

No.4  
August 2007

# MERCATUS ON POLICY

THE HOUSING VOUCHER  
CHOICE PROGRAM:  
More than just a  
lagniappe for New Orleans

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The landscape of New Orleans is spotted with the relics of failed housing policies. Even prior to Hurricane Katrina, dilapidated government projects were dark spots in an otherwise colorful and animated city. Many of the units in government housing projects now stand empty and damaged, challenging policy makers to address the issue of public housing without replicating the errors of the past.<sup>1</sup>

The question of how to best serve low-income families displaced by Hurricane Katrina resonates in the minds of New Orleans' policy makers. Although this question requires an immediate response, it must also be considered within the larger context of public provision of housing in general. While the disaster has inflicted a great deal of hardship on the citizens of New Orleans, it also represents a critical juncture at which policy can be re-evaluated and revised.

## MIXED INCOME DEVELOPMENTS: INCREASED COST, SLOWER RESPONSE

TO PROVIDE LOW-INCOME housing to New Orleans' displaced residents, state and local policy makers in Louisiana currently favor a program of mixed-income developments (MIDs). MIDs take the form of publicly financed subsidies granted to private producers of housing developments.<sup>2</sup> The subsidy requires developers to maintain a predetermined ratio (typically 1:3 or 1:4) of low-income to non-low-income tenants within a given location.

Advocates of MIDs suggest that mixing income groups produces positive benefits for all those involved. Their arguments stem from evidence that government housing concentrates poverty and often becomes the center of crime, violence, juvenile delinquency, substance abuse, and an array of other problems.<sup>3</sup> Proponents state that mixing disparate income groups will create role model effects and provide access to new social and economic networks.

However, since MIDs are created to replace existing government housing facilities, they are often confined to the same location of the previous structures. Consequently, businesses have difficulty determining if such an area is actually profitable in the housing market and may not invest as much as they would in other communities. (See figure 1.)

## HOUSING VOUCHERS: FAMILY-BASED HOUSING

IN ADDITION TO public housing projects, a Housing Voucher Choice Program was previously in place in New Orleans. While the existing voucher system already aids a substantial portion of total families on assistance, moving to a complete voucher system would free communities of the concentrated blight associated with public housing and MID-based approaches.

**Figure 1:**  
**COMPARISON OF THE CONCENTRATION OF HOUSING PRODUCTION**

	PUBLIC PRODUCTION	PRIVATE PRODUCTION	
	CONCENTRATED LOCATIONS	CONCENTRATED LOCATIONS	DISPERSED LOCATIONS
PUBLIC FINANCING	Housing Projects	Mixed-Income Developments	Vouchers Direct Cash Transfers

As a tenant-based program, housing vouchers operate in a fundamentally different way: qualified consumers, not producers, receive government assistance. The voucher program allows low-income families to purchase housing from any landlord in the community. The amount of the voucher is determined by the family's income, housing needs, and prevailing market rates for the appropriately sized unit. Families cannot use the money for anything other than housing.

### COMPARING MIDS AND VOUCHERS: A MIDDLE WAY

HOUSING VOUCHERS REPRESENT a middle ground between the inflexible policy of MIDs and completely private-market means of assistance. To compare how the MID and voucher systems might work in practice, consider what \$700 million, the amount available to the Housing Authority of New Orleans (HANO) following Hurricane Katrina, buys under both proposals.<sup>4</sup>

#### *\$700 Million for MIDs<sup>5</sup>*

According to HANO, the \$700 million New Orleans earmarked for new investment in public housing was to be spent on the construction of about 3,000 MID units at a per unit cost of over \$220,000.<sup>6</sup> Prior to the disaster, 14,000 families were receiving housing assistance from HANO. Of those families, 9,000 participated in the voucher program. The remaining

5,000 families lived in public housing and were to be gradually transitioned to the new MID units. However, since the original development plan included only 3,000 units, it could not accommodate the immediate needs created by the hurricane. As a result, the city either would have to deny assistance to 2,000 of these families or increase the budget to \$1.1 Billion—\$400 million more than the original allocation. (See table 1.)

#### *\$700 Million for Vouchers*

TO DETERMINE VOUCHER costs, HANO uses a payment standard determined by their reports of market rents and voucher payments.<sup>7</sup> When Katrina hit, HANO was using market-based average rental rates to determine the value of a voucher. At that time, a voucher covering the cost of a two-bedroom apartment was \$696 per month.<sup>8</sup> Based on these rates, the \$700 million projected investment could supply all 5,000 families with vouchers for five years and still save taxpayers an estimated \$300 million. (See tables 1 and 2.)

**Table 1:**  
**SUMMARY OF HANO DEVELOPMENT PLAN PRIOR TO KATRINA**

PRE-KATRINA HOUSING DEVELOPMENT PLAN	BUDGET AVAILABLE	UNITS	PER UNIT COST	TOTAL BUDGET REQUIRED
TOTAL FUNDS AVAILABLE / UNITS REQUIRED	\$700 million	5,146 units	\$221,309	\$1,138,856,114
PROJECTED INVESTMENT / UNITS PLANNED	\$700 million	3,163 units	\$221,309	\$700,000,000
UNDER CONSTRUCTION / USED FUNDS	-\$155 million	691 units	\$224,312	-\$154,999,592
REMAINING PLANNED UNITS / REMAINING FUNDS	\$545 million	2,472 units	\$224,312	\$554,499,264

Source: Numbers calculated based on estimated per unit costs taken directly from HANO figures of already developed MIDs and budget allocations. See Department of Housing and Development, "PHA Plans: 5 Year Plans for Fiscal Years 2006 – 2010, Annual Plan for Fiscal Year 2007" (2006), 1-169; <http://www.hano.org/FAQ102006.pdf> and <http://www.huduser.org/datasets/assthsq/statedata98/HUD4LA3.TXT>.

Following Katrina, HANO instituted a policy of giving vouchers in the amount of 120 percent of the average market rental rate. In July of 2006, HANO reported an allocation of \$1,128 per month for a two-bedroom voucher (which is very close to the to average monthly market rent found at the bottom of table 2).<sup>9</sup> Even at this higher rate, HANO could still use vouchers to provide those same 5,000 families with two-bedroom apartments for five years at just over half the cost of the MID proposal.

Table 2 also shows that policy makers can tailor vouchers to respond quickly to supply conditions in the market. When Katrina devastated a portion of the housing stock, the amount

**Figure 3:**  
**VOUCHER FLEXIBILITY OF MARKET DETERMINED RENTS**

HANO DETERMINED MARKET RENTS	AVERAGE PER UNIT COST OVER TIME	AVERAGE TOTAL COST FOR FIVE YEARS (5,146 FAMILIES)
Effective 10/1/05 for 1 Month	\$785	
Effective 10/1/05 for 12 Months	\$9,418	
Effective 10/1/05 for 5 Years	\$47,090	\$242,325,140
Effective 11/1/05 for 1 Month	\$941	
Effective 11/1/05 for 12 Months	\$11,296	
Effective 11/1/05 for 5 Years	\$56,480	\$290,646,080
Effective 7/1/06 for 1 Month	\$1,271	
Effective 7/1/06 for 12 Months	\$15,252	
Effective 7/1/06 for 5 Years	\$76,260	\$392,433,960

Market determined rents available through HANO, <http://www.hano.org/pmtstandard%20706.pdf> and <http://www.huduser.org/datasets/fmr.html>.

of the voucher was raised to reflect higher housing prices. Over time, this will provide an incentive for housing producers to invest in the market. As the supply of housing increases, policy makers can adjust voucher amounts to revert back to the average market rent. Accordingly, the total cost of the program should decrease as the community rebuilds.

Proceeds from the sale of government-owned land are another benefit of voucher-based housing assistance. By moving to a voucher system for all housing assistance, the government can sell the property on which public housing currently stands. Land auctions will generate windfall revenues that could be used to finance the voucher program or tax cuts to stimulate residential and commercial real estate investment.<sup>10</sup>

### THE NECESSITY OF FLEXIBILITY

New Orleans has an occasion, brought on by disaster, to change the face of its housing assistance program. Doing so does not require adopting unfamiliar policy, but it does require an honest recognition of what works. Successful policy begins by affirming the ability of individuals to make choices for themselves and their families.

Flexible housing assistance is the readiest means to enable such choices. Housing decisions involve a wide array of factors, including distance to employers, schools, public transportation, and social networks and

activities. Since the relative importance of these factors will vary for different individuals and families, the best housing assistance policy will have the flexibility to accommodate a wide range of preferences.

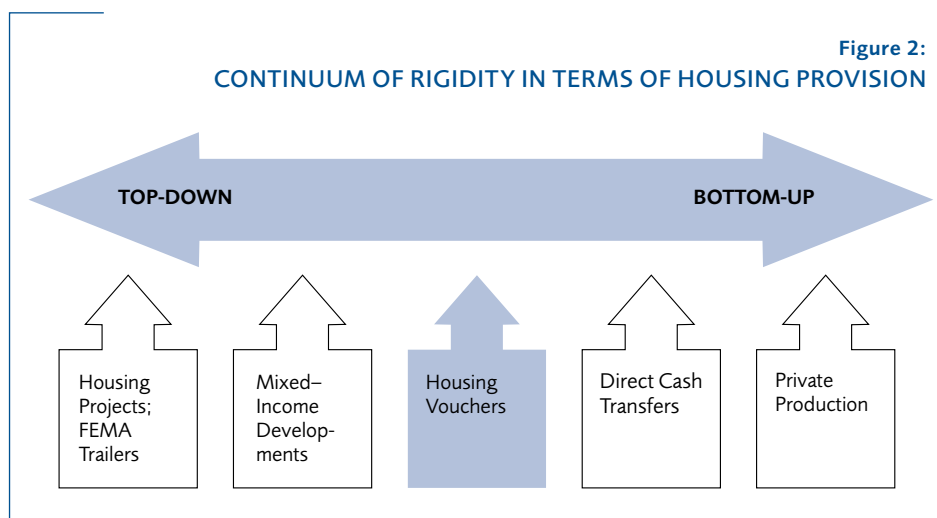
A categorization of five housing policy options, ranging from the least flexible to the most flexible, is depicted in figure 2.

Traditional housing projects are the least flexible option. Rather than housing people according to individual needs and preferences, this one-size-fits-all approach predetermines and fixes facility locations even as demographic and social circumstances change.

MIDs offer only a slight improvement over failed housing project policies. This means of providing assistance remains inflexible to changing circumstances and provides the consumer with almost no opportunities to choose a place to live.

Housing vouchers represent a middle ground and provide policy makers with needed flexibility to adapt to changing circumstances. To illustrate the practical benefits of greater flexibility in housing assistance policy, consider federal disaster relief in the wake of Hurricane Katrina.

In the months after the storm, over 135,000 FEMA trailers failed to reach residents in need of housing.<sup>11</sup> By comparison, within three weeks of the storm New Orleans' voucher program expanded to accommodate an additional 5,185 families—over half the program's original capacity.<sup>12</sup> This method of assisting families allowed them to quickly find homes suited to their needs. The fundamental difference between the two approaches is that the former relied upon a top-down strategy, whereas the latter allowed families to find solutions that fit their own needs.



**Figure 2:**

**CONTINUUM OF RIGIDITY IN TERMS OF HOUSING PROVISION**

## CONCLUSION & RECOMMENDATIONS

MORE FLEXIBLE HOUSING policies like vouchers create quicker and less costly recovery. To capture these benefits, we recommend the following policy measures:

1. Halt the adoption and construction of all forms of project-based assistance, including MIDs and government projects.
2. Administer all future housing assistance directly to consumers through vouchers.
3. Transfer the property rights of government projects from public to private hands, either through unrestricted auctions or assistance-based title grants to low-income individuals.
4. Provide an institutional climate favorable to real estate investment.

Policy makers must recognize the health of the community in general as an important goal of housing policy in the future rebuilding of New Orleans. Tenant-based assistance programs have historically demonstrated better outcomes than project-based assistance, for both the recipients of assistance and the community at large.

By providing assistance through choice, New Orleans' policy makers can satisfy a vast array of needs and avoid wasteful, one-size-fits-all Band-Aids.

## ENDNOTES

1. Total public housing units available prior to Katrina were 7,379. Of these, 6,679 were government housing projects and 5,146 were occupied. See Housing Authority of New Orleans Post-Katrina Frequently Asked Questions, <http://www.hano.org/FAQ102006.pdf>. Since the storm, approximately 1,200 residents have reoccupied two of the government housing projects: Iberville and Guste.
2. According to Alastair Smith, "Despite...widespread support, there is a wide variation on how "mixed-income" is defined. Various definitions stipulate a specific mix of incomes, the inclusion of market-rate units, or the presence of working families....The lack of a definitive description and set of objectives makes it difficult to evaluate the effectiveness of such programs and the sensibility of such a policy." Alastair Smith, *Mixed-Income Developments: Promise and Reality* (Joint Center of Housing Studies of Harvard University, Cambridge, MA, 2002), 3. Brophy and Smith define mixed-income housing as "a deliberate effort to construct and/or own a multifamily development that has a mixing of groups as a fundamental part of its financial and operating plans." Paul C. Brophy and Rhonda N. Smith, "Mixed-Income Housing: Factors for Success," *Cityscape* 3, no. 2 (1997): 5.
3. Claudia J. Coulton and Shanta Pandey, "Geographic Concentration of Poverty and the Risk to Children in Urban Neighborhoods," *American Behavioral Scientist* 35 (1992): 238–257, Jonathan Crane, "The Epidemic Theory of Ghettos and Neighborhood Effects on Dropping Out and Teenage Child-bearing," *American Journal of Sociology* 96 (1991): 1226–1259, Alexander Polikoff, *Housing Policy and Urban Poverty* (Washington, DC: Center for Housing Policy, 1994), Roberto G. Quercia and George C. Galster, "Neighborhood Threshold Effects: A Review of the Literature" (report to the Annie E. Casey

Foundation, Baltimore, MD, 1998).

4. The operating budget comprises tax-exempt bonds, low-income housing tax credits, HOPE IV Demolition and Revitalization Grants, and city and state funding.
5. Numbers have been rounded for convenience. Exact number can be found in Table 1.
6. This is based on the River Garden mixed-income development, which has been cited as the prototype for further MIDs. River Garden has one- and three-bedroom units, but the majority of the apartments are two-bedroom facilities. Costs are one-time expenditures for construction and do not include allocations for maintenance or repairs over time.
7. Housing Authority of New Orleans statistics are taken directly from Housing Authority of New Orleans Post-Katrina Frequently Asked Questions, <http://www.hano.org/FAQ102006.pdf> and <http://www.huduser.org/datasets/fmr.html>.
8. This was the voucher amount prior to the storm. See [http://www.huduser.org/Datasets/FMR/FMR2005R/Revised\\_FY2005\\_SCHEDULEB.pdf](http://www.huduser.org/Datasets/FMR/FMR2005R/Revised_FY2005_SCHEDULEB.pdf).
9. Market determined rents available through HANO, <http://www.hano.org/pmtstandard%20706.pdf> and <http://www.huduser.org/datasets/fmr.html>.
10. The purpose of this paper is simply to state the benefits of moving to a complete voucher system for housing assistance. Uses for the revenue gained from the sale of government property are outside the scope of this analysis other than to suggest that the revenues could be used for the ongoing financing of housing-assistance-related expenditures.
11. Amy Lui, *Building a Better New Orleans: A Review of and Plan for Progress One Year After Katrina* (Washington, DC: Metropolitan Policy Program, The Brookings Institution, 2006).
12. See Department of Housing and Development, "PHA Plans: 5 Year Plans for Fiscal Years 2006 – 2010, Annual Plan for Fiscal Year 2007" (2006), 1-169.

TO FIND OUT MORE ABOUT WAYS TO DEVOLVE POWER IN NEW ORLEANS, READ *THE HOUSING VOUCHER PROGRAM: MORE THAN JUST A LAGNIAPPE FOR NEW ORLEANS*, NUMBER 13 IN THE MERCATUS POLICY SERIES.

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