Effect of Utility Allowance Increases on Section 8 Housing Choice Voucher Participants

(Columns with Red Headings are factors which may change due to changes in Utility Allowances)

Assume: Rent without utilities = $650	Utility Allowance (UA)	Total Rent to Owner (RT0)	Gross Rent (GR)	Total Tenant Payment (TTP)	Housing Assistance Payment (HAP)	Family Rent to Owner (FRTO)	Family Share (FS)	Family Share as % of Adjusted Income	Actual Shelter Costs (based on real $125/mo utilities)
Family Monthly Adjusted Income = $667 PHA's Payment Standard (PS) = $710	(Hypothetical)	RTO = HAPO + FRTO	GR = RTO + UA	TTP = Greater of: 30% Adj Inc; 10% Gross Income; the Welfare Shelter Allow; or Min Rent	HAP = Lesser of : GR - TTP or PS-TTP	FRTO = RTO - HAPO*	FS = FRTO + UA = GR - HAP	FS / Adj Income	(RTO + Utility Cost) - (HAP) / Adj Inc.
Case 1:	$ 50	650	700	$ 200	500	150	200	30 %	41.2 %
Case 2:	$ 55	650	705	$ 200	505	145	200	30 %	40.2 %
Case 3:	$ 60	650	**710**	$ 200	510	140	200	30 %	39.6 %
Case 4:	$ 75	650	725	$ 200	510	140	215	32.6 %	39.6 %
Case 5:	$ 150	650	800	$ 200	510	140	290	43.5 %	39.6 %

Note 1: In these examples, the family's TTP ($200) is greater than the any of the given Utility Allowances. Consequently, there is no Utility Reimbursement (see 24 CFR 982.514 and 982.4), and the total Housing Assistance Payment (HAP) in this case will be the same as the Housing Assistance Payment to Owner (HAPO).

Note 2: For the purposes of these examples, further assume that 30% of this household's Adjusted Gross Income is greater than 10% of their Gross Income. Also, assume that this family does not receive a welfare shelter allowance, and that 30% of the household's Adjusted Income is greater than the "minimum rent" set by the PHA.

[Ed note: Although this draft was prepared in 2005, almost all of the regulatory citations are still accurate. However, the links within this document are inoperable.]

The Problem:

Utility Allowance schedules must be reviewed at least annually and must be increased if utility costs have risen more than 10% since they were last established. See 24 CFR 982.517. In the Section 8 Housing Choice Voucher Program, however, when a Section 8 Public Housing Agency (PHA) increases its Utility Allowances (UA), in many cases the participant families will get little or no benefit from the increase unless the PHA simultaneously increases its Payment Standards.

To illustrate, consider the five cases described below and set out in the Table above. Each example uses a different utility allowance. Everything else stays the same. Assume that the Utility Allowance that was in place when the Payment Standard was adopted by the PHA was $50. Also assume for the purposes of each of these examples that a) the rent to the landlord is $650, b) the family's monthly adjusted income is $667, and c) the Payment Standard set for the apartment size in question is $710. Consequently, the Total Tenant Payment (based on thirty percent of the family's adjusted income) for this hypothetical household is 30% x $667 = $200.

Remember: the "Total Tenant Payment" (TTP) is *not* the actual total housing cost paid by the household. It is only a figure used for computations to determine the amount of the total Housing Assistance Payment that will be paid by the PHA on behalf of the family. The Housing Assistance Payment covers the payment to by the PHA to the landlord (the "Housing Assistance Payment to Owner") and any payment that might be made to the family as a "Utility Reimbursement" for projected utility costs (based on the utility allowance). The Utility Reimbursement comes into play if the family's TTP is less than the Utility Allowance. (See 24 CFR 982.514 and 982.4). If a household is not able to find an apartment where the *total* of the rent plus the utility allowance is *at or below* the Payment Standard, the family will pay more than the TTP for their share of the shelter costs. In most cases, that means this "Family Share" will exceed thirty percent of their adjusted income. (The statutory authority for how the TTP is calculated is found at 42 USC 1437f(o)(2), and the regulation is at 24 CFR 5.628).

Case Illustrations: Let's say that *actual* utility costs have increased from $ 50 when the Payment Standard was set to *$125 per month.*

In Case 1, there is no increase in the Utility Allowance to adjust for higher utility costs. The Payment Standard includes a Utility Allowance component of $ 50. So, if an apartment *includes* utilities, the rent would have to be below $710 to be within the Payment Standard. But if the apartment does *not* include utilities, then the rent would have to be at or below $660 to be within the Payment Standard ($660 plus $50 = $710). Remember, unlike the old Section 8 Certificate program where the family was *not permitted* to rent an apartment above the "Fair Market Rent," in the Housing Choice Voucher program the family *may* rent a unit costing more than the Payment Standard. If they do, though, they have to pay the difference out of their own pocket. There is one important limitation, however. Households who are new to the program and households who must move to a new apartment are subject to an expense **ceiling** on the amount they can pay over the Payment Standard. The ceiling is set at 40% of their Adjusted Income. See 24 CFR 982.305(a)(5) and 24 CFR 982.508.

The Housing Assistance Payment in Case 1 will be calculated at $500 to make up the difference between the family's Total Tenant Payment ($ 200), based on 30% of their adjusted income, and the Gross Rent ($ 650 + 50). The "Gross Rent," not the Payment Standard, is used to calculate the Housing Assistance Payment because the HAP is computed using the *lesser* of the two figures. Here, the total of the rent without utilities ($650) plus the UA ($50) is $700, which is *less* than the Payment Standard set by the PHA for that size apartment ($710 in our hypothetical). If the Utility Allowance were realistic, the family would then only have to pay thirty percent of its Adjusted Income for its total shelter costs. But, since the utility allowance has not been adjusted to compensate for the $75 increase in *actual* utility costs ($125 minus $50), this family will be paying an extra $75 monthly out of their own pocket. Still, the PHA will calculate their "Family Share" as only $ 250. That's because the family share is the total of the family's Rent to Owner ($200), plus the Utility Allowance ($50). Since the PHA uses the utility a*llowance* as the family's cost of utilities, ignoring the real world cost, the result is that the PHA will see the "Family Share" in this situation as being only 30% of their adjusted income [(650 + 50) - (500)] / (667). That means that when you look at the PHA's overall program, you won't get a true picture of the percentage of households paying more than 30% of their income. That's an important issue because HUD is required to monitor rent burdens in the program and may require a PHA to increase its Payment Standard if more than 40% of the households are paying rent in excess of 30% of their adjusted income. See 24 CFR 982.503(g). Since the household in our example has actual utility expenses of $125 per month, their shelter costs in the real world are 41.2% of their adjusted income: [(650 + 125) - (500)] / (667). That's a pretty high rent burden.

So what happens if the PHA tries to solve the rent burden problem by increasing the utility allowance? Will the family benefit?

In Cases 2 and 3, when the UA is nominally increased from fifty dollars per month to either $ 55 or $ 60, the family **DOES** get a dollar for dollar benefit equal to the amount of the increase. That's because the Gross Rent (the total of the rent for that particular apartment ($650) and the new utility allowance (either $55 or $60) is still either at the Payment Standard ($710) or below it. This will help the family slightly. But the nominal five or ten dollar increase in the utility allowance is still far below the actual $75 increase in utility *costs.* The family will still be paying the balance of the real world utility costs out of their own pocket. Moreover, as in Case 1, the percent of income of the "Family Share" will still calculate for Section 8 program purposes to be only 30% of their adjusted income. In fact, however, the familiy's out of pocket shelter expenses will still be much higher (40.2% and 39.6%, respectively). In the real world, then, the family's shelter expenses in these two examples drops only slightly from Case 1. They still have an excessively high rent burden.

Would a larger increase in the Utility Allowance solve the problem?

Unfortunately, "No." Any further increases will just keep the family at the same level as Case 3. Here's why:

In Cases 4, and 5, the Utility Allowance increases more substantially to $75 in Case 4 and $150 in Case 5. Either of those increases (or *any* increase over $60) will push the Gross Rent (the total amount of the rent for the apartment, plus the new Utility Allowances) *over* the existing $ 710 Payment Standard (to $ 725 and $800 respectively). As a result, the family **DOES NOT** get a full dollar-for-dollar benefit from the increase. In fact, they hardly get any of it. Remember, when the Gross Rent is *greater* than the Payment Standard, the Housing Assistance Payment is computed using the lower figure -- the Payment Standard. Consequently, the Housing Assistance Payment will be locked in at $ 510. That's the amount of the Payment Standard minus the Total Tenant Payment ($710 - 200).

Even though an increase in the utility allowance raises the Gross Rent past the Payment Standard, *if the Payment Standard itself is not increased,* the Housing Assistance Payment will freeze at the amount based on the unadjusted Payment Standard. All the family will get in Cases 4 and 5 compared to Case 1 is a $10 benefit -- the difference between the $500 Housing Assistance Payment calculated using the Gross Rent (including the *original* utility allowance of $50) and the $510 Housing Assistance Payment calculated by using the *unadjusted* Payment Standard, which applies whenever the Gross Rent becomes higher than the Payment Standard because of the increased utility allowance.

But the problem gets worse:

In Cases 4 and 5, when the PHA calculates the "Family Share," it will include the amount of the utility allowance increases. For what it is worth, the new Utility Allowances at least provide a closer approximation of the household's actual utility costs -- even though the family won't get an increase in the amount of their subsidy. In case 5, the amount of the utility allowance actually exceeds our hypothetical utility bill -- a situation not likely to occur. But let's suppose that the real utility cost *was* $150 and the PHA increased the Utility Allowance in exactly that amount. Unless the PHA simultaneously increases the Payment Standard, not only will households already in the program get merely a $10 benefit, *new* program participants and *anyone who has to move to a new apartment* will have another problem: their Family Share will exceed 40% of their Adjusted Income. The PHA would then be unable to approve this apartment for such a family. See 24 CFR 982.305(a)(5) and 24 CFR 982.508. In Case 5 above, the PHA could *not* approve the unit for a Section 8 tenancy based upon that family's income, even though the utility allowance had been increased to supposedly cover the actual cost.

CONCLUSIONS:

Since current program participants get no dollar benefit from increases in the utility allowance once the total of the rent to the owner and the new utility allowance goes over the current Payment Standard, *raising Utility Allowances without a corresponding increase in the Payment Standard is likely to help only a few households*. Only tenants who currently have very low rents in relation to the Payment Standard will be helped, and even *they* will only benefit up to the point that the new utility allowance gets their "Gross Rent" up to the Payment Standard.

Even worse, *increasing utility allowances without increasing the Payment Standard has a potentially very negative effect on new Section 8 households or current participants who must move.* Increasing the utility allowance without increasing the Payment Standard reduces housing choice while providing little or no financial advantage.

A Partial Solution?

Advocates should review the adequacy of their PHA's utility allowances and ascertain whether there is a need to increase both the utility allowances *and the Payment Standards* in order to offset higher heating fuel and electricity costs. These issues could be raised in the annual PHA Plan process, especially where the allowance has remained unadjusted in the face of rising utility costs.

Each PHA has some leeway on the rent levels within which it is permitted to set its Payment Standards. They can be set anywhere within a "basic range" between 90% and 110% of the federally published Fair Market Rents for the area. See 982.503. With HUD field office approval, they can be set up to 120% of the Fair Market Rent in some situations, and with Washington approval, they can even be set at more than 120%.

Although the regulation speaks in terms of setting the Payment Standards for each apartment size, it may be possible to have different Payment Standards set for units that don't include utilities than for those that do. If HUD determines that this cannot be done, a PHA can still increase its overall Payment Standards *within* the "basic range" for *all* apartments, regardless of whether they include utilities. In fact, since any landlord who is renting a vacant unit which includes utilities is likely to raise the rent to reflect the increased utility costs, it makes sense to increase the Payment Standards across the board.

PHAs always retain the ability (and responsibility) to limit their approvals for particular apartments by applying the "rent reasonableness" standard. That standard requires a "comparability" comparison. See 982.507(b). The rent comparability regulation specifically instructs PHAs to consider whether utilities are included. Consequently, there is really no justification for the PHA to refuse to increase its Payment Standards at the same time it increases its Utility Allowances.

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