

TO: Moving to Work Research Advisory Committee

FROM: Todd Richardson, Acting General Deputy Assistant Secretary for the Office of Policy Development & Research

DATE: January 19, 2018

SUBJECT: Considerations for Structuring and Evaluating the Rent Reform Cohort of the Expanded Moving to Work Demonstration Program

The U.S. Department of Housing and Urban Development (HUD) is in the process of developing parameters for the expansion of the Moving to Work (MTW) Demonstration. Consistent with earlier recommendations from the MTW Research Advisory Committee, HUD expects that a cohort of the MTW expansion will test the impact of various rent reforms on residents and PHA operations. In this memo, we have identified several issues on which we welcome feedback from the MTW Research Advisory Committee. Most of these issues involve a tradeoff, often between research objectives (for example, HUD's desire to produce rigorous evidence on the effects of rent reform) and policy objectives (for example, HUD's desire to allow flexibility for PHAs). For each issue, we present a strawman argument in favor of a specific position (i.e. "PD&R proposes..."), but note that HUD is not necessarily suggesting that the Department will adopt that position.

A primary focus for PD&R is generating valid research findings, so several of the articulated positions seek to ensure that the test of rent reforms will result in clear and generalizable findings about the impact of alternative rent policies. We also consider the complexity of implementing alternative rent policies and seek to ensure that it is feasible to both implement the new rent policies, and conduct a rigorous evaluation of the rent policies selected for the rent reform cohort. Finally, we have considered the previous discussions and guidance from the Research Advisory Committee. This memo identifies the following issues for consideration by the Research Advisory Committee:

- Eligibility of PHAs and Households. What characteristics should define the PHAs that are eligible to participate in a rent reform cohort?
- Alternative Rent Policies to be Tested. Which types of alternative rent policies should be tested? To what extent should the alternative rent policies be defined by HUD (as opposed letting participating PHAs define the policy they will implement)?
- Isolating the Effects of Rent Reform. Can we do an effective evaluation of rent reform, and produce valid knowledge about the impacts of the reform, if we allow PHAs in the rent reform cohort to layer on additional significant policy changes such as work requirements and/or time limits?

Background

Fiscal Year 2016 Appropriations language directed the HUD to expand the Moving to Work (MTW) Demonstration by adding 100 public housing agencies (PHA) to the program over a 7-year period. The MTW expansion statute directed HUD to expand the program in cohorts that would allow for “one specific policy change to be implemented...” and rigorously evaluated. The statute also established a Research Advisory Committee “to advise the Secretary with respect to specific policy proposals and methods of research and evaluation for the demonstration.” The Research Advisory Committee has met several times since spring 2016 and has provided a set of prioritized policy changes with corresponding evaluation research designs to HUD for consideration. In the most recent meeting (December 2016) the committee recommended that HUD test the following cohort-specific policies: MTW flexibility, rent reform, work requirements, and landlord incentives.

The MTW expansion statute imposes constraints on the size of the PHAs that may be selected. Across all cohorts, HUD must select no fewer than 50 PHAs with 1,000 or fewer combined housing choice voucher (HCV) and public housing units, no fewer than 47 PHAs with 1,001 to 6,000 combined HCV and public housing units, and no more than 3 PHAs with 6,001 to 27,000 combined HCV and public housing units. No PHAs with more than 27,000 combined HCV and public housing units may be selected.

Evaluating Rent Reform Cohort

This memo focuses on the MTW expansion cohort on rent reform, which will test alternative rent policies and evaluate the impact of these policies on residents and PHA operations. To achieve the strongest evidence of the impact of the new rent policies, the evaluation will be structured as a random assignment experiment. PHAs selected to participate in the rent reform cohort will implement both the new rent policy and the traditional Brooke rent policy. Eligible households will be randomly assigned to receive either the new rent policy or the traditional Brooke rent. The evaluation will track these two groups of households over time and observe any differences that emerge between these two groups in work effort, earned income, and financial hardship. The evaluation will also document implementation, including barriers to success and effects on PHA operations.

Eligibility of PHAs and Households

To maximize the number of households that are eligible for participation in the evaluation within each PHA, HUD could target large PHAs for inclusion in the rent reform cohort. The MTW Expansion Statute permits HUD to extend MTW authority to no more than 3 PHAs with 6,001 to 27,000 combined housing choice voucher and public housing units. **PD&R proposes that all three slots for large PHAs (6,001 to 27,000 units) be available for the rent reform cohort.**

PD&R proposes that no more than ten PHAs be included in the rent reform cohort of the MTW expansion. Selecting the optimal number of PHAs to participate in the rent reform cohort is driven by two competing interests. From an evaluation perspective, PD&R wishes to maximize the number of households that are enrolled in the evaluation and to include enough sites that

findings are relevant across diverse PHA contexts. Given the complexity of implementing the rent reform cohort, however, and the associated costs of ensuring that the rent policies are implemented with fidelity, PD&R sees a benefit in keeping the number of PHAs participating in the rent reform cohort relatively small.

Alternative Rent Policies to be Tested

The specific rent reforms to be tested through MTW Expansion rent reform cohort are not finalized, but HUD is considering three policies previously discussed by the Research Advisory Committee: tiered rents, stepped rents, and flat rents. A tiered rent/income band policy would establish fixed rents within different income bands; a household's rent would not change unless its income moved into a different tier. A stepped rent policy would start with a relatively generous subsidy which would then "step down" in value in each subsequent year. A flat rent policy would operate by associating a single rent to a unit based on the size of the unit. These alternative rents are hypothesized to reduce PHA administrative burden and to incentivize assisted households to increase their income. The alternative rents might also reduce PHA costs over the long-run, allowing them to serve additional families, invest in new activities, or reduce overall expenditures. It is our understanding that these alternative rents should be budget neutral, meaning that the same amount of funding would continue to serve the same or a greater number of households.

PD&R proposes that HUD test two alternative rent options that would be implemented with limited variation across selected PHAs. In the short-run, PD&R expects there to be significant transitional costs associated with the implementation of each new rent policy, including staff training on the new rent policy and protocols for implementing the new rent policy, outreach and communications efforts to inform residents about the new rent policy, and software and IT systems changes to support the implementation of the new rent policy. Limiting the number of different rent policies and minimizing cross-site variation in implementation will reduce the per-site implementation costs. In addition, limiting the number of rent policies to be tested increases the total number of households that will be exposed to each new rent policy, thus strengthening the statistical power of the evaluation.

Among the three variations of rent reform policies that have been considered—tiered rents/income bands, stepped rents, and flat rents—**PD&R proposes that the rent reforms to be tested during this cohort be restricted to tiered rents/income bands and stepped rents.**

PD&R does not propose testing flat rents. To be budget-neutral, a simple flat rent would have to be set close to the average rent level paid under Brooke rents. This would cause extreme rent burden among lower-income households. To mitigate this hardship and allow households to adjust to the flat rent, it would be advisable to incorporate a phase-in period and robust hardship policy. A phased-in flat rent, however, is essentially the same as a stepped rent. Thus, PD&R believes that it is not useful to attempt testing flat rents at this time.

Both tiered rents and stepped rents can take many forms. **PD&R proposes that HUD develop conceptual outlines of a tiered rent and stepped rent, and seek to minimize cross-site**

variation, but still allow PHAs some flexibility to define the specific parameters of those policies.

Isolating the Effects of Rent Reform by Limiting other Policy Changes

One of the guiding principles of MTW is providing flexibility to PHAs, so that they can decide on policies and procedures most appropriate to their particular objectives and contexts. HUD and the Research Advisory Committee have considered whether PHAs participating in the rent reform cohort should be permitted the usual MTW flexibilities—in particular, whether they should be permitted to implement work requirements and time limits. To test the impact of alternative rent policies on PHA residents and operations, however, the strongest evaluation design would *restrict* participating PHAs from implementing major policy changes that would make it difficult to isolate the impact of the rent reform being tested. Both work requirements and time limits would constitute major policy changes that would be expected to induce changes in residents' employment and earnings.

If, for example, a PHA enacts work requirements for both the treatment group and control group, but only applies the alternative rent policy to the treatment group, HUD would be able to estimate the effect of rent reform plus work requirements compared to Brooke rents plus work requirements. HUD would not be able to estimate the effect of rent reform alone compared to Brooke rents alone. Since most HUD-assisted households are not currently subject to work requirements, we would be unable to determine how rent reform alone would affect these households. **PD&R proposes that the rent reform PHAs be restricted from implementing work requirements and term-limited assistance (time limits) while the evaluation of the alternative rent policies is ongoing.** The restrictions on work requirements and time limits would be temporary. PD&R expects that evaluating the impact of rent reform will require approximately six years. After six years, participating PHAs would receive the full suite of MTW flexibilities.