

Comments on Khadduri's Paper on Reducing Homelessness

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Introduction

I was happy to accept Dan's invitation to discuss Jill's paper because I'm very interested in bringing about improvements in low-income housing policy, and the failure to assist the types of families who become homeless is a major defect of the current system.

I also knew that Jill and other participants would be well informed about research or practice dealing with the homeless, and I welcome this opportunity to catch up on recent developments.

Jill's paper focuses heavily on how to reduce homelessness by better targeting low-income housing assistance.

She devotes some attention to a proposed EHVP for the poorest households that I've developed.

Since I believe that the adoption of this program would go far towards solving the problem of homelessness, I'll devote much of my allotted time to it.

This is surely the best contribution that I can make to today's discussion,

Within a given locality, the proposed program would offer assistance to *all* of the poorest households of each size.

Across localities, income limits for eligibility and the maximum subsidy are twice as high in localities where the cost of rental housing with particular set of characteristics is twice as high.

Virtually all people who would have been homeless in the absence of this program would be eligible for it.

In its current state, the proposal does not include any special help for the chronic homeless in applying for assistance or using the voucher or any larger subsidy for people with mental illness than other people with the same income living in the same locality.

Including these features would be friendly amendments to the proposal.

They are likely to have a significant impact on chronic homelessness.

Entitlement Housing Voucher Program

The proposed EHVP is described briefly in a paper that I wrote for the Hamilton Project at the Brookings Institution.

In this paper, I presented some results on the number of families of various types that would be served by the proposed program compared with the current system.

These are results of research in progress that the people associated with the HP urged me to include in the paper even though the paper that fully documents the methods used had not been completed.

Since I believe that this proposal would have an important effect on homelessness and Jill discusses it in her paper, I want to spend some time providing a few more details and correcting some misunderstandings about it.

The proposed entitlement program replaces HUD's PH, PP, and HV programs rather than just HUD's programs of PBA.

In 2000 the year of our data, the programs replaced served about 3.4 million households who were not single, nonelderly households.

Single nonelderly households were excluded from the analysis because we did not have a good way to predict their participation rates in the proposed program.

In 2000, the HUD programs replaced served almost a million single nonelderly households.

About 60 % of these households were disabled.

We estimate that the programs replaced had a direct cost to HUD of about \$21 billion for serving the 3.4 million households.

The proposed EHVP is designed to the same cost.

This eliminates the objection to an EHVP on the grounds that it would cost more.

This is not to say that we should not spend more on housing assistance.

If we fund a more generous EHVP, more families would be served and the families served would receive more help.

Since my proposals for reforming low-income housing policy involve phasing out HUD's PBA, the results should be interpreted as the difference between what the situation would be with a continuation of the current system and what it would be after the gradual replacement of the existing system with housing vouchers is completed.

The EHVP provides a subsidy conditional on occupying a unit meeting certain minimum housing standards similar to the standards of the S8HCV program.

The magnitude of the subsidy is equal to a payment standard minus 30 percent of the recipient's adjusted income, the standard formula in HUD's programs.

Payment standards are larger for families whose size and composition justifies more bedrooms, and they are different in different localities.

They are designed so that recipients who occupy units renting for the local payment standard live in equally good housing in all locations.

This is based on a much better index of differences in the rents of identical units than HUD's FMR.

The upper income limit for eligibility is the lowest income at which the subsidy is zero.

So unlike the current system, income limits are the same in real terms in all localities.

That is, the ratio of the nominal income limit to the housing price index is the same everywhere.

In Washington, D.C. in 2000, the upper income limits for the proposed program analyzed ranged from about \$17,500 a year for families entitled to an efficiency apartment to almost \$50,000 a year for families entitled to eight bedrooms.

For families entitled to two bedrooms, it was about \$19,500.

The poorest 15% of single nonelderly households would be eligible for the proposed EHVP.

This was slightly higher than the official poverty rate at the time.

However, the households eligible for the proposed EHVP are a much better approximation of the poorest households in the country than households categorized as poor based on the official poverty line because, unlike the official poverty line, the income limits in the proposed program are adjusted for geographical price differences.

It is safe to say that almost 100% of the homelessness would be eligible for the proposed entitlement program if it were expanded to include single nonelderly households as it should be.

The participation rate in the entitlement program for families of each type is based on experience from the only entitlement housing assistance program that has been operated in the United States, namely, the Housing Assistance Supply Experiment.

Specifically, it is based on an estimated logit equation explaining participation among eligible families in terms of the generosity of the voucher, household size and type, minority status and other variables.

In using this equation to predict, we adjusted the generosity of the subsidy for differences in prices across time and place.

Jill argues that our predictions are based exclusively on the pull of the subsidy and ignore the push of housing stress and don't reflect transaction costs associated with using housing vouchers.

In fact, the predictions are based on the actual experience with an EHVP with essentially the same minimum housing standards as the S8HCV program.

So they account for all of these factors.

Our results indicate that the EHVP would serve 2.4 million additional households.

This is a 69% increase.

We don't know what the increase would be for single nonelderly people if the money currently devoted to them under HUD's current programs was shifted to an EHVP.

However, it's reasonable to believe that it would be substantial.

The proposed entitlement program would not only serve many more families in total than the HUD programs replaced but also more families of each type – white, black, and Hispanic; elderly and nonelderly; and families living in metropolitan and nonmetropolitan areas.

I don't know Jill's bottom line on the proposed EHVP.

However, I think that some of her concerns about it are misplaced.

For example, Jill argues that the proposed entitlement program is counterproductive from the perspective of preventing homelessness because blacks are overrepresented among the homeless and the EHVP would reduce the percentage of all recipients of housing assistance who are black.

It is true that the proposed program would lead to a smaller percentage increase in the number of blacks served than the percentage increase for whites and Hispanics.

In judging the merits of the proposal, it is important to realize that under current HUD programs blacks are served at much higher rates than whites and Hispanics with the same real income and household size, indeed, almost twice the rate.

However, the effect of the proposed program on the black share of recipients of housing assistance is not the correct metric for judging whether the proposed EHVP is better or worse than alternative uses of the same amount of money, even on the narrow criterion of reducing homelessness among blacks.

The proposed EHVP would increase the number of black households receiving housing assistance, and it would concentrate housing assistance on the poorest households to a greater extent than the current system.

The effect of the proposed program on homelessness has not been studied.

However, by targeting assistance on the poorest households and making it an entitlement for all of these people, the proposed EHVP would surely reduce homelessness substantially among households of all types.

The magnitude of the effect on the number of chronic homeless is less clear.

My understanding is that many, perhaps most, of these people are mentally ill, alcoholics, or drug addicts.

Would they apply for housing assistance if it were an entitlement?

Even if they came to the office to apply, would they complete the application process and succeed in finding a landlord willing to rent to them initially and would their behavior enable them to remain in their units?

Reading Jill's paper suggests that these are problems, but that some good solutions to them have been found.

I would be interested to know more about them and whether these best practices are widely used.

Since the chronic homeless need a lot more than housing assistance and we have many programs to help them, it isn't clear that the people who administer housing programs are the best people to provide this help.

Perhaps what is needed is people who are familiar with the entire range of programs available to help them, who can persuade them to seek help, and who can help them navigate the system and find housing.

My HP paper deals with reform of the entire system of low-income housing assistance, and it proposes a transition for each part of the system.

The transition for the S8HCV program is the most relevant for today's discussion.

The proposal is to provide all current recipients with the same subsidies as they would have received with a continuation of the current system, but offer less generous vouchers to new recipients in the interest of serving more of the very poorest households.

Nonentitlement Housing Assistance

The argument for an entitlement housing program for the poorest households is strong.

The current system provides large housing subsidies to some households and offers no housing assistance to other households with exactly the same characteristics.

It fails to offer assistance to many of the poorest households in the country while offering subsidies to other households with much larger income.

It is difficult to reconcile these features of the low-income housing programs with plausible taxpayer preferences.

How would a taxpayer who wanted to help low-income families with their housing feel about dividing a fixed amount of assistance between two families that are identical in his or her eyes?

Surely, almost all would divide the money equally between the two families.

That said, Jill is certainly correct that ending homelessness does not require such an entitlement program.

With respect to ending homelessness, a non-entitlement version of the proposed program would almost surely be superior to spending the same amount of money on other alternatives such as the recent expansion of the LIHTC that was passed under the cover of dealing with the current housing crisis.

A non-entitlement version would provide subsidies as generous as the proposed entitlement program to *selected* eligible households.

The average income of occupants of tax credit units that don't also receive S8 project or tenant-based assistance is about twice as high as the average income under HUD's programs.

The average income under a non-entitlement program with the same subsidy formula as the proposed EHVP would surely be lower than under current HUD programs.

This targeting of assistance on the poorest people would disproportionately benefit those who would become homeless in its absence.

The same goal could be achieved without spending more money by better targeting assistance under existing programs.

About 12 percent of families with housing assistance relinquish their assistance each year.

Since HUD assists about 5 million families, there is the opportunity to serve 600,000 new families each year.

When that happens, there is the opportunity to focus these subsidies on families with the highest probability of becoming homeless.

Cost-Effectiveness of Alternative Approaches

I was very heartened to see the increased attention to the CE of alternative approaches to helping the homeless in general and the increased recognition of the usefulness of housing vouchers in this regard in particular.

Jill's paper contains many examples.

One of the country's leading experts on homelessness has argued [Culhane et al., 2007, p. 26] that "the current system of providing temporary shelter in lieu of rental assistance would appear to be relatively inefficient, since it is a less direct method of addressing the affordability gap and since, compared with independent housing, it carries such significant administrative and facility costs in addition to the social costs of disruptive shelter stays on families and children."