MDRC POLICY BRIEF
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Making Work Pay for Public Housing Residents

Learning from the Jobs-Plus Demonstration

JOBSPLUS

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SUMMARY

RESIDENTS of the nation's public housing developments have long suffered disproportionately from perverse disincentives to work. Under traditional public housing policies, their rents were automatically ratcheted up in lock step with any income increase they realized from earnings, even in a low-wage job. Work often promised them little financial gain. But a series of reforms over the past decade — in welfare and tax policies, as well as in housing policies — have tipped the financial balance more in favor of work, perhaps to a degree that is not fully appreciated by many public housing residents and administrators. Still, some important disincentives remain.

This policy brief, one in a continuing series[1] that presents emerging insights from the Jobs-Plus demonstration, discusses innovative attempts to bring public housing rent policies more fully into line with reforms in welfare and tax policies designed to "make work pay."[2] The rationale underlying the Jobs-Plus approach is reinforced by a growing body of research on welfare families showing that policies that allow low-wage workers to keep more of their benefits or receive earnings supplements can help raise employment and earnings, reduce poverty, and increase the well-being of young children. Jobs-Plus is an innovative "place-based" employment initiative for public housing residents that mixes new rent-based work incentives with employment and training services and "neighbor-to-neighbor" social supports for work.[3]

The Jobs-Plus rent reforms build on the non-housing reform policies of the 1990s and push further in this direction. They help to ensure that full-time work will leave a family with more net income than part-time work (which has not always been the case), and that a full-time job will raise income above what that same job would yield under the old rent policies.

Jobs-Plus anticipated some of the key reforms of the Quality Housing and Work Responsibility Act, passed by Congress in 1998. The strategies and experiences of the Jobs-Plus sites can thus offer guidance to other public housing authorities as they attempt to implement provisions of the new law.

Public Housing Residents Have Historically Faced Strong Disincentives to Work

Over the past several decades, many public housing developments became places of high unemployment and concentrated poverty. It is widely believed that traditional public housing rent policies are partly to blame, since they created a disincentive for residents to work. Under those rules, rent was calculated as 30 percent of a family's adjusted income (defined as total income minus certain deductions, or disregards). This income-based rent structure functioned as an implicit tax: as a family's income increased, so did its rent. In addition, under the federal welfare system that operated through 1996 (Aid to Families with Dependent Children, or AFDC), residents on welfare who took jobs saw their cash grants reduced nearly dollar for dollar with any new earnings, a situation exacerbated by the potential loss of Medicaid coverage and increased child care costs. In short, public housing residents who increased their earnings have historically seen a large portion of these new earnings siphoned off by a combination of higher rents, lost welfare benefits, and work-related expenses.

Changes in Non-Housing Policies During the 1990s Increased Work Incentives — Although Rent-Related Disincentives Remained

In the past 10 years, several changes made to non-housing policies have increased the financial benefit that low-income families — including public housing residents — derive from increased earnings. In implementing the 1996 federal welfare reform legislation, many states put into place policies that prevent recipients from losing all of their welfare benefits when they go to work. Moreover, changes in Medicaid eligibility rules for adults and the inception of the Children's Health Insurance Program expanded the health coverage available to low-income families, including those leaving welfare for work. Perhaps most notably, the federal Earned Income Tax Credit (EITC) was made far more generous, and now provides significant financial support for working families.

As a result of these changes, public housing residents, like other low-income groups, can now benefit more from going to work — if they know about and take advantage of all the benefits available to them. Yet, a number of studies have shown that supports like the federal child care subsidy program and the EITC are used by fewer families than are eligible and that many families remain unaware of them altogether. Indeed, in a baseline survey taken of residents of Jobs-Plus housing developments before the demonstration began, only 40 percent said that they had heard of the EITC. It is likely, therefore, that many residents still believe that the economic payoff from low-wage work remains marginal.

Even after taking the potential impact of these changes into account, however, traditional rent rules continued to act as a disincentive to employment for families in public housing. Under some circumstances, the rules discouraged residents from taking a full-time rather than part-time job, from taking a job that paid higher wages, or from having a second wage earner in the family. Moreover, the risk that taking a job would result in higher rents remains a matter of particular concern for public housing residents. In the baseline survey, 46 percent of residents said they believed that having their rent raised because of going to work full time would create a "pretty big" or "very big" problem for them.

New Federal Housing Legislation Passed in 1998 Included Rent Rules Designed to Encourage Employment Among Public Housing Residents

Intending to transform public housing developments into mixed-income communities with many more working residents, Congress enacted the Quality Housing and Work Responsibility Act (QHWRA) in 1998. Among the legislation's key features are the following new public housing rent policies designed to overcome the work disincentives inherent in traditional rent rules:

- QHWRA requires public housing authorities to disregard 100 percent of new earnings for one year when calculating rents for certain groups of residents, including those who move from welfare to work.
- During the next 12 months, housing authorities can increase rents for these groups by only half as much as would be permitted under traditional income-based rules.
- Housing authorities must also offer a flat-rent option that allows residents to choose whether to pay a rent that remains fixed at a flat rate or a rent based on the traditional formula (that is, 30 percent of income).
- At their discretion, housing authorities may implement such policies as establishing lower ceiling rents (which cap how high income-based rents can go) and creating further income disregards.

Taken together, the QHWRA rent policies represent one of the most ambitious legislative efforts to date to promote employment among public housing residents by increasing their financial incentive to work.

Jobs-Plus Is Testing Incentives That Are Consistent With the New Housing Law — And Go Even Further

Implemented at seven public housing developments in six cities (Baltimore, Chattanooga, Dayton, Los Angeles, St. Paul, and Seattle),[4] Jobs-Plus combines employment and training services, financial work incentives, and a "community support for work" component in a comprehensive intervention targeted at all working-age residents.[5] Although the creation of Jobs-Plus preceded QHWRA by more than one year, the demonstration's focus on increasing employment among public housing residents is consistent with the goals of that legislation. In addition, the Jobs-Plus financial work incentives, which are created primarily by changing the traditional link between income and public housing rents, are congruous with the types of rent incentives contained in QHWRA.

The Jobs-Plus incentives go even further than QHWRA in their scope and generosity, placing the demonstration at the forefront of innovation regarding work incentives targeted at public housing residents. Because each site's incentives were designed through the collaboration of residents, public housing administrators, and other neighborhood entities to reflect local conditions, the Jobs-Plus incentives vary considerably across the demonstration sites (Table 1). Each site's incentives consist of one or more of the following elements.

- **Rent freeze.** Rent remains fixed at its current level for a specified period of time as long as the resident is working. A rent freeze serves essentially as a 100 percent disregard of new earnings and is designed to benefit families making the transition to employment who often must absorb new work-related expenses, such as clothing and transportation.
- **Flat rents.** As is the norm in the private unsubsidized rental housing market, rent is fixed at a specified level for a period of time and does not change as the resident's income changes. Sites with flat-rent incentive plans allow residents to switch to income-based rents if the flat rent creates a financial hardship, such as might occur if the resident's income were to fall due to a job loss.[6] At two sites with flat rents, residents who lose their jobs are allowed to pay minimum rents for one to three months while looking for work.
- **Income-based rents calculated using a lower percentage of adjusted income.** As under traditional public housing rent rules, rent is calculated as a percentage of adjusted income. However, this percentage is set lower than the standard 30 percent.
- **Lower ceiling rents.** A complement to income-based rents, ceiling rents place a cap on how high a family's rent can go. Jobs-Plus sites with ceiling rents have set them at levels lower than the housing authorities use for their other developments.
- **Incentives beyond basic rent rules.** Some Jobs-Plus sites place a portion of residents' rent payments into escrow accounts to promote asset accumulation, provide rent credits to reward sustained employment, assist working residents with transportation costs, or help residents with health coverage and child care.

How Jobs-Plus Rent Incentives Affect Net Income

The following case studies illustrate how rent-based incentives developed by one Jobs-Plus site, in combination with other non-housing financial incentives available to tenants, would affect the net income of three prototypical resident families who pursue three common employment scenarios. DeSoto Bass Courts in Dayton, Ohio, has implemented an incentives plan with two flat-rent steps. In the year-long initial step, the participating tenant's rent is set at about

TABLE 1

Cross-Site Summary of Jobs-Plus Rent Incentives Features

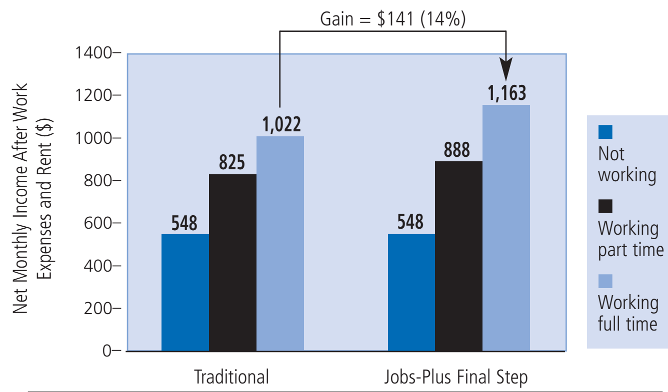
Incentive	Baltimore	Chattanooga	Dayton	Los Angeles	St. Paul	Seattle
Rent freeze (or 100% disregard of new earnings) Rent is fixed at its pre-Jobs-Plus level for a certain period.				✔		✔
100% disregard of all earnings Rent for a certain period is based only on welfare income minus standard disregards.					✔	
Flat/fixed rent steps Rent is set to a fixed level that does not vary with income and is increased to a new fixed level every year or two.			✔	✔	✔	✔
Income-based formula, with rent set to a lower percentage of adjusted income Rent is set to 10% or 20% of adjusted income.	✔	✔				
Reduced ceiling rent The maximum rent a resident can pay under an income-based formula is reduced.	✔	✔				
Escrow accounts Part of residents rent payments are deposited into a savings account, which may be interest-bearing.	✔					✔
Rent credits Residents receive rent credits for joining Jobs-Plus or for each month they work.				✔	✔	
Transportation assistance Direct assistance with transportation costs through free or low-cost van programs or a deduction for transportation costs when calculating adjusted income.	✔	✔	✔			

SOURCE: Jobs-Plus sites' incentives plans.

Case#1: Ana is a single mother with two children. She is currently on welfare and is considering taking a job for $6 per hour.

Even **under traditional rent rules**, both part-time and full-time work produce a net income gain for Ana's family — thanks in large part to the increased generosity of the EITC and other reforms in non-housing policies discussed above. **Jobs-Plus rules**, however, expand the advantage of full-time over part-time work because rent does not increase along with her earnings. By working full time under Jobs-Plus, Ana's net monthly income would be $141 (14 percent) higher than if she worked the same amount under the traditional rules.

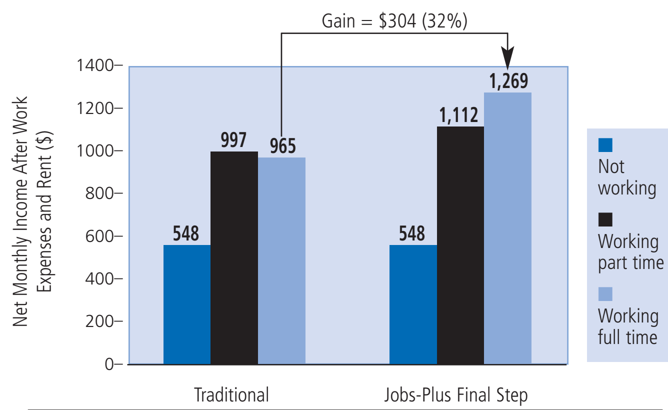
Figure 1



Case#2: Mary is a single mother with two children who recently took a part-time job paying $10 per hour. She is now considering taking a full-time job at the same wage rate.

Under traditional rules, Mary would realize a net income gain by taking a part-time job. However, by taking a full-time job, she would end up with *less* net income than if she worked only part time because of a greater reduction in benefits and jump in rent. **Jobs-Plus rules** correct this problem, leaving her with more net income if she works full time rather than part time. Furthermore, she would realize $304 (32 percent) more in net monthly income than she would with the same full-time job under traditional rules.

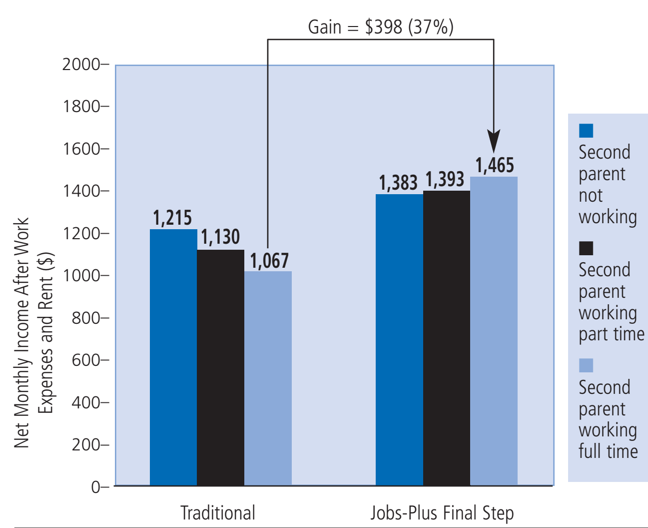
Figure 2



Case#3: Brenda lives with her spouse and two children. Her spouse works full time earning $6 per hour, and the family receives welfare and Food Stamp benefits. Brenda is considering take a job that pays $6 hour.

Under traditional rules, net income for Brenda's family would decrease if she went to work either part time or full time. **Under Jobs-Plus rules**, however, her family's net income would increase — though only if Brenda were to take a full-time job. In this scenario, the family's net income would be $398 (37 percent) higher per month than under traditional rules. Although Brenda has a greater incentive to work full time under Jobs-Plus, the lower rent the family would pay under the program's incentives would also make it easier for her or her spouse to stop working — or to work less — without making the family any worse off than they would have been under traditional rent rules.

Figure 3



one-third of the authority-wide flat rent. In the final step, rent increases to about half the authority-wide standard and remains at that level for the balance of the demonstration. The figures below compare what each of the prototypical tenants' *net monthly income*[7] would be under traditional rent rules and under the Jobs-Plus second-step rent rules.

As the Dayton case studies illustrate, Jobs-Plus rent policies increase the financial reward for housing authority residents to work more hours and, in many cases, to take better-paying jobs. Although the amounts differ, similar patterns hold across the demonstration sites. Because most Jobs-Plus sites began implementing their financial work incentives only in 2000, the evaluation of these policies is still underway. When completed, it will provide an important account of what it takes to put the different strategies into operation, how residents view and react to the alternative approaches, and how the incentives affect residents' employment and earnings.

How Jobs-Plus Incentives May Affect Housing Authority Rent Revenues

Jobs-Plus will also yield an important lesson about the impact of rent incentives on housing authority revenues. Underlying the Jobs-Plus approach to public housing rent reform is the assumption that housing authorities will lose revenue in the short term as they reduce tenants' rents to encourage greater employment, but that those losses will be recouped over the longer term as more residents go to work (and thus pay more rent than they would have paid when not employed). To encourage the housing authorities participating in Jobs-Plus to experiment with new approaches, the U.S. Department of Housing and Urban Development is compensating them for any lost revenue caused by the rent incentives over the course of the demonstration.[8] The evaluation will measure cumulatively how much revenue (if any) they actually lose, which is of great importance both for housing authorities and federal policymakers.

The Relevance of Jobs-Plus Financial Incentives Extends Beyond Public Housing to Other Self-Sufficiency Efforts

Although Jobs-Plus is operating solely in public housing developments, the demonstration's lessons on financial incentives can contribute to a deeper understanding of efforts to make work pay for low-income families. For example, the Jobs-Plus programs have introduced innovative strategies to educate public housing residents about financial work incentives, including an interactive Web-based income calculator that allows users to see how different employment scenarios (varying the hourly wage rate or the number of hours worked per week, for example) would affect their net income when coupled with the available benefits (such as the EITC, Food Stamps, or child care subsidies). Promising outreach and educational strategies for ensuring that families take advantage of these benefits may be applicable to the welfare system and other systems serving low-income families. Findings from Jobs-Plus may also suggest ways in which the U.S. Department of Housing and Urban

(continued on next page)

Notes

1 Earlier briefs have discussed the relationship between housing and employment and welfare outcomes for welfare recipients (*Welfare, Housing, and Employment*, May 2001), and provided an overview of the Jobs-Plus strategies being tested and described the communities in which they are being tried (*Promoting Employment in Public Housing Communities*, November 2001).

2 This policy brief is based on Cynthia Miller and James A. Riccio, 2002, *Making Work Pay for Public Housing Residents: Financial-Incentive Designs at Six Jobs-Plus Demonstration Sites,* New York: MDRC.

3 The U.S. Department of Housing and Urban Development (HUD), The Rockefeller Foundation, and other public and private funders listed at the end of this document are sponsoring the demonstration, which is being managed and evaluated by MDRC.

4 Jobs-Plus originally included eight public housing developments in seven cities. The Jobs-Plus site in Cleveland, Ohio, withdrew from the demonstration due to local factors. The Seattle site is also no longer part of the national demonstration because the Jobs-Plus development there is being razed and rebuilt under a federal HOPE-VI grant; however, it is continuing to operate a modified Jobs-Plus program during the redevelopment process.

5 For a full description of the Jobs-Plus approach, see James A. Riccio, 1999, *Mobilizing Public Housing Communities for Work: Origins and Early Accomplishments of the Jobs-Plus Demonstration*, New York: MDRC. A detailed analysis of inter-agency and resident collaboration in designing and operating the program at the local level is presented in Linda Y. Kato and James A. Riccio, 2001, *Building New Partnerships for Employment: Collaboration Among Agencies and Public Housing Residents in the Jobs-Plus Demonstration*, New York: MDRC.

6 Jobs-Plus sites with income-based rents have a built-in safety net for residents who lose their jobs — as their income drops, so does their rent.

7 These calculations take into consideration earnings, AFDC/TANF payments, Food Stamps, child care subsidies, the accrued monthly value of EITC payments, child care and transportation costs, tax obligations, and rent. Part-time employment is defined as working 20 hours per week; full-time employment is defined as working 40 hours per week.

8 If a participating housing authority's combination of rent revenues and operating subsidies for its Jobs-Plus development is lower when rents are calculated according to Jobs-Plus rent rules rather than traditional HUD rent rules, HUD reimburses the housing authority for the difference.

Development's Section 8 housing assistance program, which currently calculates rents as 30 percent of family income, might use financial incentives to promote employment.

Conclusion

Enhanced financial work incentives targeted at public housing residents have the potential to increase employment and net income and, even more broadly, to change how families in public housing perceive the real financial rewards of work. Future publications from the Jobs-Plus demonstration will assess whether these ambitious goals are achieved.

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