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# **The Housing Choice Voucher Program: Providing Local Relief to Maine with Federal Low-Income Housing Reform**

**A Report for the Maine Affordable Rental Housing Coalition**

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The Maine Center for Economic Policy was contracted by the Maine Affordable Rental Housing Coalition to survey local housing authorities in Maine to determine how effectively the Section 8 program is meeting the needs of low-income people in Maine. The survey was also used to detail how pending Congressional legislation<sup>1</sup> might impact the program in our State. Due to the support of the Maine Association of Public Housing Authority Directors and MaineHousing the survey had a 100% response rate, which allowed us to answer concrete questions regarding supply and demand, waiting periods, rent burdens, and cost cutting measures taken to deal with funding constraints.

Survey results produced strong evidence for the need to pass housing voucher reform legislation. There are several factors that prevent or hinder housing agencies from administering the Section 8 program to its full potential. Many of these factors are addressed fully or in part by the Section 8 Voucher Reform Act (SEVRA) under consideration in the U.S. Senate. The following are some of the key findings from the survey research.

### **At A Glance: Section 8 Housing in Maine**

- ✚ Because of the Section 8 program, almost 12,000 households in Maine who could not afford decent housing are now safely housed.**
- ✚ The demand for Section 8 vouchers is nearly twice as large as the supply. There were 12,600 vouchers authorized for use by housing agencies in Maine, yet 11,511 households remain on waiting lists and almost half of those lists are closed.**
- ✚ The average amount of time a household in Maine will wait for a voucher if they meet a preference and are not homeless is 12 months. The wait for households without a preference, whether you are homeless or not, varies from 12 months to an indefinite amount of time.**
- ✚ Almost half of all voucher holders in the Section 8 program in Maine pay more than 30% of their income for housing. By HUD's own standard this is unaffordable.**
- ✚ The Section 8 program brings more than \$68 million in federal funding into Maine, which both alleviates housing instability and spurs economic activity.**
- ✚ New policy changes prescribed by pending national legislation (SEVRA) would allow housing agencies to issue more of their currently authorized vouchers as well as authorize new, incremental vouchers.**

## Affordable Housing in Maine

*“I’d like to think of myself as an intelligent woman who is just really going through a hard time and trying to get on my feet. I would love to be a college graduate and take care of my children and have my own house someday”.*

**A quote taken from an interview by Bowdoin’s Professor Craig McEwen’s class of a woman waiting for a housing subsidy.**

While foreclosure rates and the credit crunch have garnered the attention of policy makers and the media, the number of Americans in the rental market is growing. In the wake of the mortgage crisis, former homeowners and renters displaced by foreclosure are turning to the rental markets, while current renters, reluctant to purchase or unable to meet tighter lending standards, are staying put in their rented homes<sup>ii</sup>. According to the U.S. Census Bureau, the fourth quarter of 2007 saw a decrease in the number of homeowners compared with the previous year, while the number of households renting their homes rose by more than 1.5 million. In fact the homeownership rate fell below 68% in 2007, which is the largest decline since 2002<sup>iii</sup>.

Housing is increasingly unaffordable for many Americans, but particularly for low-income Americans. Here in Maine the state average Fair Market Rent (FMR) for a two-bedroom apartment is \$779 a month not including utilities. According to the National Low-Income Housing Coalition, this means that a single parent making minimum wage in Maine (\$7 per hour) would need to work 86 hours per week to afford a two bedroom apartment at FMR without paying more than 30% of their income towards rent. The U.S. Department of Housing and Urban Development has determined that housing costs over 30% are unaffordable for people with low-incomes. In addition to struggling with the national trend toward higher housing costs and stagnant wages, low-income Mainers have the added burden of higher heating costs due to older, less efficient housing stock.

Low-income housing assistance is essential because many Americans cannot afford market-rate prices. Developers cannot build housing at a cost low enough to make it affordable to very low-income people and still make a profit. While housing developers rely on a number of subsidies in the form of tax credits, government loans, or grants to create low-income housing, it is still often too expensive for very low-income people. Without housing subsidies, many low-income people would face homelessness and many homeowners would have to return to the rental market, creating greater competition for rental units. Housing assistance is available to people at all incomes and comes in many forms. For low-income people the largest programs are Section 8 and public housing; for homeowners the largest form of housing assistance is the mortgage interest deduction. The federal government provided \$72 billion in mortgage interest deductions last year compared to \$16.5 billion spent on Section 8 vouchers or \$35.2 billion spent on all low-income housing assistance and homeless programs combined. The goal of these policies is to expand housing opportunities because this benefits our economy.

## **Federally-Funded Efforts to House Low-Income Households**

*In another interview, a woman revealed that she and her two small girls slept in their car and in motel rooms before space opened at the local Tedford family shelter.*

**A quote from Dr. Craig McEwen regarding the interviews he had his students conducting at Bowdoin College. The woman referred to in this quote lost her housing and was waiting for a subsidy.**

Low-income housing assistance not only provides emotional and financial stability to people who lack the means to afford housing, but has the added economic benefit of combating homelessness. Homelessness is far more costly than a housing subsidy. The Cost of Homelessness - a recent cost-benefit analysis of homelessness and supportive housing in Maine, finds that the financial burden of homelessness is felt in state and local budgets that fund shelters, emergency room care, and other emergency services. Researchers such as Dr. Ellen Bassuk of the National Center on Family Homelessness have also documented the higher costs of homelessness reflected in school systems where transient children are placed, and in health care systems that treat the higher rate of illness in families experiencing homelessness. Fighting homelessness, therefore, makes both moral and fiscal sense. Short of changing housing from a private market to a public market enterprise, broad housing policy is unlikely to change the homeless situation drastically. This means that subsidized housing is often the best option. There are three principal levels at which subsidized housing can be changed to alter the dynamic for people without housing: capital improvements and further appropriations to public housing, new section 8 vouchers with improvements to the current funding mechanism, and the passage of the National Affordable Housing Trust Fund to create and preserve affordable units.

Public housing is in need of a massive overhaul. Since the Housing Act of 1949 when 810,000 units of public housing were authorized to be built to accommodate a growing population of poor U.S. residents, public housing has become a controversial issue. The federal public housing stock is old and in need of substantial repair. Because of the age of the original developments, poor siting and design, and the lack of adequate funding to maintain units, public housing has deteriorated.

Rents in public and assisted housing have been set according to a federally stipulated formula based on tenants' income (this legislation is known as the Brooke Amendment, named after Massachusetts Republican Senator Edward Brooke who sponsored the rent formulation). These rents have proved inadequate to cover the maintenance and capital costs of developments, which have in turn led to a lack of support for the program and further cuts to funding. Recent efforts to raise rent levels and replace public housing developments with mixed income housing have been met with favorable responses, but resulted in a large net loss of affordable units. Subsidized developments need an infusion of funds to repair these units before they are lost for good.

Housing vouchers have enjoyed slightly more support than public housing, but the program is still stalled at the federal level. There have been very few new Section 8 vouchers offered in the last several years (the 15,000 allocated in FY 2008 were the first such new vouchers since 2003) and those that were issued were not always usable. When rents rise, vouchers cannot keep up. Vouchers are designed to bridge the difference between 30% of a tenant's

income and the fair market rental of an appropriate housing unit. If the real market rents rise, fair market rents are hard to find and the cost becomes too prohibitive. To adjust for the discrepancy between real market rents and fair market rents, the latter should be raised and vouchers should be given additional funding.

Under either subsequent Republican or Democratic leaders, housing policy has not fundamentally changed since the Section 8 program was established during the Nixon administration. A ray of hope, however, is the force of the campaign to create a National Affordable Housing Trust Fund which would produce, acquire, rehabilitate and preserve 1.5 million units of affordable housing for low income populations, those whose incomes are 80% or less of the area median income. And in a further show of commitment to the prevention of homelessness, the Trust Fund requires that 75% of its resources be spent to house families and individuals whose incomes are no greater than 30% of the area median income and at least 30% of the Trust Fund resources will be committed to households with incomes less than the SSI income limit. The National Affordable Housing Trust Fund Act of 2007 was approved by the House of Representatives in October of 2007 and currently awaits action in the Senate. If passed, the Affordable Housing Trust Fund could provide as much as \$1 billion nationally each year to meet the goals of creating and preserving affordable housing and at least \$10 million to the State of Maine.

### **State-Funded Efforts to House Low-Income Mainers**

In Maine, state-level affordable housing resources are limited, so the infusion of federal dollars into the state is critical. Separate from these federal dollars, there are only two state programs in Maine that contribute to the goal of housing vulnerable people: the Bridging Rental Assistance Program (BRAP) and the HOME Fund.

BRAP is a housing program designed to serve people with psychiatric disabilities who are unable to afford housing in the community. BRAP can assist individuals with housing assistance for up to 24 months or until they are awarded a Section 8 Voucher or other federal subsidy, whichever comes first. For this reason, units subsidized by BRAP funding must meet Section 8 requirements (within Fair Market Rent and Housing Quality Standards) so recipients may continue to reside in their apartments once awarded a voucher, if they so choose. Voucher holders pay 51% of their income for rent and the remainder is subsidized up to the Fair Market Rent. BRAP has been instrumental for those low-income people with psychiatric disabilities, but is limited in both funding constraints and its ability to serve people who are not psychiatrically disabled. BRAP receives just under \$3 million in state funding but in the FY 2009 budget, BRAP will be funded through a reduction to the HOME Fund, combining the two sole resources for affordable housing such that the State further limits its effort to address housing affordability for those who are least able to stay housed independently.

The HOME Fund, established in 1985, is paid for by the real estate transfer tax. Forty-five percent of the transfer tax is dedicated to the HOME Fund, with another 45% going to the general fund and 10% to counties. The HOME Fund contributes to affordable housing efforts in 5 ways. It is used to lower the interest rate on mortgages for first time homeowners,

create rental housing through a tax credit, match the federal HOME Investment Partnerships grant, match federal shelter grants, and build supportive housing for people with disabilities.

The HOME Fund provided over \$38 million in investment of affordable housing from 2002 to 2006. In the years 2005 and 2006 alone, the HOME Fund provided more than \$6.5 million to enable the development of properties that created 142 units of affordable rental housing. The HOME Fund also paid for more than \$2.6 million in emergency shelters needs, \$3.4 million in home repairs, and \$1.62 in first-time homebuyer assistance among other things during that time period. While funding for the HOME Fund changes from year to year depending on the amount of revenue derived through the real estate transfer tax, its ability to leverage private funds and government funds make it the most important source for affordable housing development that Maine has to offer.

Projected HOME Fund revenues for FY 2009 are estimated to be \$7.1 million after losing revenue to budget reallocations that will divert money to the BRAP program and an expanded state tax credit for historic redevelopment. Though current law designates 45% of the revenue from the real estate transfer tax to the HOME Fund, there was a reduction of more than \$30 million in dedicated HOME Funds from 2002-2006, equaling almost half of the actual revenue to the Fund. Last year in an effort to stave off future raids to the HOME Fund, the legislature passed a bill (LD936) making it more difficult to divert future funds designated to the HOME Fund. Not even a year later the same legislature called upon the HOME Fund to fill in shortfalls elsewhere in the budget. Because of the limited amount of State dollars that Maine spends on affordable housing, the federal affordable housing dollars are critical.

### **Relying on Section 8 in Maine**

The Section 8 program is the largest housing assistance program serving Maine and provides federal assistance to low-income Americans through rental subsidies. The program has two central components: mobile vouchers and project-based vouchers. The mobile vouchers allow low-income families to rent modest apartments in the private market, while the project-based subsidies are tied to a specific housing unit. Because the Section 8 voucher program is the largest federal low-income housing assistance program in the United States, serving nearly 2 million households throughout the United States and almost 12,000 households here in Maine, the way it is implemented has significant implications for both low-income households and the states in which they are issued.

The Section 8 voucher program is administered at the federal level by the Department of Housing and Urban Development (HUD). At the local level, the program is run by approximately 2,400 local, state, and regional housing agencies throughout the country, known collectively as public housing agencies. Each housing agency must set the overall income cap between 50 percent and 80 percent of the local area median income for households admitted to its voucher program. Housing agencies are also required to ensure that 75 percent of households newly admitted to the voucher program each year have incomes at or below 30 percent of the area median (in Maine, 30 percent of area median income is \$16,794). In Maine, there are 21 housing authorities administering Section 8

voucher, one of which is MaineHousing, which sub-contracts to an additional 16 agencies across the State.

## **Supply and Demand**

*For the past two and a half years Sarah and her son have lived above the garage of her deceased boyfriend's parents. That space has no running water to use a toilet or take a shower.*

**A story taken from an interview by a Bowdoin student under the guidance of Dr. Craig McEwen in 2008.**

In Maine, there are 11,930 households currently using a Section 8 voucher and another 11,511 households that linger on one or more waiting list, indicating that at least half of the population who are both eligible and in need of housing assistance through Section 8 are not being served. While these lists will have some duplicated names, it is likely that this is less of an issue in Maine than in smaller states that allow for more mobility. It is also important to note that almost half of the waiting lists are closed, which keeps new people from applying. Housing authorities close their waiting lists when it is clear that they will no longer be able to serve applicants within a reasonable amount of time.

## **Wait Times**

*After losing their home, the three of them lived in a tent in their friend's back yard while waiting for section 8. When the weather started getting cold, they moved into an unfinished basement. The family slept on cement floors in a room heated with an electric heater. The poor living conditions exacerbated her husband's illnesses, increasing the strain of their lack of regular housing on the family.*

**A story taken from an interview by a Bowdoin student under the guidance of Dr. Craig McEwen in 2008.**

Because of the large and growing need for housing assistance, some housing authorities have implemented a preference system for their vouchers. A preference system can either flag the most urgent need (for example, the use of a homeless preference) or place priority on households that a housing authority deems most likely to be successful in renting an apartment (for example, a local preference or full-employment preference). The average wait time for an applicant who meets one of the preferences is 12 months if they are applying outside of MaineHousing's jurisdiction, through which a family's homeless status gives them preference and they may be placed within a month. For people that do not meet the criteria used in a preference system or who are applying to a housing authority that does not use a preference system, the wait for a voucher can be anywhere from a year to an indefinite amount of time.

Due to the overwhelming demand for housing assistance, the number of vouchers which are authorized here in Maine should be fully utilized. Unfortunately, faced with uncertainty over the amount of funding they are likely to receive, housing authorities have protected against future shortfalls by keeping more money in reserves than they have in the past. As a result, Maine has experienced utilization rates (the percentage of authorized vouchers actually in



use) that are chronically lower than optimal. In 2007, Maine's Section 8 utilization rate was approximately 96%. While this figure exceeds the national average, it means that over 500 Maine households who could have received housing assistance did not. A stable and more predictable voucher allocation formula would give housing authorities more confidence to increase their leasing activities and serve more low-income Mainers.

### **Rent Burdens**

As described above, the goal of the Section 8 program is to hold housing costs to 30% of a participant's income. Waivers are allowed for participants who need to pay up to 40% of their income in high cost markets and additional waivers allow participants to pay above 40% if they experience rent increases while housed and comparable housing is unavailable. In Maine, almost half of all voucher holders are paying more than 30% of their income toward housing.

The number of voucher holders paying more than 30% of their incomes toward rent may replicate a national trend, but the magnitude of this impact is greater on households that are income-eligible for the Section 8 program. A person with a net income of \$40,000 per year who is paying 40% of their income toward housing costs will be left with \$24,000 a year to spend on other portions of their budget. A household income with \$10,000 per year, paying 40% of their income toward housing costs, will have just \$6,000 annually to spend on other basic needs, such as food, clothing, child care, and transportation.

### **Cost Cutting Measures**

Many of the problems that voucher holders face have been exacerbated by the funding constraints and funding formulas that keep housing authorities guessing from year to year. Due to past funding shortfalls, housing agencies across Maine have been forced to take benefit-restricting measures to keep programs functioning. Almost half of the housing authorities reported the need to limit portability. Portability allows a voucher holder to take the voucher to a new jurisdiction. The administration of a portability system has proven cumbersome for housing authorities and in many cases the complexity of the system has interfered with the ability of tenants to easily move from one jurisdiction to another. Families are also likely to experience problems including duplicative paperwork, delays in approval of units, and differing certification requirements.

Housing authorities have also reported having to keep rental payment standards low, place freezes on rent increases, and having to ask landlords to reduce rents. Another 25% of Maine's housing authorities have either cut staff or left vacancies open. Half of the housing authorities indicated concern regarding their ability to maintain high standards of client service. Many of these measures were instituted in order to deal with shortfalls that stem from an unpredictable funding formula that would be streamlined under SEVRA.

## Conclusion

SEVRA legislation will benefit the Section 8 program in several ways. First, the 100,000 new incremental housing vouchers authorized nationwide under SEVRA would provide desperately needed housing for Maine people who now wait on very long wait lists or have not even had the opportunity to be placed on a list. Second, SEVRA offers an opportunity to improve the state's implementation of the Section 8 program. Proposals to re-evaluate payment standards to eliminate excessive rent burdens would assist the large percentage of Maine voucher holders paying more than 30% of their income toward housing. Proposed administrative changes in voucher portability would reduce administrative burdens and streamline funding. And proposed changes in reserve fund requirements would provide housing authorities with increased flexibility to meet the needs of their communities.

Finally, the voucher allocation formula under SEVRA would serve to stabilize the program and allow housing agencies to lease more of their currently authorized vouchers. Assured that their annual budgets will be based on voucher lease rates and costs in the previous year, agencies will no longer need to protect themselves from future funding shortfalls by issuing fewer vouchers than they are authorized to administer. Instead, there would be an incentive to serve as many households as their funding allows.

Maintaining a healthy Section 8 program is not just in the best interest of low-income households, but also has implications for state and local budgets, landlords, and even local retailers. Maine received \$68,011,825 in federal funding for the Section 8 program in 2007. That money spurs economic activity in Maine by increasing activity in the housing market and allowing participants in the program to free up the portion of their budgets that should be spent on food, transportation, childcare, and other basic necessities. SEVRA legislation would streamline the administration of the Section 8 program to serve greater numbers of households in a more substantial way, allowing them to spend more on other necessities and thereby increasing economic activity.

The Section 8 Voucher Reform Act, H.R. 1851, passed the U.S. House of Representatives on July 12, 2007 with support from Congressmen Allen and Michaud. A Senate companion bill, S.2684, was referred to the Senate Banking Committee in March of 2007. Senators Snowe and Collins became the first two Republicans in the country to become co-sponsors of S.2684. SEVRA currently awaits final passage in the Senate.

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<sup>i</sup> The Section 8 Voucher Reform Act also known as SEVRA

<sup>ii</sup> The National Low-Income Housing Coalition, 2007-2008 Out of Reach Report

<sup>iii</sup> U.S. Census Bureau's Housing Vacancy Survey: Fourth Quarter 2007.