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Elimination of the Rent Credit Feature of the Section 8 Existing Housing Program. CED-78-117; B-171630. May 10, 1978. 8 pp. + enclosures (2 pp.).

Report to Patricia R. Harris, Secretary, Department of Housing and Urban Development; by Henry Eschwege, Director, Community and Economic Development Div.

Issue Area: Domestic Housing and Community Development: Housing for Low and Moderate Income Families (2101).
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Authority: Housing and Community Development Act of 1974. United States Housing Act of 1937.

The Department of Housing and Urban Development (HUD) recently completed a nationwide study of the Section 8 Housing Assistance Program and is now considering the rent reduction incentive feature of the program. This feature was established to encourage participating families to find housing units at the lowest possible rent and to reduce Federal subsidies by offering a reduction in the family's contribution when it selects rentals below HUD's limits. However, rather than operating as an incentive to encourage families to shop for less expensive housing, only a few families receiving the rent credit have actually altered their housing choice becaue of it. Families were unable to make selections because most communities experienced low vacancy rates and relatively low program rental limits. The estimated cost to HUD for the rent credit feature is about $14.4 million annually and could increase to about $33.1 million annually when all housing units authorized through fiscal year 1978 are leased. The rent credit should be eliminated for in-place families as well as for all families assisted under the section 8 program. (HTW)

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION

B-171630

May 10, 1978

The Honorable
The Secretary of Housing
and Urban Development

Dear Mrs. Harris:

The General Accounting Office has again examined the rent reduction incentive feature of the Department of Housing and Urban Development's Section 8 Housing Assistance Program. In our report to the Congress entitled "Major Changes Are Needed in the New Leased-Housing Program" (CED-77-19, January 28, 1977), we recommended that the Department not permit payment of the rent credit to in-place families. The Department replied that, upon completion of a nationwide section 8 study, it would reconsider the entire question of the incentive and may eliminate the credit or assure that it provides a greater incentive to shop for housing.

The nationwide study is now complete and we understand that a decision will soon be made on the rent credit's future. We are providing the results of our current examination for your consideration in deciding on this matter.

The additional information we obtained leads us to conclude that the rent credit should not only be eliminated for in-place families, but for all families assisted under the section 8 program. Rather than operating as an incentive to encourage families to shop for less expensive housing and thus reduce the amount of Federal subsidies, only a few families receiving the rent credit have actually altered their housing choice because of it. Our nationwide sample of public housing agencies (PHAs) showed that families were unable to pick and choose among units because most communities experienced low vacancy rates combined with relatively low program rental limits. We estimate that the

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cost to the Department for the rent credit feature is about $14.4 million annually. At current costs and rate of participation in the rent credit feature, costs to the Department would increase to about $33.1 million annually once all housing units authorized through fiscal year 1978 are leased.

BACKGROUND

The Housing and Community Development Act of 1974 amended the United States Housing Act of 1937 and added under section 8 a new program to provide rental assistance to families with incomes too low to obtain housing in the private market. Under the program, the assisted family pays 15 to 25 percent of its gross income for rent with the Government paying the difference between the family's contribution and the rent charged by the landlord. The program makes use of existing housing stock, substantially rehabilitated units, and newly constructed units.

Under the existing housing program, a participating family is responsible for finding a housing unit suitable to its needs. The family may elect to move to a unit or continue to occupy its present unit (in-place families). Approximately 50 percent of the 222,000 families assisted by the existing section 8 program as of November 30, 1977, were in place.

To encourage participating families to find housing units at the lowest possible rent and reduce the amount of Federal subsidies required, the Department established a rent reduction incentive called a rent credit. The rent credit (formerly called a shopping incentive) offers a reduction in a family's required monthly contribution when the family selects a unit with a rent below the Department's rental limits.

The rent credit was established because of the Department's concern that there would be no incentive to find the best bargain if the families' dollar contribution was set at a level independent of the cost of housing selected. Instead, it was believed that the participant would find a unit which he or she liked without considering cost. The Department believed that by rewarding the participants for devoting more time to shopping around and finding a more economical unit, both the family and the

Federal Government would benefit--the family by a decreased monthly contribution and the Federal Government by a decreased subsidy.

The existing housing program is administered at the local level by PHAs. PHAs are responsible for inspecting units to insure that they meet housing quality standards and approving rents charged. The rents generally must be no higher than fair market rents established by the Department for each housing market area in the country.

When a family selects a unit which costs less than the fair market rent, the family's monthly contribution is reduced by the same proportion that the leased unit is below the rent limit. For example, if a family rents a unit which leases for 10 percent below the fair market rent, the family will receive a 10 percent reduction in its monthly rental contribution. The Federal Government's portion of the rent is increased by a corresponding amount. The rent credit is available to families who move and to in-place families.

PHAs BELIEVE THE RENT CREDIT DOES NOT INFLUENCE HOUSING CHOICE

We contacted 31 PHAs in 20 States (see enclosure) to obtain their views on whether the rent credit is effective in saving Federal funds and whether it should be eliminated. revised, or kept as is. Twenty-three PHAs were randomly selected and eight were selected for their size and location. The number of existing units under contracts at the PHAs were as follows:

Number of Units	Number of PHAs
0 to 50	4
51 to 100	8
101 to 500	10
501 to 1000	5
1001 to 10000	2
10001 to 15000	2

Officials of all but two PHAs said the rent credit does not save Federal funds because it is not resulting in families shopping for or negotiating lower rents. Most officials told us their housing markets have vacancy rates which are too low to provide families an opportunity of choosing among units and, in fact, families are fortunate to find any suitable units. They said the Department's rental limits were too low as compared to market rents, thereby further narrowing the number of available units. Families seeking housing are so preoccupied with finding suitable units within the fair market rents that they do not shop for lower rents in order to obtain the rent credit. Further, PHA officials said the majority of program participants remained in place and have done little to seek lower rents. PHA officials said families are delighted with the opportunity to reduce their rent payments to only 25 percent of their income and, accordingly, discount the credit's importance.

The only PHA officials who believed the rent credit saved Federal funds were from Ogden, Utah, and Peabody, Massachusetts. They told us vacancy rates in their areas are balanced and enough owners offer rents below the fair market rents to enable section 8 families to shop for lower rents. Most rent credit recipients in these areas move rather than remain in place, according to PHA officials, and are enthusiastic about searching for units renting below the fair market rents. These PHAs had 233 and 158 existing section 8 units under contract, respectively.

PHA opinions on changing the rent credit generally followed the same pattern as their opinions on its effectiveness. Nineteen PHAs wanted it eliminated because they believed its purpose could not be met. Three wanted it revised; one suggesting that it be made available only in high vacancy areas, another that it be made available only to families who move, and the third hoped the fair market rents would be increased so the credit could be effective.

Five PHAs wanted the credit to remain unchanged so that benefits being received by families in their area would not be reduced. Only two PHAs, Ogden and Peabody, wanted the rent credit to remain unchanged because they believe it was working in their areas. The remaining two PHAs expressed no opinion concerning what, if any, changes should be made.

One PHA director told us that he does not give the rent credit to families unless it is earned to prevent wasting Federal funds. If a family uses the housing vacancy list prepared by the PHA to find a unit, the rent credit is not granted because no search was made by the family for a unit. Likewise, rent credits are not made for in-place families. The PHA director said he interpreted the Department's regulations to mean that the credit is for those who consciously try to lease units renting below the fair market rents. A Department field office official was aware of and agreed with this PHA's policy because of concern that funds would otherwise be wasted. The official has not, however, recommended that other PHAs follow this practice.

In addition to the PHAs we contacted, other PHAs have expressed negative reactions to the rent credit. Suggestions that the credit be deleted were made by PHAs at the time their comments were solicited on the 1976 proposed changes to the section 8 existing program regulations. Some of their specific comments are provided below:

> "It has been our experience that the Shopping Incentive Credit has no effect on the housing choices made by our assisted families."--Anaheim and Santa Ana Housing Authorities, California.

> "The shopping incentive should be done away with. We are finding that the families will locate a marginally standard dwelling in order to receive a very small shopping incentive."--Housing Authority of the City of Colorado Springs, Colorado.

> "Because incentive is predicated on the opportunity for choice, it is questionable as to whether the Shopping Incentive Credit does in fact operate as an incentive for economy where there is little or no choice of dwelling units available to the family."--Medford Housing Authority, Massachusetts.

PREVIOUS REPORTS ON THE RENT CREDIT'S INEFFECTIVENESS

Others who have studied the rent credit have questioned its effectiveness. Department studies have concluded that the credit does not significantly alter participants' choices of a unit. Also, a congressional committee report questioned the extension of the rent credit to in-place families as did our January 1977 report.

An August 1976 study performed by the Department's Office of Policy Development and Research concluded that the credit was not a significant factor affecting unit choice. The study included seven of the Department's regional offices, 14 area or insuring offices, and 50 PHAs.

Similar conclusions were reached recently by the Urban Institute and the Department in a February 1978 interim report on a nationwide evaluation of the section 8 program. Three firms performed the research for the Department, each responsible for a specific sector of the nation. In each sector, the researchers found that few program participants understood the rent credit concept and the majority of rent credit recipients were in-place families. Two researchers concluded that the rent credit's effect on families search behavior was slight. Two researchers also found that in-place families made no special effort to obtain the credit, with one researcher reporting that 87 percent of the in-place families never searched for another unit. Based on this data, the Institute and the Office of Policy Development and Research concluded:

> "The rent reduction credit which is intended to encourage shopping for less expensive units, appears to be not working as intended. The average amount of the credit is relatively small. Non-movers receive most of the rent reduction credits, with little effort on their part made to get lower rents."

The rent credit's effectiveness has also been questioned at congressional hearings. For example, the Senate Committee on Appropriations reporting on the 1978 Department of Housing and Urban Development-Independent Agencies Appropriations Bill made the following comment:

> "The Committee learned in the course of hearings that approximately 50 percent of the units supported under the existing section 8 program were housing the same tenants that lived in the units before they were subsidized with section 8 funds. Furthermore almost half of these in-place tenants were paid a shoppers subsidy which is intended to encourage subsidy recipients to shop for inexpensive housing.

> The Committee believes that the Department should place a strong emphasis within the existing program on either moving beneficiaries into better housing or insuring that the subsidization of housing for in-place tenants results in an upgrading of the units involved. Furthermore the Committee directs the Department to cease paying a shoppers subsidy to in-place tenants."

COST OF PROVIDING
THE RENT CREDIT

When a family's rent contribution is reduced by obtaining a rent credit, the Federal Government's subsidy must be increased by a corresponding amount. We estimate that the cost to the Department of providing rent credits to section 8 families totals about $1.2 million each month or about $14.4 million annually. According to Department records, 40 percent of the families participating in the section 8 existing housing program are provided rent credits which averaged $13.33 a month as of June 30, 1977. Since about 222,000 existing section 8 units were occupied as of November 30, 1977, the cost of rent credits is about $14.4 million annually for the approximately 90,000 families provided rent credits.

If the approximately 399,000 housing units reserved through September 30, 1977, and the 118,000 authorized for fiscal year 1978, are leased, we estimate the cost of providing rent credits would climb to about $33.1 million annually. This estimate assumes that current costs and rate of participation in the rent credit feature will remain unchanged.

CONCLUSIONS AND RECOMMENDATIONS

The theory behind the rent credit feature is a good one and the Department should be given credit for trying to hold down program costs. We believe, however, that there are few families being motivated by the credit to select less costly housing. In many parts of the country low vacancy rates, relatively low rental limits, and the corresponding difficulty a prospective tenant family has in finding a suitable unit seem to negate the family's ability to shop for cheaper housing. Further, the majority of program participants have done little to earn the credit and many have, in fact, remained in place.

It has been advanced by some that the credit should be made available only in high vacancy areas. Others, including ourselves, have suggested that it be made available only to families who move. However, the fact that the credit has had only a negligible effect on the number of families shopping for cheaper housing, including those families who move, now leads us to believe that the costs and problems in establishing, administering, and monitoring such programs would outweigh any gains to be made.

Until market conditions change (i.e., higher vacancy rates) and/or until methods can be devised to insure that the credit is given to only those who earn it, we believe that the rent credit should be eliminated. It has not been cost effective and, accordingly, we recommend that you terminate the rent reduction incentive provision by (1) ceasing to award any new rent credits and (2) phasing out the credit for present recipients when leases expire or when income is redetermined, whichever comes first.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the (1) House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report, and (2) House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Copies of this letter are being sent to the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Banking, Finance and Urban Affairs. We are also sending copies to your Assistant Secretary for Housing-Federal Housing Commissioner and Inspector General.

Sincerely yours,

Henry Eschwege

Henry Eschwege
Director

Enclosure

LIST OF PHAs CONTACTED BY GAO

Roosevelt City Housing Authority
Roosevelt City, Alabama

Chandler Housing Authority
Chandler, Arizona

City of Phoenix Public Housing Department
Phoenix, Arizona

Tucson Housing Authority
Tucson, Arizona

White River Regional Public Housing Authority
Batesville, Arkansas

City of Santa Rosa Housing Authority
Santa Rosa, California

Upland Housing Authority
Upland, California

Fairfield Housing Authority
Fairfield, California

Housing Authority of the County of San Bernardino
San Bernardino, California

Housing Authority of the City of Los Angeles
Los Angeles, California

Greeley Housing Authority
Greeley, Colorado

Englewood Housing Authority
Englewood, Colorado

Norwalk Housing Authority
Norwalk, Connecticut

Housing Authority of the Town of Winchester
Winsted, Connecticut

City of Jacksonville Housing Authority
Jacksonville, Florida

Moline Housing Authority
Moline, Illinois

Chicago Housing Authority
Chicago, Illinois

Burlington Low Rent Housing Agency
Burlington, Iowa

Harford County Public Housing Authority
Bel Air, Maryland

Barnstable Housing Authority
Hyannis, Massachusetts

Peabody Housing Authority
Peabody, Massachusetts

North Adams Housing Authority
North Adams, Massachusetts

Housing and Redevelopment Authority of Swift County
Benson, Minnesota

Kirksville Housing Authority
Kirksville, Missouri

Douglas County Housing Authority
Omaha, Nebraska

Somersworth Housing Authority
Somersworth, New Hampshire

New York City Housing
Authority
New York, New York

Lucas Metropolitan Housing
Authority
Toledo, Ohio

Ponca City Housing Authority
Ponca City, Oklahoma

Aransas Pass Housing Authority
Aransas Pass, Texas

Ogden Housing Authority
Ogden, Utah