacted in 1974, it was designed to serve households in the lowest income categories. Previous housing subsidies had succeeded in adding to the affordable housing stock, but had not been able to serve the households with very low incomes. Rents in these earlier developments were set at flat levels that were sufficient to cover the debt service on a subsidized loan. Even so, very low-income tenants could not afford this rent. The Section 8 program solved this problem by tying rents directly to the income of the tenant. Tenants would pay 25% of their income toward the rent for an apartment, and the government would pay the rest. This formula was uniquely suited for serving households of any income level, from families on public assistance to the working poor to those with moderate incomes.

With this rent structure, the Section 8 program was designed to serve those who needed the help the most. To this day, it is the only form of housing subsidy in use, other than public housing, that is able to serve such households.

Since the mid-1980s, private managers of federally assisted housing have been required to give preference to people who demonstrated serious housing problems, including homelessness, substandard housing, or a severe rent burden. These so-called "Federal preferences" were successful in targeting assistance to the "worst case" housing needs among the low-income population. Recently, these preferences have come under fire for causing high concentrations of poverty in project-based subsidized housing. To address this tendency, Congress suspended the use of Federal preferences in 1996. Current legislation, passed by both the House and the Senate, permanently repeals the preferences. The Senate bill changes the statutory income targeting provisions of the program, which, in combination with the absence of preferences, shifts the income level of the recipients higher than was previously allowed.

Considering the large numbers of families with extremely low incomes who are in need of housing, this repeal of Federal preferences for housing assistance may have a substantial impact on the ability of very-low income families to find decent housing. The changes being made to address the need for income mixing have the potential to create another set of housing problems that will need to be fixed.

In project-based Section 8 developments the property owner has control over the selection of tenants. Prior to the use of Federal preferences, this process was free of public sector interference regarding who among the income-qualified should be given priority in the tenant selection process. Federal preferences were put into place to guide the property owners decisions based on the public interest: serving those with the most severe housing problems. Removing Federal preferences from the equation puts the control over tenant selection for a large number of subsidized units in the hands of private landlords. Unlike the tenant-based Section 8 program, where the state or the local housing authority is responsible for tenant selection according to public interests and is accountable to the public, many private owners of project-based Section 8 developments have little incentive to serve those with the greatest need. Without publicly determined preferences there can be no assurance that housing units are available for the families and individuals that are experiencing serious housing problems.

BALANCING POLICY GOALS

In repealing Federal preferences for tenant selection, the Federal government is attempting to adjust the balance between two goals: encouraging healthy socio-economic environments and targeting assistance to the neediest. For the past decade and a half, the balance has been off-center. The much-needed income targeting overpowered the need to create mixed-income environments.

Households with incomes below 30% of area median income are far more likely to experience acute housing problems, and the number of such households has been growing in recent decades. This increase in renters in the lowest income category is substantially due to increases in poverty among families with children. According to the U.S. Department of Housing and Urban Development (HUD), "[t]he number of households with unmet worst case needs would undoubtedly have increased by more than 1.5 million between 1978 and 1993 if housing assistance had not been well targeted to those with worst case needs" (HUD 1996, p.21). Current analyses by HUD and others conclude that housing assistance should still be targeted to those with incomes below 30% of median income. Nelson and Khadduri (1992) analyze national data to determine which group of households is in greatest need of assistance. Their conclusion is that the income targeting of Federal programs should be focused more intensely on the poorest households. Similarly, the *Report to Congress on Worst Case Housing Needs* is generally non-spatial in its analysis, and has the same recommendations (HUD 1996, p. 48).

Unfortunately, the project-based housing subsidy system runs the risk of concentrating too many poor households in a single location if all available units go to those with serious housing problems. Households living in poverty are far more likely to experience serious housing problems, and therefore make up a large proportion of those who qualify for Federal preference status. The recent policy directions, both for public and assisted housing, have been reactions to the increase in concentrated poverty in America's central cities since the 1970s, and to the problems with severely distressed public housing developments in particular. As Larry Vale noted in an article about the public housing system,

> *the [National Commission on Severely Distressed Public Housing] comments that public housing tenant selection, rent calculation, and income eligibility regulations have screened out all but the poorest households for public housing and that public housing developments have become severely distressed at least partly because the resident population has become increasingly poorer and consists of a high percentage of households whose only source of income is public assistance (NCSDPH 1992, in Vale 1993, p.168).*

The subsequent changes to the public housing system have applied to Section 8 and other assisted housing as well, since major policy changes tend to combine the programs into one "public and assisted housing" category. These changes are attempting to increase the economic mix of households in public and assisted projects. As a result, they threaten to compromise the income targeting that has been so necessary and continues to be necessary to serve the households with the greatest need.

RESEARCH FOCUS

Primary Question: ***How will the repeal of Federal preferences for tenant selection impact the income mix in project-based Section 8 developments?***

Before any impact can occur, two conditions must be met. First, the policy must be implemented at various levels, including at the project-level, and second, the projects must be able to attract and retain a higher income population. A set of secondary questions arises from these issues: What role does the Federal preference system play in determining the income mix in Section 8 projects? What other factors have a strong impact on the income mix? What are the incentives of the parties making the tenant-selection decisions, particularly the owners and management agents? Who (what groups) will be affected most by the repeal of preferences?

METHODOLOGY

To answer these questions, I examine the current situation in the Boston Metropolitan area to determine how the policy change is being implemented. I also examine available data on the locations and characteristics of Section 8 and other Federally assisted housing to set the context for some of the discussion.

The bulk of the research was exploratory, as is often the case when the policy environment is in constant flux. Officials at the Massachusetts Housing Finance Agency, the HUD regional office, the two primary contract administrators for Section 8 properties, were interviewed to determine how and when the policy changes have been implemented. Because of the strong degree of control that property managers have over the implementation of tenant selection procedures, I interviewed several property managers and owners of Section 8 properties in the Boston area. These individuals shared their experiences using Federal preferences in the past, their plans for changing procedures in the future, and some more detailed information on the income mix in their developments.

In addition to this first hand information, I utilized a number of secondary data sources for information pertaining to the characteristics of subsidized housing. A new data set from HUD, the 1997 *Picture of Subsidized Households*, was analyzed to the greatest extent possible. This data set includes the location and tenant characteristics of projects in Federal rental assistance programs, including pubic housing, Section 8, Section 236, Low Income Tax Credit projects, and other FHA projects with subsidies[1]. Two versions of this data set were used to display different types of features. The census tract summaries were used to analyze project locations because this was the most complete coverage available for mapping. Project-level data were used to analyze tenant characteristics in the Section 8 and other assisted housing programs.

Finally, a simple model of tenant turnover is created to obtain insight into the pace of change that is likely to occur. This model is explained in more detail in Chapter 4, and the output from four scenarios is presented in the Appendix.

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1 The data on tenant characteristics was not complete for most of these programs, particularly for public housing and Tax Credit projects.

CHAPTER 2
THE SECTION 8 PROGRAM

This chapter provides the background for the analysis of the process of change and outcomes of the repeal of Federal preferences. The Section 8 program and its history are described, as are the requirements for admission to Section 8 projects. The recent legislation is discussed as it related to changes in these requirements. Finally, the Section 8 context in the Boston area is presented.

PROGRAM DESCRIPTION

The Section 8 program provides rental assistance payments for individuals and families to live in privately owned housing. Section 8 allows tenants to pay only 30% of their income toward rent, and the federal government covers the remaining portion. Because of this form of rent determination, the program is uniquely suited to serving the very poorest households. Tenants with extremely low incomes cannot become rent burdened, because rents always depend on the family's income. This was one of the primary features distinguishing this program from its predecessors, which used interest rate subsidies as the subsidy vehicle. In these earlier programs, rents were based on costs, so rising costs often spelled financial trouble for the developments. The Section 8 program was designed to prevent this occurrence from affecting the affordability of the units for very low-income households.

Section 8 comes in two forms: tenant-based subsidies and project-based subsidies. Tenant-based subsidies (certificates and vouchers) are provided directly to families, who then find housing in the private rental market and use the Section 8 subsidy to help pay the rent.[2] In the project-based form of the program, the subsidy is tied to particular projects that were developed or rehabilitated with the help of HUD or another public agency such as a state housing finance agency. Only tenants living in the units in the project receive the rental subsidy. If a tenant in project-based unit decides to move, he/she must find either another subsidized unit, a tenant-based subsidy, or a unit in the unsubsidized rental or ownership market. In contrast, tenant-based subsidies move with the tenant to whatever unit he or she chooses.

The project-based Section 8 program, which is the topic of this paper, consists of a number of sub-programs: New Construction, Substantial Rehabilitation, and Moderate Rehabilitation, and

Loan Management Set-Aside. Each of these programs has a different origin, and thus the projects have varying characteristics in terms of project location, ownership, and contract length.

History of the program

When the Section 8 legislation was enacted in 1974, the country was already aware of the problems created by concentrating large numbers of the very poor into large high-rise projects. The public housing program, which began in the 1930s, had been criticized for creating ghettos of subsidized households. Along with this came the social problems associated with poverty and joblessness. In addition, racial segregation was often exacerbated by the location of public housing in minority neighborhoods (Hays, 1995; Vale, 1993).

The designers of the Section 8 New Construction program intended to avoid the mistakes of public housing (and the earlier private subsidy programs) by building in requirements for site and tenant selection that would encourage mixed-income communities located in non-minority neighborhoods. In fact, the original Senate version of the legislation would have limited the number of Section 8 units to 75% of the project for the precise purpose of limiting concentrations of poverty. Because the House version of the bill did not contain this provision, it was not included in the final legislation. Even so, when HUD issued the regulations, it gave priority to projects that contained 20% or less Section 8 units (Jacobs, et. al. 1982, p.25). This mixed income aspect of the program was meant to facilitate the location of the projects in non-segregated areas. If the projects could be partially subsidized, it was less likely that neighborhood opposition would prevent the project from being built.

Despite the intentions of Congress and HUD, the implementation of the program did not carry out these priorities. The developers who submitted bids thought that this type of unit mix would not be "workable," and thus most projects were built as entirely Section 8 developments. Kingsley's 1979 evaluation of the programs also notes that this mixing goal was not met:

> *Within individual structures, the programs apparently have not met the original integration goals of their designers. It was intended that Section 8 developers would request housing assistance funds for only a portion of the units in their new project. Thus, low-, middle-, and high-income households could live in the same apartment structure. It is well documented now, however, that almost all Section 8 developers have requested subsidy funds for 100 percent of the units in their projects. (Kingsley 1979, p. 57).*

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[2] The tenant-based programs have historically been referred to as Section 8 Existing Housing because the provision of the subsidies was not tied to the construction of the units.

The site standards mentioned above applied only to the New Construction portion of the program. Sites were limited by guidelines stating that:

- the project could not contribute to racial segregation
- its location could not have a high travel time to work for low-income workers
- it could not be located in an area of minority concentration or an area in which the concentration might be "tipped" due to building the project. (Jacobs, et. al. 1982, p. 35)

As a result of these location restrictions, the projects built under the Section 8 New Construction program tended to be designated for the elderly (Hays 1995, p. 158). Wallace's 1981 study of the Section 8 program showed these characteristics clearly (see Table 1). While the eligible population was 65% white and 25% elderly, the recipients under the New Construction program were 85% white and 80% elderly. This striking difference can be attributed to the greater ease of developing projects for the elderly in the non-minority neighborhoods that the program was targeted toward (Hays, 1995; Jacobs, 1982). Neighborhood opposition to projects led developers to take the path of least resistance by building projects for the "deserving poor" elderly, who are generally not considered "bad" for the neighborhood.

The Substantial Rehabilitation program was established to encourage renovation of deteriorated housing in older urban areas. By its very nature, this meant that the projects could not be held

Table 1: Early Section 8 New Construction Tenant Characteristics

	Eligible Population in 1981	Recipients in 1981
Race of Head		
White	65%	85%
Black	22	11
Hispanic	10	1
Sex of Head		
Male	53%	26%
Female	47	74
Mean Age of Head		
Mean age	43.5	65.5
Elderly Heads	25%	80%
One person households	34%	76%
Average Income	$5272	$4449

Source: Wallace, 1981.

to the same site standards as the New Construction program. Similarly, the Loan Management Set-Aside program was established to help rescue existing subsidized projects built under previous programs. Many of these older projects ran into financial trouble when operating costs increased, and rents could not keep up (Hays, 1995). An estimated 44% of the earlier 221(d)(3) and Section 236 units have been converted to Section 8 through this program (Abt Associates in Clay and Wallace 1990, p.318).

INCOME TARGETING AND FEDERAL PREFERENCES

This section describes the forces that contribute to both *de jure* and *de facto* income targeting in the Section 8 program. I will then discuss the specifics of the Federal preference regulations, and how they interact with the standard income targeting of the Section 8 program. I will explain the evolution of these preferences, including the recent changes.

Table 2: Rental Assistance by Program and by Household Income as Percent of Area Median

(Assisted Households in Thousands, Percent of Program by Group)

	0-30%	31-50%	51-60%	61-80%	81%+	Total
Tenant-Based Section 8	1065	296	37	22	6	1425
percent of program	75%	21%	3%	2%	0%	100%
Project-Based Section 8	892	345	38	17	7	1300
percent of program	69%	27%	3%	1%	1%	100%
Public Housing	944	241	35	21	9	1250
percent of program	76%	19%	3%	2%	1%	100%

Source: HUD-PD&R. 1996. *Rental Assistance at a Crossroads: A Report to Congress on Worst Case Housing Needs.* U.S. Department of Housing and Urban Development, Office of Policy Development and Research. p.22.

Table 3: Priority Problems by Household Income as Percent of Area Median

	0-30%	31-50%	51-60%	61-80%	81%+	Total
Priority Problems	4176	1173	147	147	182	5824
Percent of Priority Problems	72%	20%	3%	3%	3%	100%

Source: HUD-PD&R. 1996. *Rental Assistance at a Crossroads: A Report to Congress on Worst Case Housing Needs.* U.S. Department of Housing and Urban Development, Office of Policy Development and Research. p.22.

Table 2 shows the nationwide distribution of housing assistance by the income level of the recipients. Table 3 shows the distribution of priority problems[3] by income level, showing that 72% of all priority problems are found in households with incomes below 30% of median. The project-based Section 8 program, with 69% of assistance going to households in this income category, is the least well targeted to households with priority problems among all the programs, but the differences are not very large and are generally reflective of the level of need. A large part of the income targeting of the program is statutory, but there are other features of the projects and the program that encourage further income targeting. These features often have the tendency to discourage higher income households from moving to a project or remaining in a project once income rises.

Statutory Income Eligibility

Standard income ceilings for admission to Section 8 units were set at 80% of area median income at the program's inception in 1974. This 80% limit is referred to as the "low-income" limit. In Boston, the median income for a family of four in 1997 was $60,000, so the general Section 8 eligibility should be $48,000 for this size family. However, because of the high median income of the Boston area, HUD has adjusted the low-income limit so that it does not exceed the U.S. median income of $45,300. Table 4 shows the various income limits for a family of four in the Boston Metropolitan Area.

Legislation enacted in 1981 limits a large majority (75-85%) of available subsidies to "very low-income" households, defined as those earning less than 50% of area median income (HUD 1996, p.23). At the same time, almost 100% of available tenant-based subsidies were required to go to very low-income households. This difference reflects the recognition that some degree of income diversity was necessary in a project-based program, whether it is public housing or Section 8 developments, while tenant-based assistance is not subject to the same constraints.

Table 4: Definitions of Income Categories

Category	Percent of Area Median Income	Income Limit*	Maximum Rent (30% of income)
Low-Income	less than 80%	$45,300	$1,133
Very Low-Income	less than 50%	30,000	750
Extremely Low-Income	less than 30%	18,000	450

* Figures shown are for a four person family in the Boston Metropolitan Area

3 Priority problems are defined as paying more than 50% of income for rent, or living in severely substandard housing, which includes the homeless. The numbers in the table to not include estimates of homelessness because they are based on counts from the American Housing Survey, which counts only persons in housing units (HUD 1996, p.1).

Federal Preferences

Because of the large number of applicants that typically qualify for the standard income limits, even when reduced to 50% of median income, there has been a need to specify certain categories as priorities for admission in addition to this income targeting. Because income is not the sole determinant of housing problems, a number of priority needs were established. In 1979, Congress created preferences for two categories of people: those involuntarily displaced, and those living in substandard housing. In 1983, Congress added a preference for families paying more than 50% of their income in rent. While this legislation dates to the early 1980s, the regulations were not in place until 1988[4]. These regulations stated that 90% of new public and assisted housing residents, and 100% of tenant based recipients, had to qualify for one or more Federal preference (HUD, 1996). In the description of the preference categories in Figure 1, notice the inclusion of "homeless" under the category for substandard housing. The inclusion of the homeless in the federal preferences was necessary in the 1980s when this population began to increase in size.

FIGURE 1:
FEDERAL PREFERENCE CATEGORIES

1. Involuntarily displaced, defined as displaced due to one of the following:
   - *local, state, or federal action*
   - *action by an owner which forces the tenant to vacate, when the action is beyond the resident's ability to prevent*
   - *domestic violence (recent or continuing nature)*
   - *victimization by hate crimes*
   - *impairment of mobility due to lack of accessibility of unit (disabled persons)*
   - *sub-family breakup (such as when a parent-child subfamily are no longer able to live with the grandparent)*
2. Occupying substandard housing, which is defined as:
   - *dilapidated*
   - *does not have operable indoor plumbing, adequate electricity, heat, or kitchen*
   - *homeless, lacking a fixed residence, or living in a temporary shelter situation*
3. Paying in excess of 50% of income for rent.

Source: HUD-PD&R, 1996. *Report to Congress on Worst Case Housing Needs.*

[4] Federal Register, January 15, 1988, pp1122-1182.

These preference categories comprise HUD's definition of "worst-case housing needs." Because of their serious housing problems, there has been a priority to house these people over households of any qualifying income level, no matter how low. If a household earning $10,000 per year is paying more than 50% of their income in rent, they qualify for a Federal preference and are housed first, even if another household with a lower income is at the top of the waiting list.

Recent Congressional Action

A preference "quota" is the percent of new tenants in a project who must qualify for a Federal preference. This quota has been changed several times since the 1980s. At the time the preferences were implemented, at least 90 percent of available units had to be given to a household that qualified for at least one preference.[5] The Cranston-Gonzales Act of 1990[6] changed this key quota for admission to both public housing and project-based Section 8 developments. The legislation changed the quota to 70 percent for both programs, thus putting in place a measure that would help add some income diversity to these developments.[7] By 1994, Congress had again loosened the preference system, changing the quota to 50% for public housing, 70% for project-based assistance, and 90% for tenant-based assistance, leaving the project-based rule the same as established under the 1990 Act, but changing the other two programs (HUD, 1996).

These changes apparently did not satisfy Congress' desire to increase the income mix in public and assisted housing. In 1996, the Federal preferences were suspended in an annual appropriations act, a provision that has been continued every year until the present.

In essence, the repeal allows property owners to bypass the preferences if they feel it is necessary, but implementation is voluntary. It is important to note that the project-based program differs markedly from both public housing and tenant-based assistance in terms of decision-making. In the latter programs, a local or state public entity is responsible for determining the circumstances under which the preferences should be repealed. In the project-based program, the repeal means that private owners are entitled to admit any family who is income qualified, despite their level of need. In cases where a state housing finance agency provided funds for development or rehabilitation of a Federally subsidized project, the agency

[5] Landlords are given discretion as to whether they will rank those with more than one preference over those with only one. They may also place the preferences in rank order, thus placing one category at a higher preference than another.
[6] The official title of the Cranston Gonzales Act is the National Affordable Housing Act of 1990.
[7] At the same time, however, there was no provision for allowing vouchers and certificates to go to anyone other than a family with a Federal preference. This reflected the difference between the programs, tenant-based assistance being more amenable to deconcentration efforts.

holds a large amount of control over the owner's actions, as any funder would. This is the case in Massachusetts, as will be discussed in the next chapter.

Current Public Housing Reform Legislation

The repeal of the Federal preferences in 1996 was achieved on a temporary basis, subject to annual continuation. In mid-1997, both houses of Congress passed legislation that would make the repeal of Federal preferences permanent. The bills differed with respect to the future of admission preferences. The Senate version (S. 462) would allow property managers to completely repeal any preferences, however it would require at least 40% of units to go to households under 30% of AMI. This direct targeting to extremely low-income families has never been done before, but is weak compared to the current 70% required to be given to households with Federal preferences, which tend to fall within this extremely low-income category. The House version would require owners to follow the preferences established by their local Public Housing Authorities (PHAs), while changing none of the statutory income limits or quotas of the program. The impact of this version is difficult to predict given the large number and diversity of PHAs that would have control over these local preferences. The legislation, as of this writing, is in a conference committee to resolve the differences.

Table 5:
Summary of Income Targeting Provisions
of Recently Passed Legislation

	Senate Version (S. 462)	House Version (H.R. 2)
Income Targeting	40% under 30% of AMI 70% under **60%** of AMI balance can go to those up to 80% of AMI	No changes specified; previous targeting 75-85% of available units to those under 50% of AMI
Preferences	Tenant selection to be by owners with no required preferences	Owners must follow local PHA preferences

Starting Point: 75-85% of units to households under 50% of median, 70% of units to households with a federal preference.
Source: Citizens Housing and Planning Association (CHAPA), "Comparison of Housing and Senate Housing Authorization Bills," and bill text.

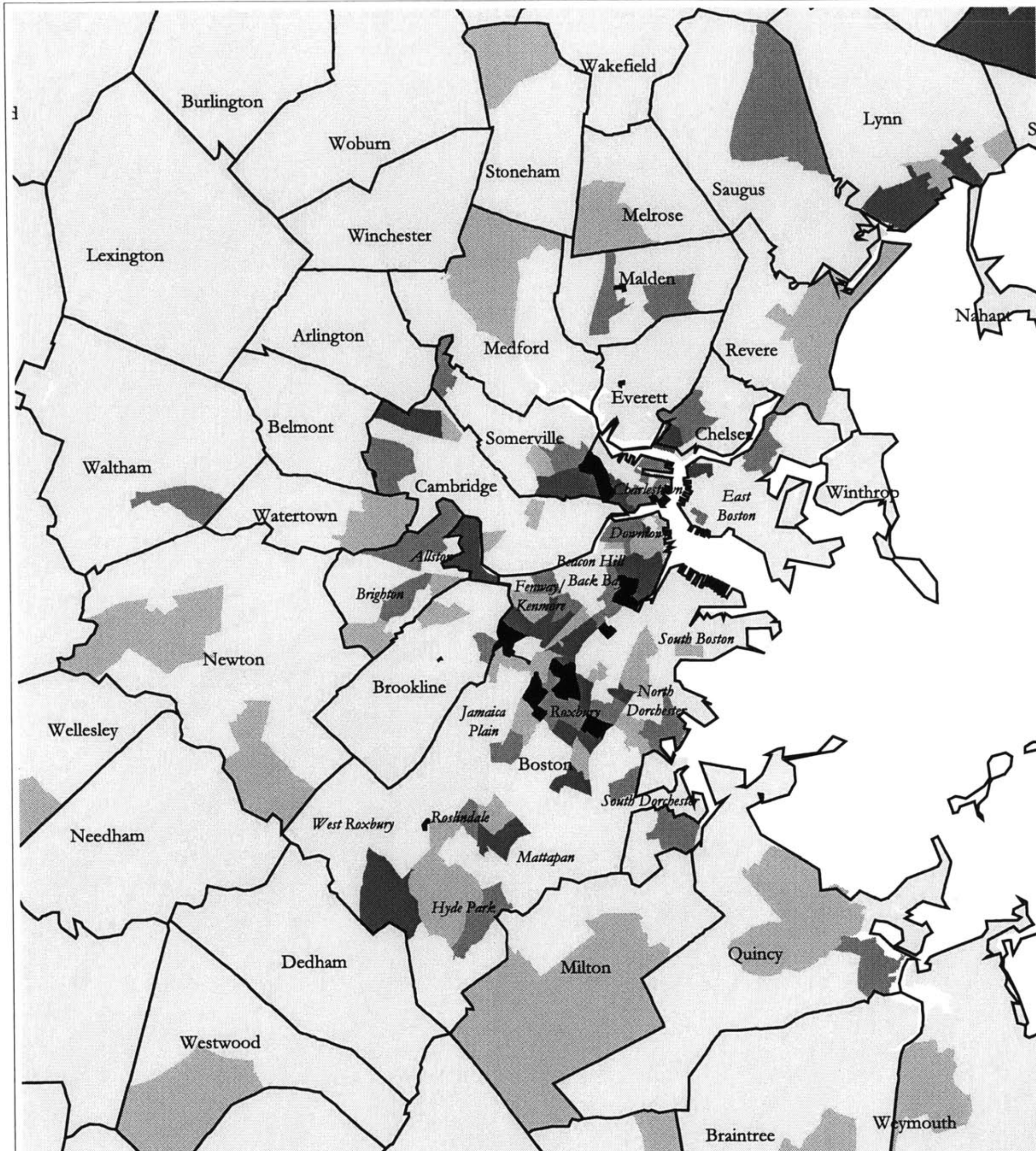

Figure 2: HUD Assisted Units as a Percent of 1990 Housing Units in Tract

Percent

0 - 4.99
5 - 9.99
10 - 19.99
20 - 39.99
40 - 88

Source: 1997 Picture of Subsidized Households Tract Level Summaries

SECTION 8 PROJECT CHARACTERISTICS IN BOSTON

What is considered a Section 8 project?

Section 8 developments include not only those that were originally developed or rehabilitated by the Section 8 New Construction and Substantial Rehabilitation programs of the seventies and eighties. The universe also includes developments from other programs that have been granted Section 8 project-based subsidies, such as through the Loan Management Set-Aside program. Because all of these projects are subject to the same Section 8 tenant selection standards and rent calculation, I will refer to the entire universe of housing with project-based Section 8 subsidies as Section 8 projects.

Location

Boston and the surrounding cities and towns vary tremendously in the availability of subsidized housing. This is expected, however, due to the history of exclusion of the poor from wealthy suburbs. As discussed in the previous section, wealthy areas are often successful at preventing the construction of low-income subsidized housing through neighborhood opposition and zoning codes. In this section, I examine the available data to determine exactly what that has meant for the location of subsidized projects throughout the greater Boston area.

Figure 2 shows the spatial distribution and concentration of Federally assisted housing in the Boston area. This map was constructed from the 1997 *Picture of Subsidized Households* tract-level summary file. These census tract level summaries do not distinguish between Section 8 and the other private subsidy programs. Therefore, the data used in Figure 2 refer to all HUD-assisted units other than public housing and Low-Income Housing Tax Credit properties. The value shown is the number of assisted units in each tract as a percent of the tract's total housing units in 1990 (the only year for which housing unit counts are available). The highest concentration of units can be found in central Boston, where this percentage reaches as high as 87%. Many tracts within this area are between ten and forty percent subsidized. Other areas with high concentrations of assisted units are Charlestown, a Boston neighborhood, and the city of Somerville immediately adjacent to Charlestown. One tract in northwest Cambridge appears to be highly subsidized. This tract contains an area of high-rise Section 236/Section 8 developments at the terminus of the MBTA red line. The town of Lynn on the North Shore also shows areas of high concentration.

Tenant Characteristics

Information on tenant characteristics is summarized from the 1997 *Picture of Subsidized Households* project-level database. This file contains information on all public and assisted projects, collected from property managers' reports on each household. Tenant characteristics are available only for those projects in which greater than 40% of the households had been reported, and thus represent a (non-random) sample of the total universe of households.

The most important variable to control for in this analysis is the age of the tenants. Because of the design and implementation of the Section 8 New Construction program, a large proportion of Section 8 units from the original program are designated for the elderly or disabled. In the Greater Boston area, which is comprised of the City of Boston and the close-in suburbs[8], the Section 8 New Construction and Substantial Rehabilitation program tenants are approximately 66% elderly. For comparison, the Section 236 and "other FHA with subsidy" programs are 41% and 18% respectively.

However, because a proportion of the Section 236 and FHA projects receive Section 8 subsidies, these other projects are affected by the Federal preference and income targeting as well. For all of these programs combined, approximately 55% of the units in Greater Boston are occupied by elderly households.[9]

To examine the tenant characteristics further, it is possible to classify the projects by elderly/disabled status into family projects and non-family projects. The family units are the most important to estimate because it is the tenants of these projects and their children who most likely to benefit from the income mixing that the repeal of the preferences is expected to produce. Family projects are defined as those with less than 40% of the units occupied by elderly heads of household. I have also excluded from the family category projects in which more than 40% of the tenants under age 62 are disabled.[10]

In Greater Boston, approximately 43% of the project-based Section 8 developments from all programs are classified as family projects. Table 6 shows average tenant characteristics for these projects in the Greater Boston area. On average, 19 percent of the projects' tenants receive welfare benefits, 44 percent earn some wages, and 14 percent have incomes over $20,000. We will see how these characteristics vary by neighborhood in the discussion of income targeting in the next Chapter.

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[8] This analysis makes use of the Rental Housing Association's definition of the rental sub-regions in the Boston area. See appendix for a listing of towns.
[9] From this point on, all Section 8 figures refer to the Section 8 New Construction, Substantial Rehab, and the projects from the remaining programs that receive Section 8 Subsidies. This can be estimated from the project-level data by the presence of a federal spending dollar amount, which indicates the presence of Section 8 subsidies.
[10] Khadduri and Martin (1997) perform a similar analysis with the cutoff at 20% of tenants, but I felt that their approach resulted in excluding too many projects from the analysis with a substantial number of family units.

Table 6: Tenant Characteristics
Family Projects with Section 8 Project-Based Subsidy, Greater Boston

	Number of Units per project	% receiving welfare	% with wages	% below $5000	% above $20000
Total					
Mean	132	19	44	7	14
N	70	70	70	70	70
StdDev	132	11	13	4	10

Source: Authors tabulations from the 1997 *Picture of Subsidized Households.*

Summary

The project-based Section 8 program is able to provide housing for the most needy by virtue of its method rent calculation. Because of the history of the program, Section 8 project-based developments are often considered to be mostly elderly and disabled households. This is true for the New Construction and Substantial Rehabilitation program, but other projects that receive Section 8 subsidies are predominantly non-elderly, and all of these projects will be affected by the repeal of Federal preferences regardless of which program they originally belonged to.

The current regulations that limit a large majority of units to extremely low-income households have been slowly revised in recent years, requiring smaller quotas to be given to households with a Federal preference. Impending legislation will change this by repealing the preferences or changing the statutory income targeting, or both.

The data presented here indicate that assisted housing is most predominant in Boston and a few surrounding towns, which have been grouped into the Greater Boston region. Within this region, slightly less than half of the projects can be classified as family projects, not predominantly occupied by the elderly or disabled. It is estimated that there are approximately 10,000 units in these family projects in the Greater Boston area, representing approximately half of the total units in that area.

CHAPTER 3
THE PROCESS OF CHANGE

The amount of change that the repeal of Federal preferences will cause in the income mix of Section 8 projects will depend primarily on two factors: the projects' ability to attract higher income households, and the extent of implementation of the repeal by both state administrators and property managers. This chapter discusses the features of Section 8 projects that might influence the level of income mix that is possible. It then presents some key considerations for how the repeal of preferences will be implemented, including uncertainty regarding the regulations, the ownership status and orientation of the property manager, the incentives for repealing or not repealing the preferences.

ABILITY TO ATTRACT AND RETAIN HIGHER INCOME TENANTS

In the 1996 *Report to Congress on Worst Case Housing Needs*, the U. S. Department of Housing and Urban Development identifies four factors which lead to deeper income targeting in subsidized housing than would result from income limits by themselves. The primary influence, at least since the late 1980s has been the Federal preference system. The remaining factors identified by HUD are the method of rent calculation, the "modest value" of most subsidized housing, and the higher demand by very poor households. In this section, I will discuss the latter three of these factors as they relate to the evidence from this study.

Other Contributions to Income Targeting

Rent Calculation

Because the tenant's portion of the rent is calculated as 30% of adjusted income, at extremely low incomes, the tenant's portion of the rent can be close to zero[11]. As a client's income rises, the benefit of receiving a Section 8 subsidy declines, especially when 30% of income is close to the market rent for similar housing.

At the inception of the program, the rent calculation was set at 25% of income. This proportion was changed to 30% of income by the 1981 Omnibus Reconciliation Act. It was this feature that Nelson and Khadduri credit for having a "greater effect on the income targeting of housing assistance, because it made alternatives to assisted housing more attractive for those with other housing options for whom 30 percent of income was a substantial amount of money" (Nelson and Khadduri 1992, p. 2).

Modest Value: Quality and Location of Subsidized Housing

Except for the Section 8 New Construction program, subsidized housing tends to be located in areas with few amenities and relatively high poverty rates (HUD, 1996). In central city areas with high concentrations of very low-income households, these areas also tend to have higher crime rates, and other deterrents to households with choice. The available data set does not have information on the quality of Section 8 units themselves, but we are able to show distributions of the units by tract poverty rate, a proxy for neighborhood distress.

Table 7: Number of Units and Percent Elderly by Tract Poverty Rate Projects with Section 8 Project-Based Subsidy Greater Boston

Tract Poverty Rate	Total Units	Estimated Percent Elderly	Estimated Family Units
0-9%			
Sum	3019	74%	785
Column %	15%		8%
10-19%			
Sum	5226	60%	2090
Column %	26%		21%
20-29%			
Sum	6034	40%	3620
Column %	30%		36%
30+%			
Sum	5851	37%	3686
Column %	29%		36%

Source: Authors tabulations from the 1997 *Picture of Subsidized Households.*

Table 7 shows the distribution of units and the approximate percent elderly by tract poverty rate for Section 8 projects[12] in Greater Boston. In this area, an estimated 36 percent of non-

[11] I say "close to zero" because of the possibilities of using minimum rents, for example $50, for households with zero income.

[12] These numbers include Section 8 New Construction, Substantial Rehabilitation, and those projects from Section 236 and Other FHA categories for which federal spending dollars were going to the development. According to the creator of the database at HUD, federal spending is only present if the project receives Section 8 subsidies.

elderly units are located in tracts with poverty rates greater than 30%, while only 8 percent are located in tracts with poverty rates of less than 10%. Because tenants in projects in non-poor areas are more likely to be elderly or disabled, the distribution of non-elderly or disabled tenants is skewed further in the direction of the high poverty tracts.

It is important to note that despite the large proportion of projects in high poverty areas, approximately 30% of the family units in the Greater Boston area are located in areas with poverty rates of less than 20%. Tracts with poverty rates up to 20% can be found in areas such as Jamaica Plan, some parts of Dorchester, Northeast Brookline, and Cambridge. Khadduri and Martin classify these tracts as low-poverty: "Although low-poverty areas have poverty rates somewhat above the national average, they are essentially middle-income areas in which families usually have access to good schools and public services" (Khadduri and Martin 1997, p.40.)

Higher Demand by Very Poor Households

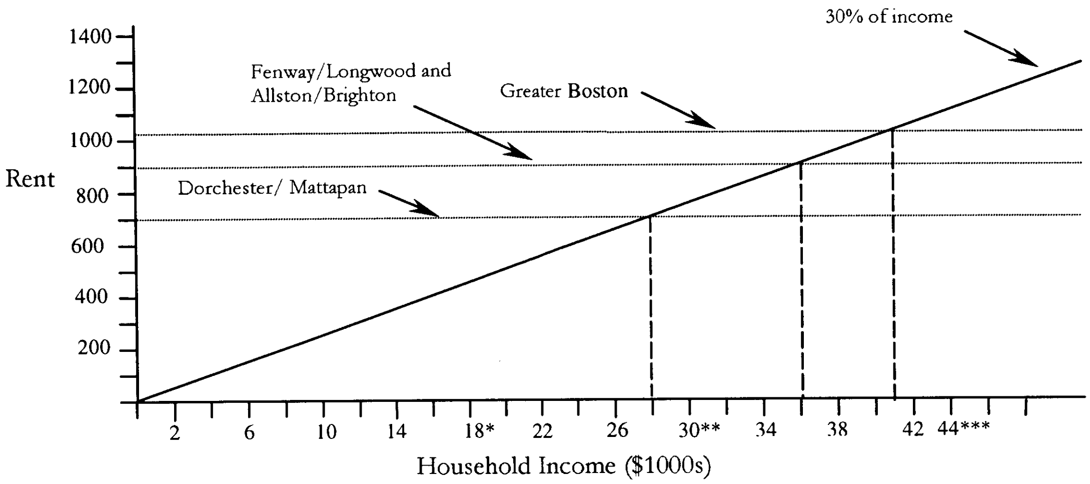
Because of the ability of public housing and the Section 8 program to serve the poorest households, these are the only housing options in many places for families with little or no income, or those receiving public assistance. Households in this situation are much more likely to apply for subsidized housing because of the lack of options. As shown in Table 3 in the previous chapter, households with incomes under 30% of area median income comprise 72% of the households with priority housing problems, and thus represent approximately the same proportion in public and assisted housing.

Threshold Income Levels

Information obtained from Section 8 property managers indicates that attracting households with incomes near the top of the income limits will be difficult for inner city areas. Many of the projects studied in these areas have had difficulty retaining higher income tenants in the past. These tenants, according to the several of the managers interviewed, typically move out when their income reaches a certain level because they can often get a better value for their money elsewhere.

There is a certain income level at which the rent paid by the tenant at 30% of income is high enough that the family could obtain housing for an equivalent rent elsewhere in the private market. This income level can be called the "threshold income," and it varies according to the market rent in the area.[13]

Figure 3:
Threshold Income Illustration



Current median incomes for a family of four in Boston
* 30% (extremely low-income)
** 50% (very low-income limit)
*** 80% (low-income limit)

The general concept of threshold income can be illustrated by calculating the amount at which 30% of income is equal to the market rent in the area. Figure 3 shows this calculation graphically. The diagonal line generating from the origin represents 30% of income, or the amount of rent paid by the Section 8 tenant. The horizontal lines represent recent market rents in Boston. Where the market rent and the rent function lines intersect, the tenant would be indifferent between renting in the private market and renting in an equivalent Section 8 project. Households with incomes above this threshold would be paying more in rent than they would if they were renting private housing.

It is clear from the diagram that the threshold income level depends highly on the strength of the housing market. In a high-rent environment such as Boston, removing Federal preferences without changing the income limits (set at 50% of area median income) would still capture the households for whom the value of the subsidy is high enough for the housing to remain a reasonable option in most neighborhoods. Currently in Boston, the very low-income limit (50% of AMI) for a family of four is $30,000, so the rent for this family in the Section 8

[13] To be technically correct, the threshold rent should refer to a unit where the *quality adjusted* rent is equal to 30% of a tenant's income. If the quality of the Section 8 unit is higher than the surrounding market rate housing, the threshold will actually be higher than the market rent.

program would be approximately \$750.[14] Meanwhile, the average rent for an apartment in Greater Boston is over \$1000,[15] while the market vacancy rate was only 1.6 percent. Most families with incomes between 30 and 50% of AMI would still benefit by participating in the Section 8 program given this tight housing market and high rents.

The lower this threshold income level is in an area, the harder it will be for the projects to attract higher income households. This is because of the implicit value of the subsidy received by the tenant, which declines as income rises[16] and as the market value of the unit declines. This value is the vertical distance between the tenant's rent line and the market rent line. The closer the tenant's income is to the market rent, the less benefit he or she receives from living in that unit. As the tenant's income rises, it becomes more and more attractive to shop around and find a market rent unit for a similar or lower rent.

Areas with higher threshold rents will have a higher level of demand from households at the high end of the income limits. Demand by higher income households--those near or above the 50% of median low-income limit, is more likely in areas and projects with more amenities, and therefore higher rents. In these areas the household's subsidy value is maximized. The same households looking for housing in low rent areas would be receiving little to no subsidy at all by renting a Section 8 unit.

Summary

The forces contributing to income targeting of Section 8 housing vary by the local housing market, with projects in desirable areas (those with higher rents, less poverty, etc.) able to attract and retain relatively higher income households. In Boston, the incomes of households in the 30-50% of median income range are often unable to afford market rate housing in the city, and thus would benefit from Section 8 assistance. This may not be the case with households at or above 50% of median, as these households are on the borderline of the threshold rents for the area, and thus have more choice as to the housing available to them in the private market.

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14 \$750=(0.3)*(30,000/12) The actual rent is based on adjusted income, with deductions for dependents and certain expenses. For simplicity I have ignored these details.

15 The data from which this figure was taken are dominated by smaller units, therefore the actual figure for "family size" units would be higher depending on the neighborhood. Rents and vacancy rates are for the Fall of 1997, as reported by the Rental Housing Association in the *Industry Survey Tri-Annual Report*, Fall 1997.

16 In cases where the contract rent of a Section 8 project is equal to the market value, this is also equivalent to the actual subsidy by the Federal government.

Likelihood and Character of Implementation

The amount of implementation of the repeal of Federal preferences has a large impact on the changes we should expect to see. The initial finding of this research was that the repeal had yet to be implemented in large part, and therefore there were very few changes to measure. Properties administered by MHFA and those administered by HUD have been subject to different rules, and are therefore on different implementation timetables. However, both sets of properties have experienced the effects that uncertainty has on implementation. This section discusses the current status of implementation, and the likelihood that changes will be implemented further once the repeal is made permanent.

Uncertainty and Implementation

The current implementation status of the preference suspension is difficult to determine for a number of reasons. First, some owners are reluctant to discuss any changes they have made in this regard with someone who is not an "official" researcher or administrator. Second, HUD Asset Managers keep no records on the number of managers in their portfolio who are no longer using the preferences. MHFA, in contrast, is requiring that the property managers have their tenant selection plans reviewed and approved by the agency. It can be assumed that when this is done, records will be kept as to the numbers and characteristics of those who repealed the preferences.

One clear finding is that property managers have been weary of making any changes to their waiting list procedures based on a temporary suspension of the rules. This is partly a technical issue, due to the fact that many managers use pre-packaged software to manage their lists according to the previous rules. Reordering the lists could prove to be an extremely time-consuming task with the risk of causing the manager legal problems if done incorrectly. In addition, many managers report to both MHFA and HUD for separate properties, and may use the MHFA tenant selection regulations (the stricter of the two) for continuity of operations. MHFA has not allowed any changes to occur as of this date, so this may have been a deterrent to change. For these reasons, managers have not been implementing the suspension of the rules in large numbers.[17]

Involvement of the Massachusetts Housing Finance Agency

In Massachusetts, the administration of project-based Section 8 contracts is split between The Massachusetts Housing Finance Agency and the HUD regional office. Projects receiving financing through MHFA are required to report to the agency, while those receiving private

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[17] This assertion is based on phone conversations with HUD Asset Managers and the managers interviewed for the study. See Appendix for a list of interviewees.

financing are administered directly through HUD. MHFA has applied an additional set of tenant selection regulations to its developments that the projects administered by HUD are not required to follow. Because of this, the implementation of the Federal preferences and the subsequent changes is quite different for MHFA properties than the story outlined above.

Prior to 1985, MHFA-financed properties were subject to two state-required preferences[18]: families displaced by public action and those displaced by natural disaster. These laws are part of the enabling legislation of the agency, which has been in place since 1966. These preferences pre-dated the use of preferences by the Federal government.

In 1985, the agency incorporated the newly enacted Federal preferences into its official tenant selection plan, three years before HUD issued the official regulations. The 1985 tenant selection plan included all preferences that were enacted by Congress, including the displaced or homeless category, and the substandard housing and rent-burdened categories. Because these preferences overlapped to an extent with the state-required preferences, they were applied to 100% of new tenants in MHFA-financed properties. This tenant selection plan remained in effect through the time of this research.

None of the Federal changes enacted in the early 1990s applied to the properties financed by MHFA. Because of the state-required preferences that were incorporated into the tenant selection plan, MHFA applied all preferences to 100% of new tenants even when no longer required to do so. While Congress was relaxing the use of preferences to allow income diversity within developments, MHFA's implementation held properties to much stricter standards. Meanwhile, Section 8 properties that were not financed through MHFA have been under the direct control of the HUD regional office, which has implemented the changes when required to by Congress.

MHFA has treated the repeal of the Federal preferences just as many property owners have done. Because the repeal was subject to annual renewal by Congress, there was a high degree of uncertainty in its implementation. MHFA felt that the difficulty of changing or repealing their official tenant selection plan would not be worth the impact if Congress failed to renew it in the following year. However, once it became clear that Congress was going to permanently repeal the preferences, they took steps toward implementing the changes.[19] These steps will bring MHFA's regulations closer in line with HUD's regulations. The primary difference between HUD-administered properties and MHFA-administered properties in the future will be the

18 All information on MHFA's history is based on an interview with Fred Rupp, Management Officer, MHFA.

state-required preferences for displaced families and for victims of domestic violence. Neither of these categories includes the homeless or those living in shelters, other than for the reasons stated.

Implementation by Property Managers[20]

Repeal of the Federal preferences is a voluntary change that Section 8 property managers can implement at will, thus some managers will implement the changes while others will not. It is therefore necessary to examine the incentives and concerns of property managers as they make this decision to determine who is likely to stop using Federal preferences. These incentives and concerns translate into specific impacts of the policy that should be considered. These impacts will be discussed in the next chapter.

Section 8 properties are owned by a variety of private entities. Some of these are non-profit, including Community Development Corporations, but the large majority of the units (nationwide) are owned by for-profit entities (Walker 1993, p. 411). Managers differ by their organizational orientation as well as their non-profit status, and this in turn will have an impact on which set of incentives are the predominant influence on the manager's actions. Rachel Bratt and Langley Keyes (1997) describe three primary orientations of non-profit housing organizations: place (neighborhood), people (individuals/households) and projects (housing).[21] These orientations do not necessarily apply only to non-profits, and they can (and should) be intertwined with profit incentives. Private, for-profit owners of subsidized housing can be classified as project-oriented, Community Development Corporations can typically be classified as place-oriented, and social service-based housing providers can be classified as people-oriented. While each type of organization may be involved in activities that fall under the other orientations, such as resident services, there is usually one primary reason for being in the business of housing. Following are a few of the interests and incentives facing each of these entities as they decide whether to repeal the use of Federal preferences.

- ***Profit motivation: interests of ownership*** Actions that will increase revenues and/or make the project less costly to run are in the interest of ownership. In a private market unit, higher income tenants mean higher rents and higher profits. In contrast, in the case of the Section 8 program, the revenue received on behalf of each tenant is always equal to the

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[19] MHFA is currently reviewing revised tenant selection plans submitted by property managers, but has not approved any changes as of the time of this writing.

[20] In this document, the terms owner and manager are both used to indicate the entity making the key decisions about the property. In a large majority of cases, the owner and manager are the same. When they are not, managers make decisions as an agent of the owner, according to a contract (interview with Fred Rupp, MHFA)

[21] Bratt, Rachel G., and Langley C. Keyes. 1997. *New Perspectives on Self-Sufficiency: Strategies of Nonprofit Housing Organizations.* Medford, MA: Department of Urban and Environmental Policy, Tufts University, p. 55.

contract rent for the unit size, no matter what the income of the tenant. However, projects with high proportions of very poor households are often more costly to manage for a number of reasons. For example, there may be higher utility costs due to the higher utility usage and higher wear and tear when the tenants are home rather than working. Low-income tenants are more likely to be late or delinquent on paying rent due to the instability of income and lack of savings to cushion.

- ***Convenience: interests of management*** Projects with extremely low-income tenants are more difficult to manage because of the maintenance issues discussed above. In addition, disruption and disorderliness, and other social problems such as drug use and dealing may be more prevalent among the lowest income tenants. Problem tenants are not a necessary result of Federal preferences, but there is likely to be a correlation due to the income level. The property managers interviewed tended to draw connections between use of the preferences and problem tenants, possibly due to less control over the tenant selection process.
- ***Interests of the local community or neighborhood*** In the sense that the community is better off when local social problems are decreased, entities representing the community's interests are likely to have an interest in the repeal of Federal preferences. To the extent that the homeless in particular are served by the preferences, this incentive is even stronger, as the formerly homeless are viewed as having multiple problems.
- ***Interests of the residents*** Problem tenants don't have to be present in large numbers to cause problems for the rest of the tenants in the building. The need to create "healthy environments" for the children and families in the development would suggest that the fewer problem tenants, and the higher their incomes, the better.
- ***Interests of the eligible population, social equity*** Decent housing is a basic human need, and to the extent that the families or individuals that qualify for Federal preferences are those experiencing the worst housing problems, it is in their best interest for the preferences to remain in place. Unless some other source of housing is to replace these units, they will have to wait in line for the units along with, and behind, others whose housing needs are less severe. People-oriented owners, those based in the social services, are more likely to be oriented toward serving the most in need and therefore most likely to remain using Federal preferences.
- ***Reactions to expected actions of others*** Once changes begin to take place, projects still using Federal preferences are likely to receive an influx of preference applicants. Owners fearing this influx may feel that the only way to prevent it is to "follow the crowd" by repealing the preferences as well. Even those who did not object to the preferences under the previous level of demand might object when the numbers become overwhelming.

The for-profit managers interviewed for this paper agreed that they would prefer not to use the Federal preferences. When asked why a greater income mix would be preferable, a number of reasons were cited. First, they mentioned difficulties dealing with "problem tenants." Second, they mentioned experiencing problems with the families with extremely low incomes, a group that doesn't always correspond to "problem" tenants. And third, there was a tendency to mention the improved quality of life that residents would have if they lived in a more balanced (by income) community.

The exception to this finding was the manager of a large development in the Grove Hall area of Dorchester. This property is owned by a CDC, but the manager is employed by a private company. The central office of his management company (Winn Management) made a decision not to revise their tenant selection plan when given the option to repeal Federal preferences. The on-site property manager felt that he had the ability and the responsibility to "take care" of the families with extremely low incomes and those with "problems." He felt that his property management capabilities, including the services put in place by the owner, Codman Square NDC, prepared him to handle these families[22]. He did not feel that many managers were willing or able to take on that role. This attitude, he explained, is partly due to his upbringing in "the projects" of New York City. It can also be attributed to the "agent" role that he takes in managing a property for a non-profit, community-based organization. Whatever the source, he did not feel that there was a need to introduce higher income families (over 50% MFI) into the development. He would only do so, he stated, if he were required to by law (through HUD or MHFA) or if the development were "vouchered out."[23]

In the current environment, given the incentive structure outlined above, the incentives of the decision-makers for project-based Section 8s are aligned with the repeal of Federal Preferences. Even non-profit owned properties, especially if the organization is neighborhood based, would have incentives to discontinue using the preferences if the result would contribute to neighborhood stabilization. In addition, non-profits are not immune to the difficulties of managing very low-income projects. These owners, however, represent only a small portion of owners of housing in these older assisted programs.

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22 Codman Square NDC has hired on-site community organizing and resident-resource staff to work with community residents. This work ranges from running workshops for tenants to providing child care and employment training.

23 "Vouchering out" refers to replacing the project-based subsidies with tenant-based subsidies, an approach that is an option in the Mark-to-Market debt restructuring program through HUD. If this were to happen, the units would rent at market rates, and those families who wished to use their subsidies in the development would be allowed, otherwise they could use the subsidy like a standard tenant-based mobile subsidy and move to another project in the private market (see Chapter 2).

Summary

This chapter suggests that the ability to attract and retain higher income tenants in Section 8 housing is limited by the Section 8 rent calculation and the location of a substantial proportion of the projects with Section 8 subsidies. Because of the interaction between the rent calculation and the market value of units in the surrounding areas, there is reason to believe that most Section 8 projects will have limited ability to attract households with incomes over 50% of area median income. These households are less likely to experience serious housing problems, such as lack of affordability, and are more likely to find units on the market at rents they can afford. In Boston, with its high rents and tight housing market, there is reason to believe that households with incomes up to 50% of median will still find housing in Section 8 projects a viable option, given the limited alternatives in the private market. This finding varies by area, with locations that have higher "threshold incomes" being more attractive to households with incomes over 50% of median.

Implementation of the temporary repeal of Federal preferences in 1996 has been slow for two primary reasons. First, MHFA did not allow the owners of properties administered by the agency to revise their tenant selection plans to reflect the changes. Nor had they allowed these owners to make the changes specified in the early 1990s that would have decreased the proportion of new tenants qualifying under the Federal preferences from 90% to 70%. Second, all property owners/managers were reluctant to make changes that were based on a temporary repeal of the law. These changes would be difficult to undo, so they wanted to be sure that the repeal would be permanent before making any changes to their automated waiting lists.

With the repeal most likely to be made permanent by upcoming Federal legislation, it is probable that property owners will have a incentives to repeal the preferences themselves, whether those incentives are based on the best interests of their current residents and the neighborhood, or on profit motivations or other self-interest. This will not be the case for all property owners, however. But for those who are well-meaning enough to keep the preferences on the books, an increase in demand by "preference" households may convince them to repeal the preferences anyway. In the words of Ann Anderson at MHFA, "not even the most socially conscious owner wants to be the only game in town."

CHAPTER 4
PROJECTED IMPACTS

In this chapter, I will discuss the impact that the repeal of Federal preferences is likely to have on the income mix in project-based Section 8 developments. I first present estimations of the magnitude of overall impact in the Greater Boston area based on a simple model of turnover. A number of scenarios are presented to show the variations in impact given what we have learned from the preceding chapters. Next, I identify a number of factors along which changes are likely to vary. Recognition of these variations should aid implementing agencies in controlling or encouraging these changes where appropriate. Finally, I present additional findings from the interviews with property managers, including the impacted population and the interaction with welfare reform.

MAGNITUDE OF IMPACT

The extent to which there will be any discernible impact of the repeal of Federal preferences depends on factors from the preceding chapters. Will the properties be able to attract higher income families? Will managers actually implement the changes?

To make these projections, I have created a model of tenant turnover based on the research findings and other published HUD data. The model predicts the annual net increase in tenants with incomes over 30% of AMI, taking account of turnover among these tenants, the likelihood of implementation, and the ability of projects to attract higher income tenants. The Federal preferences had the effect of targeting most of the assistance in Section 8 units, approximately 70%, to households at this income level. Repeal of the preferences changes only the statutory targeting of the program, not any of the other factors that affect the actual income level of the recipients, such as the rent calculation, location, the quality of the units, and the high demand by extremely low-income households (see Chapter 3). The scenarios constructed in the model take into account the ability (or lack thereof) of the projects to attract incomes at higher levels.

The model takes as its starting point the assumption that 31% of the tenants in project-based Section 8 units currently have incomes over 30% of Area Median Income. Because this level of detail was not available for the Boston area, this number is taken from the national figures published by HUD in the 1996 *Report to Congress on Worst Case Housing Needs*, as shown in Table 2 in Chapter 2. Annual turnover is assumed to be approximately 5%, based on interviews with property managers for this study. The model makes a simplifying assumption that the turnover among households over 30% of AMI is equivalent to their representation in the tenant

Table 8:
Scenario Variable Descriptions

	high	low
Ability		
Percent from higher income category	60%	40%
Implementation		
Percent of units implementing "new targeting"	40-75%	25-50%

population. In other words, there is no variation in turnover by the income of the tenants--a moderate income tenant is just a likely to move as a low income tenant. The implications of this assumption will be discussed below. And finally, the total number of units under consideration in this model is 10,000--the approximate number of units in family projects in Greater Boston (see Chapter 2).

This analysis will use several scenarios to project the magnitude of the impact that can be expected once the repeal of preferences is made permanent. The scenarios have two variables: the ability to attract higher income households, and the level of implementation.

In the high-ability scenario, the proportion of new tenants with incomes above 30% of AMI is 60%. This value is based on the minimum set-aside of 40% of units for extremely low-income families in the Senate version of the Public Housing Reform Legislation. Under this legislation, 60% is the absolute maximum amount of new tenants above 30% of AMI allowed. The low-ability scenario takes the current assumed value of 30% of new tenants in the 30-plus range and increases it by 10 percent. Implementation scenarios include two values of the proportion of properties (and therefore units) that have switched to the new targeting scheme: the initial (first year) implementation value and the long-term (five years) implementation value. In the low-implementation scenario, 25% of the units are subject to "new targeting" immediately, and 50% in the long term. The high-implementation scenario assumes that 40% are subject to "new targeting" immediately and 75% in the long term. Table 9 shows a summary of results from each of the four scenarios.

In the high implementation/high ability projections, approximately 55 to 93 units in Greater Boston that would normally have gone to households under 30% of AMI will go to households over 30% AMI. In the low implementation/low ability scenario, these numbers are substantially lower, ranging from 8 to 18 units. An interesting finding of these scenarios is the relatively slow change of the overall income mix in the projects. From a starting point of 31%

Table 9:
Scenario Summary
Projected extremely low-income units lost and resulting income mix

Scenario	Ability*	Implementation**	Annual number of units lost for families below 30% of AMI: low (initial)	Annual number of units lost for families below 30% of AMI: high (5 years)	Percent of total tenant population with incomes over 30% of AMI: 5 years	Percent of total tenant population with incomes over 30% of AMI: 10 years
1	high	high	55	93	34.7%	38.8%
2	high	low	33	61	33.4%	36.0%
3	low	high	15	28	32.1%	33.3%
4	low	low	8	18	31.6%	32.4%

Source: Author's calculations. See text and appendix for more details on the model.

of tenants with incomes over 30% AMI, even the high/high scenario (#1) results in only a 3.7% cumulative change in this proportion after five years, to 34.7%.

The model assumes that turnover for higher income households is equal to lower income households. If, in fact, higher income households are more likely to move out than lower income households, the numbers projected may tend to overstate the amount of change that occurs. This is because the larger numbers of higher income households moving in will be replacing other higher income households rather than lower income households. So it would take an even greater increase in new higher income tenants to make up for the larger amount moving out.

Another assumption in the model is that the ability to attract higher income tenants is constant over time. In fact, this "ability" is likely to increase as the proportion of higher income tenants increases. This is due to the comfort level of higher income households increasing as the contrast between themselves and the existing tenants decreases. They may be more likely to want to live in the project if it is not predominantly poor. This is especially true in larger projects rather than smaller scattered site developments, where tenants are more conscious of the other tenants in the building due to higher levels of contact.

VARIATIONS IN IMPACT

The simulation model above presents only an aggregate figure of change among the entire stock of Section 8 units in the Greater Boston Area, which is not likely to be equally distributed across all projects and locations. The most obvious variations from project to project are the project's physical features and its location. Other factors that contribute to income targeting are functions of the program itself and should not vary from project to project.

Location

The location of the project primarily affects the value of the subsidy that Section 8 households receive. It is commonly understood that housing value is a function of location to a large extent. In certain depressed markets, the market rent of comparable housing is low enough to be considered competition for Section 8 units--but only for households with incomes high enough to pay the market rent.

The threshold income levels explained in Chapter 3 imply that there is a risk of creating a spatially stratified system of admission to Section 8 projects: higher demand by families at the high end of the income limits for projects in non-poor neighborhoods (or those with high income thresholds). Project-based subsidized housing in non-poor neighborhoods is already relatively scarce, considering the proportion of these units that are designated for the elderly.[24]

This dynamic is no different after the preferences were repealed than before. The difference is that the manager is no longer obligated to give preference to households with priority needs, whose incomes tend to be below 30% of median family income. Therefore, properties in areas with higher income thresholds will have a greater variety of income levels applying for the units, resulting in higher income tenants than before. This will not necessarily be the case for projects in distressed areas.

Project Size

Larger projects that are currently occupied primarily by poor households may also have a difficult time attracting higher income households. Managers felt that these households would be hesitant to live in what would feel like a "project" if the current residents are primarily poor. These managers felt that it would be easier to create an income mix in scattered site projects—or buildings with a smaller, more street-oriented feeling.

IMPACT ON THE HOMELESS

It was clear in the interviews with property managers that one of their key concerns with using the Federal preferences was the inclusion of the homeless in the substandard housing category.

One manager who had begun revising his tenant selection plan had kept only one preference that was not included in the list of those required by MHFA—the preference for those living in substandard housing. The revised plan re-defined this category removing any mention of the homeless or those living in shelters. Other managers held similar discontent for housing the formerly homeless, often mentioning the needs that this population has for social services, counseling, and drug abuse, among other issues.

The MHFA recognizes this concern among private property managers, and admits that they are not unfounded concerns.[25] Even more concerning is the expectation that owners who have been adept at housing the homeless under previous levels of demand might also remove this preference for fear that they would see an influx of homeless on their waiting lists. In Ann Anderson's words, "not even a very socially conscious owner wants to be the only game in town." This influx would occur due to displaced demand from the projects that had previously removed this preference. In addition, many of these projects have seen recent cuts in funding for social services as it stands. Increasing the level of need in any particular project would not be supportable without additional funding for services.

INTERACTION WITH WELFARE REFORM

Once the current Public Housing Reform legislation is signed into law, which could occur this year, a flood of tenant selection plan changes can be expected. Much of the inaction on the part of landlords since the initial policy change in 1996 can be attributed to the uncertainty in the regulations. The repeal of the preferences was subject to annual renewal, and landlords feared that any changes made would have to be removed once again. When the repeal becomes permanent, much of the hesitation will disappear.

This rush to remove federal preferences is likely to occur in tandem with the implementation of welfare reform, specifically the enaction of the two year time limit on December 1st, 1998. These time limits will be placing a large number of families at risk of homelessness at the same time that subsidized units for them are being reduced. While the pace of the impact has been and will continue to be slow, the fact is that one buffer against homelessness is being removed at the same time that welfare households with serious problems, housing-related and otherwise, will need that support.

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24 It is possible that project-based Section 8s are also more able to serve families in higher rent areas than tenant-based vouchers and certificates are. The latter are subject to the willingness of private, unsubsidized landlords to participate, and to the availability of units at appropriate rents.

25 Phone conversation with Ann Anderson, MHFA.

CHAPTER 5
CONCLUSION

FINDINGS AND IMPLICATIONS

The findings of this research indicate that the slow pace of implementation of the repeal of Federal preferences is likely to pick up pace once the uncertainties inherent in the temporary repeal are removed. Private owners of subsidized housing will be able to return to the use of time-ordered waiting lists. Thus, depending on how widely implemented the permanent repeal is likely to be, a key source of housing for households below 30% of area median income, particularly the homeless, will be reduced. If the incentives are aligned as outlined in this paper, the repeal will be fairly widespread across all types of property owners and managers.

At higher levels of implementation, there is likely to be some disruption in the ability of extremely low-income families, who would normally qualify for Federal preference, to find a project-based Section 8 unit; There will be a net reduction in the number of these households served. Even if the number of households 'deflected' is less than one hundred per year in the Greater Boston area, as these projections indicate, this is still a substantial number considering the extremely limited options of households in this income category. In the short term (five years), these losses will result in a best-case scenario increase of less than four percentage points in the proportion of tenants with incomes greater than 30% of area median income. Policy makers should weigh these relatively small gains in income mixing against the losses in units for households with the greatest need.

Shifts in the income level of the tenants are most likely to be toward the 30-50% of median income range. This analysis shows that households with incomes near or above 50% of median have a higher likelihood of finding housing in the private market. These households are far less likely to experience priority housing problems such as extremely high rent burdens, and are less likely to apply for housing in Section 8 developments.

These impacts are likely to be the strongest in the most desirable neighborhoods, and not as strong as desired in less desirable areas. In distressed areas, relaxing preferences may not be enough to attract or retain a higher-income population in Section 8 projects. In these areas, the threshold income is reached at a lower percent of median income. These differences imply that the best units will be 'lost' to households experiencing less need, while those with less choice will be relegated to the projects that are unwanted by these higher income families. Income-mixing will be more likely to occur in projects that already had an income mix--those that were able to sustain a mix under the previous regulations.

POLICY RECOMMENDATIONS

Context-specific implementation

The findings imply that the implementation of the policy should at least take the neighborhood and project context into account. Not all Section 8 projects need to enhance their ability to attract higher income households--some do so naturally thanks to better locations or amenities. A system-wide repeal of the preferences overlooks the role that the preferences have played in targeting assistance to worst-case households, which are served by some projects without difficulty. Those that have an over-concentration of extremely low-income or problem families should be able to apply for waivers from the use of preferences, both from MHFA and HUD. Those not qualifying should still be subject to the preferences.

Keep control over major decisions with a public entity, not the private owners

Placing the decisions of tenant selection for such a large proportion of assisted housing in the hands of private owners assumes property owners are capable of making decisions that are in the best interests of society. Unfortunately, many owners do not have the public interest in mind when making tenant selection decisions. The House version of the impending legislation would require property owners to use the preferences specified by their local PHAs. This accomplishes the public decision-making aspect of the recommendation, but still violates the previous recommendation that implementation be context specific. The public entities that currently administer the Section 8 contracts, MHFA and HUD in Massachusetts, should have the ultimate say in whether a project will be required to use preferences. Specific reasons should be specified as cases where the owner may repeal the preferences, for example, when the use of preferences results in no new tenants with incomes over 30% of median income, or when less than 20% of the tenants in the entire project have incomes over 30% of median.

Return to partially subsidized projects

In light of these findings, there are some more appropriate ways of creating an income mix other than by using Section 8 to attract higher income households--for whom the benefit of a Section 8 subsidy is small. The program design originally planned for the Section 8 units to be only a small proportion of the units in the project. If the goal is to attract households with incomes between 50% and 80% of median income, a more efficient approach would be to transform the project into a partially subsidized project, releasing a certain number of the units as tenant-based subsidies. As these tenants move out, they can be replaced with unsubsidized flat or market rent units, where rent is not based on income and is therefore more attractive to higher income households. These units would be rented using a minimum income standard--enough to afford the rent at no more than 30% of income, but under the low-income cutoff of 80% of AMI.

In this approach, there are no units lost overall for extremely low income households because of the use of vouchers, and a critical number of project-based units remain tied to the structure. This is superior to changing the overall income limits or completely repealing Federal preferences, in which case the total number of extremely low-income households served declines. This scenario does not involve a trade-off in the sense of loosening income targeting in order to achieve economic diversity, it allows both to be achieved simultaneously.

This vouchering out may not be possible in projects in extremely distressed areas, or those that cannot sustain a market rent because of the quality of the unit or the environment. In these cases, working within the Section 8 program by allowing the repeal of preferences or the admission of a larger percentage of households above 30% of AMI would result in encouraging a mix of very poor households with the working poor.

In the end, each project's situation should be considered separately, depending on the neighborhood environment among other factors. A complete repeal of preferences and possibly a change in the overall income targeting of the program is not necessary for the entire portfolio of Section 8 projects. The legislation as it currently stands would allow all property owners to overlook those who need assistance the most, no matter whether the change is warranted by a current concentration of poverty within or around the project. When this is the case, trading income targeting for income mixing may turn out to be the error that this generation of policies will leave as a legacy, just as the previous decades did the opposite.

APPENDIX A
LIST OF INTERVIEWS

ED ABRAMS
Owner, Abrams Management

ANN ANDERSON
Community Services, Massachusetts Housing Finance Agency

MILES BYRNE
Property Manager, CMJ Management (Harbor Point)

HECTOR CRUZ
Property Manager, Winn Management (Washington-Columbia I)

MINNETTE DESMOND
Property Manager, Abrams Management

BILL DONLAN
Asset Manager, HUD Regional Office

BRIAN KEANE
Regional Manager, Winn Management

GAIL LATIMORE
Deputy Director, Codman Square NDC

WARREN MROZ
Asset manager, HUD Regional Office

FREDD RUPP
Management Officer, Massachusetts Housing Finance Agency

JOHN STRODDER
General Manager, Long Bay Management Company

STEPHANIE WATTS
Property Manager, Cruz Management Company

HEIDI YACKNICK
Property Manager, S-C Management (Fresh Pond Apartments)

APPENDIX B
LIST OF TOWNS IN GREATER BOSTON AREA

The Rental Housing Association specifies these towns as being Greater Boston in its Tri-Annual Report:

Arlington
Belmont
Boston
Brookline
Cambridge
Chelsea
Chestnut Hill
Everett
Malden
Medford
Melrose
Revere
Somerville
Watertown
West Somerville
Winchester

APPENDIX C
MODEL OF TURNOVER IN SECTION 8 PROJECTS

Pace of Change: High Ability, High Implementation Scenario

Projected Increase in Households with Incomes Above 30% in the Project-Based Section 8 Program

Assumptions:

total number of units	starting percent above 30% AMI	annual turnover	old targeting: percent of new tenants over 30%	new targeting: changed percent new over 30%	initial implementation	long term implemen-tation
10000	31%	5%	30%	60%	40%	75%

Year	Total Number of Units	Tenants above 30% AMI	percent of units to which rules will apply	turnover: new tenants over 30% AMI	turnover: tenants over 30% AMI moving out*	turnover: net new tenants over 30% AMI**	end of year: total tenants over 30% AMI	end of year: net annual increase	end of year: cumul-ative increase	end of year: total percent over 30% AMI	end of year: cumulative change in percent over 30% AMI
1	10000	3100	40%	210	155	55	3155	1.77%	1.77%	31.6%	0.55%
2	10000	3155	49%	223	158	65	3220	2.07%	3.88%	32.2%	1.20%
3	10000	3220	58%	236	161	75	3296	2.34%	6.31%	33.0%	1.96%
4	10000	3296	66%	249	165	85	3380	2.57%	9.04%	33.8%	2.80%
5	10000	3380	75%	263	169	93	3474	2.77%	12.05%	34.7%	3.74%
6	10000	3474	75%	263	174	89	3563	2.56%	14.92%	35.6%	4.63%
7	10000	3563	75%	263	178	84	3647	2.37%	17.64%	36.5%	5.47%
8	10000	3647	75%	263	182	80	3727	2.20%	20.23%	37.3%	6.27%
9	10000	3727	75%	263	186	76	3803	2.04%	22.68%	38.0%	7.03%
10	10000	3803	75%	263	190	72	3876	1.90%	25.02%	38.8%	7.76%
11	10000	3876	75%	263	194	69	3944	1.77%	27.23%	39.4%	8.44%
12	10000	3944	75%	263	197	65	4010	1.66%	29.34%	40.1%	9.10%
13	10000	4010	75%	263	200	62	4072	1.55%	31.34%	40.7%	9.72%
14	10000	4072	75%	263	204	59	4130	1.45%	33.24%	41.3%	10.30%
15	10000	4130	75%	263	207	56	4186	1.36%	35.05%	41.9%	10.86%

* Percent of tenants over 30% of AMI moving out is assumed proportional to the current tenant profile (number of tenants above 30% AMI * turnover)

** Net new tenants over 30% AMI is roughly equivalent to the number of units lost for families below 30% AMI

Pace of Change: High Ability, Low Implementation Scenario

Projected Increase in Households with Incomes Above 30% in the Project-Based Section 8 Program

Assumptions:			old targeting	new targeting		
total number of units	starting percent above 30% AMI	annual turnover	percent of new tenants over 30%	changed percent new over 30%	initial implementation	long term implemen-tation
10000	31%	5%	30%	60%	25%	50%

Year	Total Number of Units	Tenants above 30% AMI	percent of units to which rules will apply	turnover: new tenants over 30% AMI	turnover: tenants over 30% AMI moving out*	turnover: net new tenants over 30% AMI**	end of year: total tenants over 30% AMI	end of year: net annual increase	end of year: cumul-ative increase	end of year: total percent over 30% AMI	end of year: cumulative change in percent over 30% AMI
1	10000	3100	25%	188	155	33	3133	1.05%	1.05%	31.3%	0.32%
2	10000	3133	31%	197	157	40	3173	1.28%	2.35%	31.7%	0.73%
3	10000	3173	38%	206	159	48	3220	1.50%	3.88%	32.2%	1.20%
4	10000	3220	44%	216	161	55	3275	1.70%	5.64%	32.7%	1.75%
5	10000	3275	50%	225	164	61	3336	1.87%	7.62%	33.4%	2.36%
6	10000	3336	75%	263	167	96	3432	2.87%	10.71%	34.3%	3.32%
7	10000	3432	75%	263	172	91	3523	2.65%	13.64%	35.2%	4.23%
8	10000	3523	75%	263	176	86	3609	2.45%	16.42%	36.1%	5.09%
9	10000	3609	75%	263	180	82	3691	2.27%	19.07%	36.9%	5.91%
10	10000	3691	75%	263	185	78	3769	2.11%	21.59%	37.7%	6.69%
11	10000	3769	75%	263	188	74	3843	1.96%	23.97%	38.4%	7.43%
12	10000	3843	75%	263	192	70	3914	1.83%	26.24%	39.1%	8.14%
13	10000	3914	75%	263	196	67	3980	1.71%	28.40%	39.8%	8.80%
14	10000	3980	75%	263	199	63	4044	1.59%	30.45%	40.4%	9.44%
15	10000	4044	75%	263	202	60	4104	1.49%	32.39%	41.0%	10.04%

* Percent of tenants over 30% of AMI moving out is assumed proportional to the current tenant profile (number of tenants above 30% AMI * turnover)

** Net new tenants over 30% AMI is roughly equivalent to the number of units lost for families below 30% AMI

Pace of Change: Low Ability, High Implementation Scenario

Projected Increase in Households with Incomes Above 30% in the Project-Based Section 8 Program

Assumptions:

			old targeting	**new targeting**		
total number of units	starting percent above 30% AMI	annual turnover	percent of new tenants over 30%	changed percent new over 30%	initial implementation	long term implemen-tation
10000	31%	5%	30%	40%	40%	75%

				turnover			end of year				
Year	Total Number of Units	Tenants above 30% AMI	percent of units to which rules will apply	new tenants over 30% AMI	tenants over 30% AMI moving out*	net new tenants over 30% AMI**	total tenants over 30% AMI	net annual increase	cumul-ative increase	total percent over 30% AMI	cumulative change in percent over 30% AMI
1	10000	3100	40%	170	155	15	3115	0.48%	0.48%	31.2%	0.15%
2	10000	3115	49%	174	156	19	3134	0.60%	1.08%	31.3%	0.34%
3	10000	3134	58%	179	157	22	3156	0.70%	1.80%	31.6%	0.56%
4	10000	3156	66%	183	158	25	3181	0.80%	2.61%	31.8%	0.81%
5	10000	3181	75%	188	159	28	3209	0.89%	3.53%	32.1%	1.09%
6	10000	3209	75%	188	160	27	3237	0.84%	4.40%	32.4%	1.37%
7	10000	3237	75%	188	162	26	3262	0.79%	5.23%	32.6%	1.62%
8	10000	3262	75%	188	163	24	3287	0.75%	6.02%	32.9%	1.87%
9	10000	3287	75%	188	164	23	3310	0.71%	6.77%	33.1%	2.10%
10	10000	3310	75%	188	165	22	3332	0.67%	7.48%	33.3%	2.32%
11	10000	3332	75%	188	167	21	3353	0.63%	8.15%	33.5%	2.53%
12	10000	3353	75%	188	168	20	3373	0.59%	8.79%	33.7%	2.73%
13	10000	3373	75%	188	169	19	3391	0.56%	9.40%	33.9%	2.91%
14	10000	3391	75%	188	170	18	3409	0.53%	9.98%	34.1%	3.09%
15	10000	3409	75%	188	170	17	3426	0.50%	10.53%	34.3%	3.26%

* Percent of tenants over 30% of AMI moving out is assumed proportional to the current tenant profile (number of tenants above 30% AMI * turnover)

** Net new tenants over 30% AMI is roughly equivalent to the number of units lost for families below 30% AMI

Pace of Change: Low Ability, Low Implementation Scenario

Projected Increase in Households with Incomes Above 30% in the Project-Based Section 8 Program

Assumptions:

total number of units	starting percent above 30% AMI	annual turnover	old targeting: percent of new tenants over 30%	new targeting: changed percent new over 30%	initial implementation	long term implemen-tation
10000	31%	5%	30%	40%	25%	50%

Year	Total Number of Units	Tenants above 30% AMI	percent of units to which rules will apply	turnover: new tenants over 30% AMI	turnover: tenants over 30% AMI moving out*	turnover: net new tenants over 30% AMI**	end of year: total tenants over 30% AMI	end of year: net annual increase	end of year: cumul-ative increase	end of year: total percent over 30% AMI	end of year: cumulative change in percent over 30% AMI
1	10000	3100	25%	163	155	8	3108	0.24%	0.24%	31.1%	0.08%
2	10000	3108	31%	166	155	10	3118	0.33%	0.57%	31.2%	0.18%
3	10000	3118	38%	169	156	13	3131	0.41%	0.99%	31.3%	0.31%
4	10000	3131	44%	172	157	15	3146	0.49%	1.48%	31.5%	0.46%
5	10000	3146	50%	175	157	18	3164	0.56%	2.05%	31.6%	0.64%
6	10000	3164	75%	188	158	29	3193	0.93%	3.00%	31.9%	0.93%
7	10000	3193	75%	188	160	28	3221	0.87%	3.90%	32.2%	1.21%
8	10000	3221	75%	188	161	26	3247	0.82%	4.75%	32.5%	1.47%
9	10000	3247	75%	188	162	25	3272	0.77%	5.56%	32.7%	1.72%
10	10000	3272	75%	188	164	24	3296	0.73%	6.33%	33.0%	1.96%
11	10000	3296	75%	188	165	23	3319	0.69%	7.06%	33.2%	2.19%
12	10000	3319	75%	188	166	22	3341	0.65%	7.76%	33.4%	2.41%
13	10000	3341	75%	188	167	20	3361	0.61%	8.42%	33.6%	2.61%
14	10000	3361	75%	188	168	19	3380	0.58%	9.05%	33.8%	2.80%
15	10000	3380	75%	188	169	18	3399	0.55%	9.64%	34.0%	2.99%

* Percent of tenants over 30% of AMI moving out is assumed proportional to the current tenant profile (number of tenants above 30% AMI * turnover)

** Net new tenants over 30% AMI is roughly equivalent to the number of units lost for families below 30% AMI

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