The Increasing Use of TANF and State Matching Funds to Provide Housing Assistance to Families Moving from Welfare to Work

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Executive Summary

In the last two years, the states of Connecticut, Kentucky, Maryland, Minnesota, North Carolina and New Jersey, and Los Angeles and San Mateo Counties in California have used federal TANF or state Maintenance of Effort (MOE) funds,[1] alone or in combination with other funds, to establish programs to provide housing assistance to families attempting to make the transition from welfare to work. Each of these efforts assists a relatively modest number of families compared to many other TANF-funded programs: these housing assistance programs range in size from about 75 families assisted annually in San Mateo County to 1,200 families per year in Connecticut. These modest programs are noteworthy, however, because they demonstrate the growing recognition by state welfare policymakers that affordable housing — like child care, medical care and transportation — can be an important foundation of economic self-sufficiency that merits the expenditure of funds traditionally reserved for income maintenance and employment and training functions.

The Value of Housing Subsidies to Welfare Reform Efforts

Recent research results suggest that housing subsidies can be helpful in advancing welfare reform objectives. An evaluation of Minnesota's welfare reform initiative (known as MFIP) by the Manpower Demonstration Research Corporation, for example, found that residents of public and subsidized housing benefitted more from that initiative than poor families not residing in such housing. The central features of MFIP were a requirement that recipients participate in work activities and a substantial increase in the amount of earned income that was disregarded in determining the family's eligibility for, and benefit level under, the state's cash assistance program. The evaluation found that among long-term welfare recipients in urban counties subject to both the work participation requirements and the earnings disregard, employment and

[1] "TANF" is the acronym for Temporary Assistance for Needy Families, the federal block grant that replaced the former federal welfare program, Aid for Families with Dependent Children (AFDC). Maintenance of Effort (MOE) funds are those state funds that states must spend to continue receiving their full federal TANF block grant.

earnings increases were significantly greater for families living in public or subsidized housing than for those in private housing.

The evaluation also found that MFIP participants living in public or subsidized housing outperformed residents of private housing on an absolute basis; average earnings over 18 months among long-term welfare recipients in urban counties who were subject to the work participation requirements and the earnings disregard and who lived in public or subsidized housing exceeded by more than 40 percent the average earnings of participants not residing in such housing.[2]

Analyzing data collected in four California counties (Alameda, Los Angeles, San Bernardino, and San Joaquin), researchers from UCLA found that, on average, families receiving both Aid to Families with Dependent Children (AFDC) benefits and Section 8 housing subsidies worked significantly more hours than AFDC families living in other forms of housing, including unsubsidized housing. The researchers found this result held true after controlling for observed differences in personal characteristics.[3]

Additional research is needed to confirm the applicability of these preliminary findings to other welfare reform programs. These findings suggest, however, that housing subsidies may be useful in helping families make the transition from welfare to work. Although the available research does not provide definitive explanations for these results, there are a number of possible explanations for why housing subsidies may help families to obtain and retain employment.

- By making housing more affordable, housing subsidies may help to stabilize the lives of low-income families and thereby improve their ability to secure and retain jobs. Some families with housing affordability problems may be forced to move frequently from the home of one friend or relative to that of another (or, if no other options are available, to a homeless shelter). Such moves can interrupt work schedules and jeopardize employment.

- By reducing housing costs, housing subsidies can free up funds within the budgets of low-income families for work-related expenses, such as child care, work clothes, and transportation.

- Housing subsidies can help families move to areas with greater job opportunities.

In addition to the potential role of housing subsidies in promoting employment among welfare recipients, housing subsidies may provide other important social benefits:

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[2] Cynthia Miller, *Explaining MFIP's Impacts by Housing Status*, Unpublished Paper, Manpower Demonstration Research Corporation (MDRC), 1998.

[3] Paul Ong, "Subsidized Housing and Work Among Welfare Recipients," *Housing Policy Debate* 9:4 (1998), p. 775.

- *Education*. Housing subsidies may help to improve children's educational prospects in two ways. First, some studies have shown that the children of families that move frequently tend to do less well in school. By enabling poor families to find and keep affordable housing, housing subsidies may help these families' children to maintain attendance rates and remain in a stable school setting, improving their educational prospects.[4] Second, there is some evidence to suggest that school performance is correlated with certain neighborhood characteristics, such as poverty concentration. By enabling families to move to neighborhoods with better educational opportunities, tenant-based housing vouchers (as well as some well-located project-based developments) may help assisted families to secure better educations for their children.

- *Child health*. Studies by doctors in Boston suggest that receipt of housing subsidies may lead to child health benefits. One study, for example, found that children of families on a waiting list for housing assistance were much more likely to suffer from stunted growth than children of families receiving housing subsidies.[5] The most likely explanation for these results is the increased ability of families with housing subsidies to afford nutritious food.

- *Domestic violence.* Housing vouchers can help victims of domestic violence escape abusive living situations. Without access to housing subsidies, domestic violence victims may be forced to stay in an abusive living situation or to leave their homes and possibly become homeless, undermining family stability.

The Shortage of Affordable Unsubsidized Rental for Families Making the Transition From Welfare to Work

Despite a strong economy, there continues to be a shortage of affordable rental housing. As of 1995, some 5.3 million very-low-income renter households — including 2.4 million households with earnings as their primary income source — either spent more than half of their income on housing or lived in severely substandard housing, but received no government housing assistance.[6] The dominant housing problem of most of these households was having to spend more than half of their income on housing. Preliminary data suggest this situation may have grown worse since 1995.

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[4] *See, e.g.,* "A Report from the Kids Mobility Project," March 1998, available from the Hennepin County Office of Planning & Development, Government Center A-2308, 300 S. Sixth St., Minneapolis, MN 55487-0238, (612) 348-4466.

[5] Allan R. Meyers *et al.*, "Housing Subsidies and Pediatric Undernutrition,"*Archives of Pediatric Adolescent Medicine* (1995), 149:1079-1084.

[6] U.S. Department of Housing and Urban Development, *Rental Housing Assistance—The Crisis Continues: The 1997 Report to Congress on Worst Case Housing Needs*, Washington, DC, 1998. HUD defines "very-low income" households as those with incomes below 50 percent of the area median family income, as adjusted for family size and other factors. The area median family income varies substantially from area to area.

Although many families experience an increase in income when they leave welfare for work, they generally remain poor. One review of studies of employed former recipients of welfare and recipients combining work and welfare found that, on average, such families earn between $8,000 and $10,800. Although rental costs vary by area and from household to household within each area, on average, the rental and utility costs of a modest apartment of decent quality in a metropolitan area will consume more than half of the income of a family making $12,000 per year. After paying such high housing costs, low-income working families may have insufficient income remaining to pay for child care, transportation and other work-related expenses and have difficulty meeting basic needs. Such families also are vulnerable to losing their housing as a result of inability to pay the rent.

State and Local Housing Programs Funded with TANF or MOE Funds

In the past year or two, six states and two California counties have initiated programs that use TANF or state MOE funds to provide housing assistance to families attempting to make the transition from welfare to work.

State welfare grants have always provided some assistance to meet housing-related costs. The amount of welfare assistance a family receives usually does not vary, however, based on the family's actual housing costs, partly because of the large costs that would likely be incurred by a program that seeks to ensure that all qualifying families have sufficient income left over after payment of their housing costs to meet other basic needs. These new state initiatives do not seek to assist families generally with high housing costs. Instead, they use TANF or MOE funds to provide a significant amount of financial assistance to help meet the ongoing housing costs of a limited number of families attempting to make the transition from welfare to work.

The new TANF- or MOE-funded housing assistance programs in Connecticut, Maryland, Minnesota, New Jersey, North Carolina and in Los Angeles and San Mateo counties provide tenant-based housing vouchers that subsidize rents for housing that families locate in the private market. Families may use their vouchers to reduce their rent burden for the housing they already occupy or to rent new housing. The programs in Minnesota and Mecklenburg County, North Carolina allocate a small portion of the available subsidies to particular property owners, who rent their units to eligible low-income families and may provide families with additional work-related services. The Kentucky program provides assistance to help families afford the costs of homeownership. The programs of three North Carolina counties include both homeownership and rental components.

All of these programs control costs by placing limits on the duration of the housing subsidies as well as on the number of families that can participate. The duration of rental assistance varies from one year in Connecticut and San Mateo County to 18 months in Maryland and North Carolina, two years in Los Angeles, three years in New Jersey, and five years in Minnesota. Because of funding constraints, all of the states except Connecticut either limit the areas of the state in which the program operates or require agencies or counties to compete for a limited pool of funds, or both.

Some states fund their programs exclusively with TANF block grant funds. Others use state funds that the state counts towards its Maintenance of Effort (MOE) obligation or a combination of TANF and MOE funds. The choice of which funding stream(s) to employ is closely related to the decision regarding which group(s) of families a state wishes to serve. States that wish to target families already receiving TANF-funded "assistance" can safely use TANF funds to provide housing assistance without affecting the families' future eligibility for TANF benefits under the federal five-year time-limit. States that wish to provide housing assistance to families that are *not* already receiving TANF-funded "assistance," however, should consider funding the housing assistance with MOE funds that are accounted for separately from TANF funds. The months during which families receive benefits provided with such MOE funds do not count against the families' federal lifetime time-limit. By using MOE rather than TANF funds to serve these families, as a number of the states with these programs are doing, states ensure that the families remain eligible for TANF-funded "assistance" should they need it at a later date.

States that wish to establish a housing assistance program that serves both families that currently receive TANF cash assistance and families that do not receive TANF cash aid can create a housing program that combines use of federal TANF funds for families currently receiving TANF cash aid with use of MOE funds for other families. By deploying funds in this manner, states can ensure the uninterrupted provision of housing assistance to working poor families that increase their earnings enough so they no longer qualify for TANF cash aid, and can do so without jeopardizing these families' ability to receive TANF-funded cash assistance at some future time if hardship should confront them (as in a recession).

Introduction

This paper provides a detailed look at state and local programs that use federal TANF or state Maintenance of Effort (MOE) funds[7] to provide housing assistance to families attempting to make the transition from welfare to work. In the last two years, such programs have been established in the states of Connecticut, Kentucky, Maryland, Minnesota, North Carolina and New Jersey, and in the California counties of Los Angeles and San Mateo.

The paper begins by exploring the rationale for using TANF or MOE funds to provide housing subsidies to families that are or were recently receiving welfare funds. The first section of the paper reviews the growing body of evidence which suggests that housing assistance may advance welfare reform objectives. The second section describes the shortage of low-cost rental housing that has made it difficult for low-income working families in many areas to find housing that does not consume excessive portions of their income.

The paper then explores some of the key issues involved in designing and funding housing assistance programs targeted on families attempting to navigate the transition from welfare to work. The third section of the paper describes eight state and local initiatives that use TANF or MOE funds to help subsidize the housing costs of families attempting to make this transition. The final section of the paper discusses the rules that apply to the use of federal TANF or state MOE funds and how those rules affect the design of housing assistance programs.

[7] "TANF" is the acronym for Temporary Assistance for Needy Families, the federal block grant that replaced the former federal welfare program, Aid for Families with Dependent Children (AFDC). Maintenance of Effort (MOE) funds are those state funds that states must spend to continue receiving their full federal TANF block grant.

I. The Value of Housing Subsidies to Welfare Reform Efforts

Recent research results suggest that housing subsidies can be helpful in advancing welfare reform objectives. A study by the highly regarded Manpower Development Research Corporation (MDRC) of welfare reform in Minnesota found most of the gains in employment and earnings attributable to the state's welfare reform initiative were concentrated among residents of public or subsidized housing. In other words, welfare reform was found to have a larger effect on employment and earnings among families receiving housing subsidies than among other families in the study. Preliminary findings from studies in Atlanta, Georgia and Columbus, Ohio, indicate the same may be true of different initiatives undertaken in those cities. A study of the work activity of welfare recipients in four counties in California found a strong positive correlation between receipt of Section 8 housing assistance[8] and the number of hours worked per month, after controlling for other characteristics. Additional research is needed to confirm the applicability of these preliminary findings to other welfare reform programs. These findings suggest, however, that housing subsidies may be useful in helping families make the transition from welfare to work.

Minnesota Family Investment Program. A recent evaluation of Minnesota's welfare reform initiative (known as MFIP) by the Manpower Demonstration Research Corporation (MDRC) found that residents of public and subsidized housing benefitted more from that initiative than poor families not residing in such housing.[9] The central features of MFIP were a

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[8] Section 8 is a federal housing subsidy program that pays a portion of families' rent to private owners. The program has two components of approximately equal size. The tenant-based program provides vouchers or certificates that families can use to rent private housing in any location. The project-based program subsidizes units in particular privately-owned buildings. The main differences between tenant-based and project-based housing are explained in a text box on p. 4.

[9] Cynthia Miller, *Explaining MFIP's Impacts by Housing Status*, Unpublished Paper, Manpower Demonstration Research Corporation (MDRC), 1998. For other results from the MFIP demonstration *see* Cynthia Miller, Virginia

(continued...)

requirement that recipients participate in work activities and a substantial increase in the amount of earned income that was disregarded in determining the family's eligibility for, and benefit level under, the state's cash assistance program. The evaluation found that among long-term welfare recipients in urban counties subject to both the work participation requirements and the earnings disregard, employment and earnings increases were greater for families living in public or subsidized housing than for those in private housing. MFIP participants living in public or subsidized housing also outperformed residents of private housing on an absolute basis; average earnings over 18 months among long-term welfare recipients in urban counties who were subject to both the work participation requirements and the earnings disregard and lived in public or subsidized housing *exceeded by more than 40 percent* the average earnings of participants not residing in such housing.

Tenant-based vs. Project-based Assistance

There are two main types of government-funded rental housing assistance: tenant-based assistance and project-based assistance:

- *Tenant-based assistance* helps subsidize the rents of apartments that families locate in the private market. It is called tenant-based because the subsidy recipient can take the assistance with her to a new apartment. The largest tenant-based assistance program is the federal Section 8 housing voucher program.

- *Project-based assistance*, by contrast, is attached to specific units. The two main project-based assistance programs are the federal public housing program and the *project-based* Section 8 program. Project-based Section 8 housing consists of subsidized rental units in buildings owned and operated by private owners.

All three of these programs provide subsidies that vary depending on the incomes of participating families. As a general rule, these programs require families to pay 30 percent of their income for rent and utilities, with the subsidy covering the difference between the family contribution and actual housing costs, up to a locally-adjusted maximum.

A number of other federal and state programs, such as the federal Low-Income Housing Tax Credit program, help to make rents more affordable to moderate-income families by subsidizing the costs of construction or construction-related borrowing. Without an additional subsidy (such as a housing voucher), however, the rents for such units generally are not affordable to working poor families, including families making the transition from welfare to work.

Studies of two different Job Opportunities and Basic Skills (JOBS) training interventions in Atlanta and Columbus similarly indicate that the programs' impacts over a three-year period were concentrated among families in public or subsidized housing. Reviewing these results, MDRC researchers James Riccio and Alan Orenstein conclude: "Taken together, the impact findings from the Atlanta, Columbus, and Minnesota studies point to an important and consistent result: all three mainstream welfare-to-work programs had their largest and most consistent employment and earnings impacts on

[9] (...continued)
Knox, Patricia Auspos, Jo Anna Hunter-Manns, Alan Orenstein, *MFIP: Making Welfare Work and Work Pay: Implementation and 18-Month Impacts of the Minnesota Family Investment Program*, MDRC, 1997.

welfare recipients . . . who lived in public or Section 8 housing. Their impact was smallest — and sometimes almost entirely absent — for recipients in unsubsidized private housing."[10]

In addition to showing substantial improvement in terms of earnings and employment rates, families who were targeted to receive JOBS services in Atlanta and lived in Section 8 housing had higher employment rates in the last quarter of the three-year period studied than families in unsubsidized housing targeted to receive the same services.[11] This occurred despite the fact that, by most conventional measures, the families in Section 8 housing were less "work-ready" at the outset of the program than those in unsubsidized housing. The relative disadvantage of the families in Section 8 housing at the outset of the program makes their eventual success still more significant.[12]

Section 8 Program in California. Analyzing data collected in four California counties (Alameda, Los Angeles, San Bernardino, and San Joaquin), researchers from UCLA found that, on average, families receiving both Aid to Families with Dependent Children (AFDC) benefits and Section 8 housing subsidies[13] worked significantly more hours than AFDC families living in

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[10] James Riccio and Alan Orenstein, *Are Recipients in Public Housing Really Harder to Employ?* (draft) Presented at Annual APPAM Research Conference, Washington, DC, November 4, 1999.

[11] MDRC's study of the Atlanta JOBS initiative analyzed the outcomes of families living in different forms of housing who received comparable benefits under the JOBS program. To identify a family's housing status, the researchers asked in one-on-one interviews whether the family was living in "public housing," "subsidized housing," "emergency/temporary shelter" or "none of the above." The researchers also took a number of steps to verify the accuracy of families' responses. The few families who reported that they were living in "emergency/temporary shelter" were excluded from the analysis. Those families who responded "none of the above" were assumed to be living in unsubsidized housing. Riccio and Orenstein, supra n. 10, Appendix 1. In the draft paper, the authors generally refer to those families who indicated that they live in "subsidized housing" as the "Section 8" group. We follow that convention in reporting their results. The draft paper does not indicate how many families in the Section 8 group had tenant-based assistance and how many families had project-based assistance.

[12] Riccio and Orenstein, supra n. 10, at Appendix Tables 3, 4 and 5. The Atlanta JOBS initiative used two treatment approaches: the Labor Force Attachment approach, which emphasized quick entry into the labor force, and the Human Capital Development approach, which emphasized participation in education and training prior to looking for work. Among participants in the Human Capital Development group, a greater share of those in Section 8 housing (45.9 percent) were working at the end of the period studied (i.e., the last quarter of year three) than of those in unsubsidized housing (40.2 percent). This difference is statistically significant. Households in the Labor Force Attachment group that were living in Section 8 housing also had higher employment rates at the end of the study period than their counterparts in unsubsidized housing, but the difference was not statistically significant.

The authors' analysis of the personal characteristics of participants prior to random assignment and the initiation of program services indicates that participants living in Section 8 housing were significantly less "work-ready" than participants in unsubsidized housing. For example, relative to participants living in unsubsidized housing, participants in Section 8 housing were less likely to have been employed in the past year, more likely to have low reading and writing scores, and more likely to be long-term welfare recipients.

[13] The UCLA study compared the employment rates of families in three groups: (i) unsubsidized housing, (ii) public housing, and (iii) subsidized housing other than public housing. The author of the UCLA study, Paul Ong,
(continued...)

other forms of housing, including unsubsidized housing. The researchers found this result held true after controlling for observed differences in personal characteristics. The study concluded that the most "plausible explanation [for these results] is that Section 8 housing offers recipients residential choice and mobility that improve opportunities for employment."[14]

Three Ways in Which Housing Subsidies May Help Families to Obtain and Retain Employment

It is not entirely clear why welfare reform efforts appear to produce greater impacts among families participating in the subsidized housing programs and why the receipt of housing assistance appears in some cases to lead to increases in families' earnings and employment rates. The following three factors may help to explain these research findings.

1. By making housing more affordable, housing subsidies may help to stabilize the lives of low-income families and thereby improve their ability to secure and retain jobs. Some families with housing affordability problems may be forced to move frequently from the home of one friend or relative to that of another (or, if no other options are available, to a homeless shelter). Such moves can interrupt work schedules and jeopardize employment.

Many housing and welfare professionals believe that poor families need a stable housing situation to focus more fully on finding and retaining employment. Reflecting on site visits to 21 nonprofit organizations involved in self-sufficiency efforts in 13 states, Rachel G. Bratt of Tufts University and Langley G. Keyes of MIT noted that their "field work underscored the importance of housing being secured first, before people could pay serious attention to non-housing issues....Housing is at the core of family stability."[15] Similarly, Judy Gaither, executive director of the Human Investment Project for Housing, a non-profit organization in California that administers the San Mateo County Housing Opportunities Program discussed below, has identified "[t]he lack of stable housing [as] the chief deterrent to self-sufficiency."[16]

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[13] (...continued)
reported that the vast majority of families in the third group participated in the Section 8 certificate and voucher programs. Following the terminology of the article, we identify the third group as participants in the "Section 8 housing" program.

[14] Paul Ong, "Subsidized Housing and Work Among Welfare Recipients," *Housing Policy Debate* 9:4 (1998), p. 775.

[15] Rachel G. Bratt and Langley C. Keyes, *New Perspectives on Self-Sufficiency: Strategies of Nonprofit Housing Organizations,* Department of Urban and Environmental Policy, Tufts University, 1997, p. 77, n. 3. *See also* Bratt and Keyes, "Challenges Confronting Nonprofit Housing Organizations' Self-Sufficiency Programs," *Housing Policy Debate* 9:4 (1998).

[16] *Housing and Development Reporter*, July 27, 1998, p. 168. To similar effect, Elaine M. Ryan, Director of the Government Affairs Department of the American Public Human Services Association, writes that: "Safe and affordable housing provides the stability families need to exit welfare for work." Elaine M. Ryan, "The Unfinished Agenda: Two Years After TANF," *Policy & Practice* (Dec. 1998).

One measure of the extent to which housing instability may undermine families' ability to focus on securing and retaining work comes from the Postemployment Services Demonstration (PESD), a project of the Administration for Children and Families of the U.S. Department of Health and Human Services. Between 1994 and 1996, the PESD provided case management and other services to newly employed welfare recipients who were participants in JOBS programs in Chicago, San Antonio, Portland, Oregon and Riverside, California. When asked in surveys what problems outside of work made it difficult for them to maintain a job, nearly one in five of the 1,200 PESD participants surveyed cited housing problems.[17]

A recent survey of current TANF recipients in New Jersey found similar results. Nearly half of the Work First New Jersey (WFNJ) families surveyed in 1999 reported experiencing one or more housing problems in the past year,[18] and about one in five cited housing problems as a barrier to work.[19] Tellingly, the proportion of employed WFNJ clients who identified housing as a problem affecting work (19 percent) did not differ substantially from the proportion of unemployed WFNJ clients who identified housing as a work problem (22 percent).[20] This suggests that the lack of affordable housing continues to be a substantial problem for many families after they have secured low-wage employment. (National data on the housing affordability problems of low-income working families are discussed in the next section of this paper.)

2. By reducing housing costs, housing subsidies can free up funds within the budgets of low-income families for work-related expenses, such as child care, work clothes, and transportation. Census data show that in 1995, about 50 percent of working poor renters without housing assistance spent more than half of their income on housing.[21] (In contrast, federal guidelines set during the Reagan Administration provide that rental housing is affordable when

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17 Anu Rangarajan, *Keeping Welfare Recipients Employed: A Guide for States Designing Job Retention Services*, Mathematica Policy Research, Inc., 1998, p. 11, Figure 2. Available on the Internet at: *http://www.mathematica-mpr.com/Pesdemp.pdf*.

18 Anu Rangarajan and Robert G. Wood, *Work First New Jersey Evaluation: How WFNJ Clients are Faring Under Welfare Reform: An Early Look*, Mathematica Policy Research, Inc., 1999. Some 48 percent of Work First New Jersey clients reported having one of more of the following housing problems in the prior year (listed in order of frequency): currently in an overcrowded living arrangement, moved in with friends or relatives, water or electricity cut off, moved two or more times, evicted from residence, lived in emergency shelter, current apartment has incomplete kitchen or plumbing, or was homeless. *Id.*, p. 32.

19 *Id.* This statistic reflects responses among clients who had worked at any time since WFNJ entry.

20 A separate study of welfare recipients in New Jersey found that nearly one in ten cited the lack of a permanent home as a barrier to employment. *Assessing Work First: What Happens After Welfare? Contrasting Hope and Reality Concerning Work First's Implications for the Prospects of Welfare Recipients and their Children to Escape Poverty*, Legal Services of New Jersey's Poverty Research Institute, June 1999.

21 Jennifer Daskal, *In Search of Shelter*, Center on Budget and Policy Priorities, 1998, p. 15, Table 1. In this statistic, a household is considered to be "working" if its annual earnings were equal at least to half-time, year-round work at the minimum wage in 1995.

the costs of rent and utilities do not exceed 30 percent of a family's adjusted income.) Such high housing costs can leave families with insufficient remaining income for basic necessities or to pay for child care, work clothing, transportation, and other expenses that often must be met if families are to navigate successfully the transition from welfare to work.

A study by Kathryn Edin and Laura Lein found that mothers in low-wage jobs (less than $8 per hour) have significantly higher total expenses (an average of $1,243 per month) than mothers relying primarily on welfare (an average of $876 per month). Among other items, wage-reliant mothers had higher expenses than welfare-reliant mothers for transportation, child care, medical care and clothing. It is likely that the wage-reliant mothers with housing subsidies would be in a better position to meet these additional expenses than the wage-reliant mothers lacking such subsidies. Edin and Lein found that wage-reliant mothers with housing subsidies had monthly housing costs that were $150 to $200 less than those of wage-reliant mothers without housing subsidies.[22]

3. Housing subsidies can help families move to areas with greater job opportunities. Families receiving tenant-based subsidies use them to rent housing in the private market. There are few formal restrictions on the locations in which such subsidy holders may live; they generally may rent wherever they find an agreeable landlord. By helping recipients rent apartments they could not otherwise afford, tenant-based subsidies can enable poor families to move to areas with better access to jobs or to areas where parents feel safe enough to go to work and leave older children unattended or return from work at night on public transportation.

The Gautreaux program in Chicago provides evidence of the employment benefits that may result from helping families move to neighborhoods offering better employment and educational opportunities. This program, which began in the mid-1970s as a result of a litigation consent decree and ended in 1998, provided Section 8 tenant-based assistance, along with housing search assistance, to African-American residents of (or families on the waiting list for) inner-city public housing developments in Chicago. As participating families came to the top of the list, they were offered housing either in neighborhoods in the city of Chicago or suburban neighborhoods outside of Chicago, depending on what was available. Although families had the right to reject the housing offered to them, few did so. As a result, researchers at Northwestern have concluded that the program had a "quasi-experimental" design: a single group of participants that was divided, more or less randomly, into two sub-groups: one that moved to low-income black neighborhoods within the city ("city movers") and one that moved to white

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[22] Kathryn Edin and Laura Lein, *Making Ends Meet: How Single Mothers Survive Welfare and Low-Wage Work*, Russell Sage Foundation, 1997, pp. 91-93.

middle-income suburban neighborhoods ("suburban movers").[23] An analysis of the attributes of families in the two sub-groups shows that they were highly similar to one another.[24]

To gauge the effects of the Gautreaux program, the Northwestern researchers have followed participating families over time. Among other findings, the researchers have found higher employment rates among suburban movers than among city movers. Although the groups had similar employment rates prior to their moves, several years after their respective moves, the suburban movers had an employment rate of 64 percent, compared to 51 percent among city movers. Based on interviews with survey participants, the researchers reported:

> When asked how the suburban move helped them get jobs, all suburban participants mentioned the greater number of jobs in the suburbs. Improved physical safety was the second most mentioned factor. Adults reported that they did not work in the city because they feared being attacked on the way home from work, or they feared that their children would get hurt or get in trouble with gangs. The suburban move allowed mothers to feel free to go out and work. Many adults also mentioned that positive role models and social norms inspired them to work.[25]

In 1994, the U.S. Department of Housing & Urban Development began a research demonstration program called Moving to Opportunity (MTO) to test whether the benefits of the Gautreaux program could be duplicated elsewhere in a rigorous experimental setting.[26]

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[23] For the purposes of the Northwestern study, Gautreaux families that moved within the city, but not to neighborhoods the researchers considered to be "low-income black neighborhoods" were excluded from the "city mover" sample. James E. Rosenbaum, "Changing the Geography of Opportunity by Expanding Residential Choice: Lessons from the Gautreaux Program.," 6:1 *Housing Policy Debate* 231 (1995), p. 232, n. 1. *See also* James E. Rosenbaum and Susan J. Popkin, "Employment and Earnings of Low-Income Blacks Who Move to Middle-Class Suburbs," in C. Jencks and P. Peterson (eds.), *The Urban Underclass*, The Brookings Institution, 1991. A thorough bibliography of the articles Northwestern researchers have published on their Gautreaux research may be found on the Internet at: ***http://www.nwu.edu/IPR/publications/Gautreaux.html***.

[24] Rosenbaum, supra n. 23, at 234-36.

[25] Rosenbaum, supra n. 23 at 239. For more discussion of the effects of neighborhood moves*, see* Ingrid Gould Ellen and Margery Austin Turner, "Does Neighborhood Matter? Assessing Recent Evidence," 8:4 *Housing Policy Debate* 833 (1997); and Xavier de Souza Briggs, "Moving Up versus Moving Out: Neighborhood Effects in Housing Mobility Programs," 8:1 *Housing Policy Debate* 195 (1997).

[26] Through the use of tenant-based assistance and a variety of services designed to promote mobility, MTO assisted 860 families living in public housing or project-based Section 8 developments in high-poverty neighborhoods in five cities (Baltimore, Boston, Chicago, Los Angeles, and New York) to move to low-poverty neighborhoods. The outcomes for these families will be tested against two control groups — 816 families from the same or similar developments who used tenant-based assistance to move to areas of their choice (mostly outside low-poverty areas) and a similar number of families who remained in their public or subsidized housing developments. John Goering, Joan Kraft, Judith Feins, Debra, McInnis, Mary Joel Holin, and Huda Elhassan, *Moving to Opportunity for Fair Housing Demonstration Program: Current Status and Initial Findings*, U.S. Department of

(continued...)

Although systematic evaluations have not yet been completed, early focus groups have found that, as in Gautreaux, "moves to low-poverty neighborhoods have significantly reduced the fear of crime that plagued virtually all of the families before they moved out of public housing."[27] To similar effect, researchers at Harvard and Princeton found that MTO participants in Boston experienced "dramatic improvements in safety as measured by reductions in the presence of gunfire and drugs."[28] Given the role that families in the Gautreaux program attributed to perceived safety in supporting work, these early results are encouraging.

Although both Gautreaux and MTO used tenant-based assistance to help families move to lower-poverty neighborhoods, such moves also may be accomplished through well-located project-based assistance, including some public housing developments. The desirability of the neighborhoods in which public housing and project-based Section 8 housing developments are located varies considerably from place to place. Where such developments are well-located, they may be useful resources for helping families move from welfare to work. A study of minority families who moved from inner-city Yonkers neighborhoods to scattered-site public housing in predominantly white sections of Yonkers found strong employment-related benefits from the move three to 36 months after the move. The study reported being a "mover" to scattered-site public housing "makes full-time job holding twice as likely, all else held constant."[29]

Additional Potential Social Benefits of Housing Subsidies

In addition to the potential role of housing subsidies in promoting employment among welfare recipients, housing subsidies may provide other important social benefits:

- *Education*. Housing subsidies may help to improve children's educational prospects in two distinct ways. First, some studies have shown that the children of families that move frequently tend to do less well in school. By enabling poor families to find and keep affordable housing, housing subsidies may help these families' children to maintain attendance rates and remain in a stable school setting, improving their educational prospects.[30] Second, there is some evidence

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26 (...continued)
Housing & Urban Development, Office of Policy Development & Research, 1999.

27 Goering et al, supra n. 26, p. 44.

28 Lawrence F. Katz, Jeffrey R. Kling, Jeffrey B. Liebman, *Moving to Opportunity in Boston: Early Impacts of a Housing Mobility Program*, Unpublished Preliminary Draft, 1999.

29 Xavier de Souza Briggs, Ed., *Yonkers Revisited: The Early Impacts of Scattered-Site Public Housing on Families and Neighborhoods*, A Report to the Ford Foundation from the Yonkers Family & Community Project, July 1997.

30 For example, a study in Minneapolis, Minnesota found that children's reading scores decreased as the frequency of family moves increased. While significant, the predictive effect of mobility was not as great as for
(continued...)

to suggest that school performance is closely correlated with certain neighborhood characteristics, such as poverty concentration. By enabling families to access neighborhoods with better educational opportunities, tenant-based assistance (and some project-based developments) may help assisted families to secure better educations for their children.[31]

The Gautreaux program likewise provides evidence of the educational benefits of moving to lower poverty neighborhoods. A study by researchers at Northwestern found that, as compared with the children of city movers, the children of suburban movers in Gautreaux were less likely to drop out of high school (5 percent versus 20 percent), more likely to be enrolled in a college track curriculum (40 percent versus 24 percent) and more likely to go to college (54 percent versus 21 percent). Among the Gautreaux youth not attending college, "a significantly higher proportion of the suburban youth had full-time jobs than city youth (75 versus 41 percent)."[32]

- *Child health*. The results of a series of studies by doctors in Boston, Massachusetts suggest that receipt of housing subsidies may lead to child health benefits. One study found that children of families on a waiting list for housing assistance were six to seven times more likely to suffer from stunted growth than children of families receiving housing subsidies.[33] Another study found that poor children without housing assistance were 50 percent more likely to be iron-

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30 (...continued)
certain other factors, such as minority status, free lunch status, attendance rate, English spoken at home, and living with both parents. The study also found that mobility was one of the strongest predictors of attendance, suggesting that frequent moves impair school performance by decreasing attendance rates. As most of the families who moved did not actually change schools (due in part to special efforts by the school district to prevent such changes), it appears that multiple moves impair attendance rates even when the child stays in the same school. For more information, *see* "A Report from the Kids Mobility Project," March 1998; the separately bound Appendix titled "Finding from the Minneapolis Student Mobility Research File," February 1998; Karla Buerkle, "Mobile Children and Families: Qualitative and Quantitative Explorations of the Meaning and Impact of Residential Mobility and School Change," 1997; and Judith K. Tenenbaum, "An Extended Review of the Literature: The Impact of Frequent Family Moves on School Achievement and Development for Low-Income Families." Copies of these documents may be obtained from the Hennepin County Office of Planning & Development, Government Center A-2308, 300 S. Sixth St., Minneapolis, MN 55487-0238, (612) 348-4466. *See also* Richard Rothstein, "Inner-City Nomad: Route to Low Grades," *New York Times*, January 19, 2000, p. B9.

31 For a review of the literature on the influence of neighborhood on children's educational attainment, *see* Ellen and Turner, supra n. 25, at pp. 850-51 *See also* Jens Ludwig and Helen F. Ladd, *The Effects of MTO on Educational Opportunities in Baltimore: Early Evidence*, Joint Center for Poverty Research Working Paper, February 1998 and Larry Cuban, "Housing, Not School, Vouchers Are Best Remedy for Failing Schools," *Los Angeles Times*, January 31, 1999, p. M2.

32 Rosenbaum, supra n. 23, pp. 241-244.

33 Allan R. Meyers *et al.*, "Housing Subsidies and Pediatric Undernutrition,"*Archives of Pediatric Adolescent Medicine* (1995), 149:1079-1084.

deficient than children of poor families receiving housing subsidies.[34] Among other potential problems, "Children with iron deficiency may have problems with intellectual development."[35] Although the primary reason why subsidized housing improves children's health appears to be the increased ability of families with housing subsidies to afford nutritious food, some of the benefits also may be related to improved housing quality. Substandard housing has been linked to increased rates of asthma and respiratory disease and lead poisoning.[36]

There also is some evidence to suggest that moving to low-poverty neighborhoods may help to reduce child health concerns and improve child safety. A study of MTO participants in Boston found that the children of families who received assistance in moving to low-poverty neighborhoods were less likely to experience serious asthma attacks or be the victim of violent crime than the children of families in either of the two control groups.[37]

- *Teen employment, crime and pregnancy*. In their 1997 article "Does Neighborhood Matter? Assessing Recent Evidence," New York University economist Ingrid Gould Ellen and Urban Institute researcher Margery Austin Turner provide a critical assessment of the literature examining whether the neighborhoods in which adolescents live affect their labor market success, the likelihood that they will be involved in criminal activity and the likelihood of sexual activity and pregnancy. Although the evidence in each of these areas is mixed and it sometimes is difficult to identify which neighborhood characteristics are most important in leading to positive outcomes, the authors conclude that neighborhood does appear to matter in each of these areas.[38] By helping families to access better neighborhoods, tenant-based housing assistance (and some

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[34] Allan R. Meyers *et. al*, "Public Housing Subsidies May Improve Poor Children's Nutrition,"*American Journal of Public Health* (1993), 83:115. Building on Meyers' work, a study called the Children's Sentinel Nutrition Assessment Project (C-SNAP) is now underway in six cities to determine the extent to which the growth patterns of children under three are correlated with their families' housing status, income and nutritional and health benefits. Information on C-SNAP is available on the Internet at *http://dcc2.bumc.bu.edu/CsnapPublic*.

[35] Mayo Foundation for Medical Education and Research, "Iron deficiency: Toddlers, teenagers and women at risk," 1997, available on the Internet at: *http://www.mayohealth.org/mayo/9704/htm/iron_def.htm*.

[36] For more information on how children's health may be adversely impacted by housing problems *see* the related reports: "Not Safe at Home: How America's Housing Crisis Threatens the Health of Its Children," A Research Report by the Doc4Kids Project of Boston Medical Center, Children's Hospital, 1998, available on the Internet at: *http://www.bmc.org/program/doc4kids;* and "There's No Place Like Home: How America's Housing Crisis Threatens Our Children," a version of this report written with Housing America, available on the Internet at: *http://www.igc.org/housingamerica/execsumm.html*.

[37] Katz, Kling and Liebman, supra n. 28. The experimental design of the MTO program and the nature of the two control groups is explained in footnote 26.

[38] 8:4 *Housing Policy Debate*, 1997, pp. 851-852.

project-based assistance) may help to increase adolescent employment and decrease juvenile crime,[39] sexual activity and pregnancy.

- *Domestic violence.* Housing vouchers can help victims of domestic violence escape abusive living situations. Without access to housing subsidies, domestic violence victims may be forced to stay in an abusive living situation or to leave their homes and possibly become homeless, undermining family stability.

Some of these ancillary benefits of housing subsidies also may have a positive impact on the ability of low-income workers to retain employment. Particularly in low-wage positions, the need to leave work to attend to a family emergency can lead to loss of employment. To the extent that housing subsidies reduce the number of disruptions attributable to child health, child criminal activity, and domestic violence, they may further contribute to job stability and retention.

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[39] Early data from the MTO demonstration project, described *supra* pp. 9-10, suggest that providing families with housing assistance that enables them to relocate outside areas of high poverty concentration can help reduce the number of violent crimes that children in those families commit. *See* Jens Ludwig, Greg J. Duncan and Paul Hirschfield, *Urban Poverty and Juvenile Crime: Evidence from a Randomized Housing-Mobility Experiment*, Draft, August, 1999, available on the Internet at: *http://www.jcpr.org/wpfiles/LUDWIGediforweb2-7-2000.PDF*.

II. The Shortage of Affordable Rental Housing for Families Moving from Welfare to Work

Despite a strong economy, there continues to be a substantial shortage of affordable housing. As of 1995, some 5.3 million very low-income renter households — including 2.4 million households with earnings as their primary income source — spent more than half of their income on housing or lived in severely substandard housing, but received no government housing assistance.[40] Preliminary data suggest this situation may have grown worse since 1995. According to the Joint Center for Housing Studies of Harvard University, between 1995 and 1997, "incomes for renters in the bottom quarter of the income distribution fell 2.9 percent [yet] costs for units in the bottom quarter of the rent distribution rose 4.5 percent."[41]

There are a number of possible reasons for the persistence of such a large affordable housing shortage during the economic upswing. In some areas, housing costs have risen faster than the incomes of low-income working families. More widespread prosperity has made it possible for landlords to find tenants who can afford higher rents and has made condominium conversions more profitable. In addition, due to gentrification as well as the abandonment of some older housing stock, the number of affordable units in the private rental market has declined. Between 1973 and 1995, the number of unsubsidized rental housing units costing $300 or less in 1995 dollars declined from 4.9 million to just 2.8 million.[42] In the brief period between

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40 U.S. Department of Housing and Urban Development, *Rental Housing Assistance—The Crisis Continues: The 1997 Report to Congress on Worst Case Housing Needs*, Washington, DC, 1998. HUD defines "very-low income" households as those with incomes below 50 percent of the area median family income, as adjusted for family size and other factors. The area median family income varies substantially from area to area.

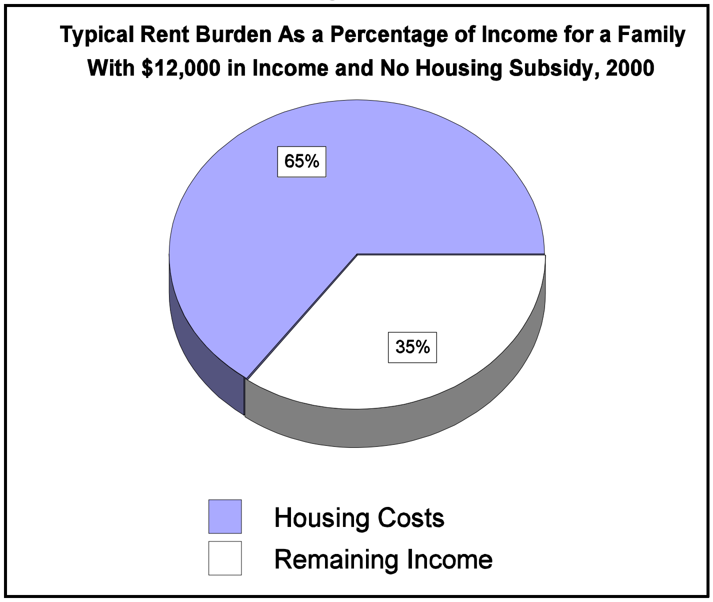
41 Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 1999*, p. 25.

42 Jennifer Daskal, *In Search of Shelter: The Growing Shortage of Affordable Housing*, Center on Budget and Policy Priorities, 1998.

1991 and 1995, the Joint Center estimates that the number of units affordable to renters with incomes below 30 percent of the area median income fell by 400,000.[43]

As a result of these changes in the nation's housing markets, most low-income working families have housing costs that far exceed 30 percent of their incomes (the federal standard for housing affordability).[44] As shown in Figure 1, without a government housing subsidy, a working family with income of $12,000 would need to spend approximately 65 percent of its gross income — $648 per month, or $7,776 per year — on the housing costs (including rent and utilities) of a typical two-bedroom apartment in metropolitan areas nationwide.[45] Families that pay such a large proportion of their incomes on housing costs are unlikely to have sufficient income left over to meet their other expenses, which include food, clothing, child care, transportation, medical care, personal care, and household cleaning items.

Figure 1



The situation is still more severe in large metropolitan areas. As shown in Table 1, a family with $12,000 in income and no government housing assistance would have to spend approximately three-fourths of its gross income — $757 per month, or $9,084 per year — to pay the housing costs (rent and utilities) for a typical two-bedroom apartment in the 15 largest metropolitan areas.

We are unaware of any studies that have looked specifically at the housing cost burdens of families that have left welfare for work. There is substantial evidence, however, that such families tend to earn wages that are well below the level necessary to afford both unsubsidized rental costs and other necessities. A November 1998 survey of studies examining earnings among employed former recipients of welfare and recipients combining work and welfare found

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43 Joint Center for Housing Studies of Harvard University, supra. n. 41.

44 As noted above, federal guidelines set during the Reagan Administration provide that rental housing is affordable when the costs of rent and utilities do not exceed 30 percent of a family's adjusted income.

45 The housing cost used in this calculation ($648 per month) is the estimated median Fair Market Rent for metropolitan areas in FY 2000. An explanation of Fair Market Rents and the calculation of the median Fair Market Rent may be found in Appendix A.

Table 1: Housing Cost Burdens of Families in Large Metropolitan Areas with $12,000 in Annual Income and No Housing Subsidy

Largest Metropolitan Statistical Areas (MSAs) and Primary Metropolitan Statistical Areas (PMSAs) (by size)	FY 2000 Fair Market Rent for Two-Bedroom Apartment (per month)	Proportion of Income Required for Such Housing Costs
Los Angeles-Long Beach, CA PMSA	$766	77%
New York, NY PMSA	$920	92%
Chicago, IL PMSA	$762	76%
Philadelphia, PA-NJ PMSA	$738	74%
Washington, DC-MD-VA-WV PMSA	$840	84%
Detroit, MI PMSA	$650	65%
Houston, TX PMSA	$620	62%
Atlanta, GA MSA	$712	71%
Boston, MA-NH PMSA	$942	94%
Dallas, TX PMSA	$749	75%
Riverside-San Bernardino, CA PMSA	$609	61%
Phoenix-Mesa, AZ MSA	$642	64%
Minneapolis-St. Paul, MN-WI MSA	$684	68%
San Diego, CA MSA	$805	80%
Orange County, CA PMSA	$891	89%
Weighted Median*	$757	76%

*See Appendix A for a discussion of the methodology used to calculate the weighted median.

that such families typically earn between $8,000 and $10,800 annually.[46] Similarly, a national study of single mothers who were working five years after leaving welfare found that their earnings averaged just $10,740 per year in 1999 dollars.[47]

A recent national study by The Urban Institute found that the total family earnings among former welfare recipients who were working (or whose spouse/partner was working) averaged $1,149 per month.[48] The report cautioned, however, that "adults in the family may work fewer hours over the year or work only a portion of the months in a year, leading to lower annual earnings than these levels suggest."[49] Even if these monthly earnings could be annualized without adjusting for periods of unemployment or underemployment, the resulting annual income ($13,788) would still be insufficient to enable a typical family not receiving government housing assistance to pay for housing without expending an excessive proportion of its income.[50]

In short, the data suggest that most families making the transition from welfare to work cannot obtain stable, affordable housing without a housing subsidy.

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[46] Sharon Parrott, *Welfare Recipients Who Find Jobs: What Do We Know About Their Employment and Earnings?* Center on Budget and Policy Priorities, 1998, available on the Internet at: *http://www.cbpp.org/11-16-98wel.htm*.

[47] Daniel R. Meyer and Maria Cancian, *Life After Welfare: The Economic Well-Being of Women and Children Following an Exit from AFDC,* Institute for Research on Poverty, University of Wisconsin, Discussion Paper No. 1101-96, August, 1996, p. 20. The $10,740 figure cited here reflects the study's finding as measured in 1999 dollars. These mothers were not necessarily employed continuously throughout the five-year period, and some may have received some welfare assistance since initially leaving the rolls. Later research also has found that women who leave welfare earning low wages are unlikely to increase their hourly earnings significantly. *See* Maria Cancian, *et al., Work, Earnings, and Well-Being After Welfare: What Do We Know?* Institute Research on Poverty, February 1999; and Julie Strawn and Robert Echols, *Welfare-to-Work Programs: The Critical Role of Skills*, Center for Law and Social Policy, April, 1999.

[48] The Urban Institute paper analyzes data from the National Survey of America's Families (NSAF). The paper focuses on the group of welfare recipients who stopped receiving benefits at some point between 1995 and 1997. Some 29 percent of that group returned to welfare and were excluded from the study. The wage data the Urban Institute presents are based on the responses of 75 percent of the remaining families (i.e., 53 percent of the total sample) who reported some earnings from work. In other words, in calculating average family earnings of $1,149 per month among former welfare recipients, the report did not consider the earnings of those who had returned to welfare and those who reported no earnings from work; these groups comprised 47 percent of the recipients surveyed.

[49] Loprest, Pamela, *Families Who Left Welfare: Who Are They and How Are They Doing?* The Urban Institute, 1999. Available on the Internet at: *http://newfederalism.urban.org/pdf/discussion99-02.pdf*.

[50] As discussed above, the median Fair Market Rent for a two-bedroom apartment in metropolitan areas in FY 2000 is $648 per month. Without government housing assistance, housing costs at this level would consume 56 percent of the annual income of a family making $13,788 per year. The housing costs for a typical two-bedroom apartment in the 15 largest metropolitan areas ($757 per month) would consume about 66 percent of this family's annual income.

III. State and Local Housing Programs Using TANF or MOE Funds to Help Families Move From Welfare to Work

Although the federal government continues to be the primary source of housing subsidies for low-income households, state and local governments have assumed a larger role in recent years in providing housing assistance.[51] This may be due in part to the devolution of control over welfare programs from the federal to the state and local levels. It also may reflect the reality that the federal government cannot solve the low-cost housing shortage by itself. Although federal housing programs provide more than four million rental subsidies to low-income families, they serve only about one-fourth of the families eligible to receive such subsidies.[52] Moreover, the federal government has shown little willingness in recent years to expand substantially the number of families provided federal housing assistance.[53]

In the last two years, the states of Connecticut, Kentucky, Maryland, Minnesota, North Carolina and New Jersey, and Los Angeles and San Mateo counties in California have used

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[51] This paper focuses on state and local housing programs funded with TANF or state MOE funds. For information on other state and local housing programs, *see* Michael A. Stegman and Diane R. Suchman, *State and Local Affordable Housing Programs: A Rich Tapestry*, Urban Land Institute, 1999.

[52] Similarly, as of late 1996, only about one-fourth of families on AFDC received federal housing assistance. Barbara Sard and Jennifer Daskal, *Housing and Welfare Reform: Some Background Information*, Center on Budget and Policy Priorities, 1998, available on the Internet at *http://www.cbpp.org/hous212.htm.*

[53] During the four-year period from fiscal year 1995 through fiscal year 1998, Congress failed to provide funds to expand significantly the number of federal housing subsidies available to poor families. In fiscal year 1999, Congress appropriated funds for 50,000 new housing vouchers targeted on families moving from welfare to work. In fiscal year 2000, Congress funded 60,000 new housing vouchers to be distributed to households selected by state and local housing agencies. These new appropriations may help to keep the affordable housing shortage from growing larger, but are unlikely to provide significant help in closing the substantial gap between the number of low-income families and the number of housing units affordable to them.

federal TANF or state Maintenance of Effort (MOE) funds, alone or in combination with other funds, to establish programs to provide housing assistance to families attempting to make the transition from welfare to work. These new programs are modest in size, ranging from about 75 families assisted annually in San Mateo County to 1,200 families per year in Connecticut. Because these modest programs rely on TANF or MOE funds to provide housing assistance and are designed to serve welfare reform goals, however, they are a unique and noteworthy component of the expanding role of state and local governments in welfare and housing policy.

In this section, we describe the key features of the eight programs adopted to date. We first examine the nature of the housing assistance, including the subsidy type, duration and

The Eight State and Local Programs

Minnesota began its Rental Assistance for Family Stability (RAFS) program with general state funds as part of its initial welfare reform effort in 1992. After the TANF program began, Minnesota claimed the state funds expended on RAFS as part of the required match for the Department of Labor's Welfare-to-Work program. Beginning in the fall of 1999, new funding for RAFS comes from Minnesota's federal TANF block grant. Unexpended state funds from prior years are used to provide rental assistance to families whose earnings make them ineligible for monthly TANF benefits. In the future, Minnesota may claim these state funds towards its MOE obligation in the year expended.

San Mateo County initiated the Housing Opportunities Program in 1997 on a pilot basis under a state waiver in response to a comprehensive planning process. In 1998 the program was expanded based on the success of the pilot. It combines TANF funds with county-controlled federal housing and general funds, as well as foundation grants.

Connecticut and **New Jersey** began their programs in 1998 to assist working families no longer on TANF to retain employment. Both states use MOE funds for these programs. Connecticut limits its program to working families that lose TANF benefits due to the state's 21-month time limit. Initially enacted as a one-time initiative as part of the state budget, the Connecticut legislature made the "Transitionary Rental Assistance Program" a permanent program in 1999, subject to available appropriations.

Kentucky's Cabinet on Families with Children awarded $4 million of TANF funds to the Kentucky Housing Corporation in the spring of 1999 to implement the TANF Homeownership Program.

In **Maryland**, the legislature acted in 1999 to increase an existing state-funded rental assistance program by $500,000 and expanded eligibility so the program would better serve current or former TANF recipients. The new funding, called the "RAP to Work Initiative," will be counted as part of the state's MOE obligation for the TANF program.

The **North Carolina** welfare agency issued a Request for Proposals in August 1999 for a $3 million TANF-Housing Program that requires a 50 percent county cash match. Eight counties applied, all of which were approved for receipt of state-controlled TANF funds. All of the counties will use the funds to provide rental assistance, together with a range of services. Some of the counties also will use funds for eviction prevention or one-time payments to help families access new housing. Three of the counties included homeownership components in their proposals.

The **Los Angeles County** program of Transitional Support for Homeless CalWORKS Families was approved by the County Board of Supervisors in November 1999, as part of a broad "Long-Term Family Self-Sufficiency" initiative using TANF funds.

amount. We next compare the different ways in which the programs have defined who is eligible to participate and discuss the different sources of funding the programs employ. In the final section of the paper, we discuss the considerations involved in choosing the funding source(s) for such programs.

Type of Housing Assistance Provided

Table 2 lists the type(s) of housing subsidy each program provides, as well as the duration and amount of each subsidy. As discussed below, most of the programs provide families with time-limited *tenant-based* rental assistance. Two programs, however — the Minnesota program and the program in one county in North Carolina — use a portion of their funds for *project-based* rental assistance. In addition, Kentucky's program is focused on helping low-income homeowners, as are the programs of three counties in North Carolina.

Rental Assistance Programs

The new TANF- or MOE-funded housing assistance programs in Connecticut, Maryland, Minnesota, New Jersey, North Carolina and in Los Angeles and San Mateo counties provide tenant-based housing vouchers that subsidize rents for housing that families locate in the private market. Families may use their vouchers to reduce their rent burden for the housing they already occupy or to rent new housing. Before agreeing to subsidize a rental unit the family has selected, the administering entity — generally an agency with housing program experience — inspects the unit to determine if it meets housing quality standards. The administrator generally also checks to make sure the rent is reasonable in light of market rents for similar units and does not exceed a certain maximum amount.

The programs in Minnesota and Mecklenburg County, North Carolina allocate a small portion of the available subsidies to particular property owners, who rent their units to eligible families and may provide families with additional work-related services. Such project-based rental assistance may be useful where there is a shortage of landlords otherwise willing to rent to low-income families with housing vouchers.

Amount of assistance

The Maryland and Minnesota programs pay a maximum rental subsidy of $250 per month; in counties with lower average housing costs, the subsidy is lower. In these programs, the amount of a family's rent subsidy is determined by the average rent level of the county in which the family lives and the actual rent of the unit in question. The San Mateo County program calculates the subsidy based on the amount of the unit's rent (up to a maximum): in the first six months, the subsidy is 50 percent of the rent. In the final six months, the subsidy is 25 percent of the rent. One benefit of basing the subsidy amount on the unit's rent, rather than on the family's income, is that the subsidy is not reduced if the family's earnings increase. These programs designed their subsidy structure mindful of work incentive goals.

Table 2: Type, Duration and Amount of State and Local Housing Subsidies Funded with TANF or MOE

	Type of Subsidy		Amount of Subsidy	Duration of Subsidy
	Tenant-Based Rental Assistance	Other		
Connecticut	✓		Difference between rent standard and 40% of tenant's adjusted income	12 months
Kentucky		Homeownership Loan/Grant	Up to $25,000 per household in loans	Loan converts to a grant if family lives in the house for five years
Los Angeles, CA	✓		Difference between rent standard and: 40% of tenant's adjusted income in 1st year, 50% of adjusted income in 2nd year	24 months
Maryland	✓		Up to $250 per month	12 months, plus possible six-month extension
Minnesota	✓	Also has pilot program of project-based rental assistance	Up to $250 per month	Up to 60 months
New Jersey	✓		HUD's Fair Market Rent less: 45% of income in 1st year; 55% of income in 2nd year; and 65% of income in 3rd year	Up to 36 months
North Carolina	✓ [all 8 counties]	One county has a project-based rental assistance component; three counties have a homeownership component	Each county determines the subsidy amount applicable to its program	Up to 18 months
San Mateo, CA	✓		Up to approximately $400 per month	12 months

The Connecticut, New Jersey, and Los Angeles programs, by contrast, base the subsidy amount on families' incomes. These programs require families to pay a set percentage of their income (as adjusted in modest ways) for rent and subsidize the difference between the family contribution and a maximum rent level (or the actual rent of the apartment, if less than the maximum level). If the program permits the family to rent a unit above the specified maximum, the family pays the additional rental cost. The required tenant contribution in the first year of the subsidy is 40 percent of adjusted family income in Connecticut and Los Angeles and 45 percent in New Jersey. The Los Angeles and New Jersey programs increase over time the required percentage of income that families must contribute for their housing costs.[54] North Carolina has left the determination of the amount of the subsidy up to each county.

It is important to note that each state and local program surveyed in this report has adopted a subsidy structure that results in smaller subsidies than those provided by federal tenant-based rental assistance. In the federal Section 8 voucher program, families pay 30 percent of their adjusted income for rent and utilities (unless they choose to rent a unit that is more expensive than the "payment standard" set by the housing agency, in which case they must pay the additional cost). New families in the federal voucher program are not permitted to rent units whose costs exceed the payment standard if their share of the rent and utility costs would exceed 40 percent of their adjusted income.

While some have criticized the state and local programs because the subsidies they provide still leave most families paying more than 30 percent of their income for housing, the programs nonetheless appear to have succeeded in reducing severe rent burdens. In Minnesota, for example, 43 percent of RAFS program participants in 1998 spent more than 70 percent of their income on rent prior to entering the program; only seven percent of participants still had such an extreme rent burden while in the program. Some 82 percent of RAFS participants in 1998 did, however, pay more than 30 percent of their income on rent despite the subsidy.

None of the programs has gathered data on whether any families have been unable to maintain their housing in light of the rent burdens they are expected to assume while receiving the subsidies. As these programs proceed, it will be useful to monitor this issue to determine whether the subsidies are adequate to stabilize families' living situations.

Duration of assistance

Unlike federal Section 8 housing vouchers, the vouchers in the seven state and local programs that provide rental assistance all are time-limited. The duration of assistance varies

[54] The L.A. program requires families to pay an additional 10 percent of their income in the second (and final) year. In New Jersey, families' required payments increase 10 percentage points each year, to 65 percent of their income toward housing costs in the third year.

from one year in Connecticut and San Mateo County to 18 months in Maryland and North Carolina, two years in Los Angeles, three years in New Jersey, and five years in Minnesota.[55]

Some of the programs consider how families will afford their housing after the time-limited assistance ends; others do not. North Carolina required counties applying for the new TANF funds to demonstrate how families would be assisted to achieve long-term housing stability. As a result of this emphasis, counties proposed a range of strategies, including training and services to help families increase their skills and earning power, economic literacy training to help families better manage their spending, savings incentives to help families afford down-payments for homeownership, and granting participating families priority on the local housing agency's waiting list for federal Section 8 vouchers. The Minnesota and Los Angeles County programs also aim to link families to federal Section 8 subsidies or other permanent housing assistance. Connecticut has recently adopted a similar strategy.

To be selected for the San Mateo County program, families must demonstrate that, within 12 months, their earnings are likely to be sufficient to afford private market rents. Such a strategy is likely to lead to "creaming" of somewhat higher income families. For fiscal year 2000, HUD has determined that the Fair Market Rent for a two-bedroom unit in the San Francisco metropolitan area — which includes San Mateo County — is $1,362 per month. Without assistance, such housing costs would consume more than 30 percent of the income of a family making $50,000 per year and 65 percent of the income of a family making $25,000 per year. Most families leaving welfare for work are unlikely to have such high wages.

While the San Francisco metropolitan area has the highest rental housing costs in the country, many low-income working families in less expensive metropolitan areas also may have difficulty in obtaining affordable housing without ongoing financial assistance.[56] In light of the high costs of unsubsidized rental housing, it is important for program administrators to consider how participating families will be able to afford housing once the time-limited assistance ends. One strategy, discussed in a box on the next page, is to transition such families into the federal Section 8 voucher program.

Homeownership Programs

The design of the Kentucky program is different from these rental assistance programs. In Kentucky, the state welfare agency transferred $4 million of federal TANF funds to the Kentucky Housing Corporation to establish the TANF Homeownership Program. The funds are used to make homeownership affordable for former TANF families by loaning families up to $25,000 to reduce the amount of a home purchase price for which they need to secure a

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[55] The stated maximum duration of the rental subsidy in Maryland includes the optional six-month extension. As of the fall of 1999, the maximum duration of Minnesota's RAFS payments was increased from three to five years.

[56] See the discussion of the shortage of affordable housing at pages 15-18, above.

Prioritizing Families in Time-Limited Rental Assistance Programs for Section 8 Vouchers

One way to help meet the housing needs of families that graduate from state or local time-limited rental assistance programs but still cannot afford unsubsidized housing is to ensure that such families are accorded priority for admission to the Section 8 voucher program. Under ideal conditions, such a system would provide an uninterrupted subsidy for assisted families, with the federal subsidy picking up when the state or local subsidy terminates.

For the strategy to work smoothly, it may be necessary to secure the cooperation of a state or local housing agency that administers a Section 8 voucher program. Each year, a certain portion of each agency's vouchers free up due to ordinary turnover. Subject to federal requirements concerning the income levels of newly participating families, each housing agency has discretion to decide how to allocate its "turnover" vouchers. If the cooperating agency has enough turnover vouchers to ensure uninterrupted assistance for participants in the state or local program, and is able and willing to devote sufficient vouchers to this purpose, it may be possible to transition time-limited families with earnings that are insufficient to obtain affordable housing into the Section 8 voucher program.

Where the entity administering the state and federal programs is the same, as in Connecticut, this cooperation is more easily assured. In Connecticut, the same state agency administers the basic TANF program, the separate MOE-funded Transitionary Rental Assistance Program (called "T-RAP"), and a statewide federal Section 8 program. Now that the agency has been awarded nearly 1,500 new federal Section 8 Welfare-to-Work housing vouchers, it intends, beginning early in 2000, to grant priority for the new federal vouchers to families whose T-RAP assistance is ending and whose earnings remain insufficient to afford their housing.

If housing agencies administering Section 8 programs in the state or local area have open waiting lists, short waiting times, and admissions preferences that have the effect of favoring the types of families receiving the state or local time-limited subsidies (even if they do not explicitly prefer such program participants), it may be possible to accomplish the same sort of transition without the active cooperation of the housing agencies. In Minnesota, most participants in the state program have been able to get a Section 8 voucher in this manner before their state subsidy expires.

mortgage. If families retain their homes for five years, the loans are forgiven. State officials expect that most families selected for the program will be participants in the federal Section 8 program who have been able to accumulate funds for a downpayment on a home through a HUD-funded self-sufficiency initiative known as the Family Self-Sufficiency Program.[57] The federal Section 8 subsidies no longer used by the new homeowners under the Kentucky program will go

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[57] HUD's Family Self-Sufficiency (FSS) program has two major components: (a) an escrow feature requiring housing agencies to deposit into a special savings account the amounts that a family pays in increased rent as a result of higher earnings during the family's participation in the FSS program; and (b) case management services that provide participating families with assessments of their employment goals and education/training needs and help them access needed services. Some housing agencies are required by HUD rules to have an FSS program. All other agencies that administer a public housing or Section 8 voucher program are permitted to establish FSS programs. HUD's funding formulas for housing agencies provide additional funds to reimburse them for the sums deposited in FSS escrow accounts. For more information on the FSS program, see the fact sheet prepared by the Center on Budget and Policy Priorities, available on the Internet at *http://www.cbpp.org/5-5-99hous.htm*.

to families on the housing agencies' waiting lists, some of whom are likely to be current or former TANF recipients.

Similarly, one of the counties participating in North Carolina's program plans to help families with Section 8 vouchers make the transition to homeownership.[58] The Durham County, North Carolina program will provide 30 families that participate in both the Section 8 voucher program and HUD's Family Self-Sufficiency (FSS) program with services for up to 12 months to help them increase their skills and obtain better-paying jobs so they can afford unsubsidized housing or homeownership. To help participants make a downpayment on a home, the program also will provide each family with a grant to match the savings the family has achieved through a special escrow feature of the Family Self-Sufficiency program that allows FSS participants who increase their earnings from work to build substantial escrow accounts. Under the program, the County grant will be combined with the family's savings in its FSS escrow account to increase the size of the family's downpayment.

The Durham County program also has features designed to help homeless families achieve long-term housing stability. This component of the county's plan has two stages. In the first stage, lasting up to 12 months, the homeless families will receive TANF-funded rent subsidies. These state subsidies are a bridge to the second stage, in which the families receive ongoing federal Section 8 vouchers. The Section 8 vouchers that will be provided to these formerly homeless families are those that become available as a result of the success of the homeownership component of the program. (In other words, as the Durham County program assists Section 8 voucher-holders to become homeowners, these families no longer need their Section 8 subsidies; this frees up Section 8 subsidies that can be provided to formerly homeless families to help them achieve long-term stability.)

Analysis of the Relative Merits of Different Types of Housing Assistance

There are sound reasons why seven of the eight state or county programs that have used federal TANF or state MOE funds for housing assistance provide families with tenant-based rental assistance. In a tenant-based rental assistance program, participating families choose suitable housing in the private market and part of the rent is paid by the administering agency to the private landlord. Tenant-based rental assistance has a number of advantages:

- It can be dispensed relatively quickly to eligible families; no delay results from building or rehabilitating housing. In addition, costs for constructing or rehabilitating housing need not be incurred.

- It can be used to help families that already reside in suitable housing but pay too much in rent to stay in their own homes.[59]

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[58] The programs of two other North Carolina counties have homeownership components.

[59] Most families with a housing problem suffer solely from an unreasonable rent burden. Of the 2.1 million renter (continued...)

- It can provide short-term assistance while families wait to receive federal housing vouchers that provide ongoing subsidies. (As of 1998, the average wait for a federal Section 8 voucher was greater than two years, and substantially longer than that in most large cities.[60]) Families that receive federal vouchers are likely to be able to use them to continue living in the same units that have been subsidized by the state program.

- It can enable families to move to housing that is closer to jobs or better transportation or that is located in safer neighborhoods with improved public services, such as better schools. For such moves to be possible, there must be an adequate supply of suitable rental housing in such neighborhoods that landlords are willing to rent to program participants. It also may be necessary to provide services, such as housing search assistance, to help families locate housing in these neighborhoods, which may be unfamiliar to them.[61]

Although most of the subsidies it provides are in the form of tenant-based rental assistance, Minnesota's Rental Assistance for Family Stability (RAFS) program also has a *project-based* rental assistance component. About 50 of the more than 1,100 families the program is expected to assist in the next year — a little less than five percent — will be housed through the project-based component. In this program, like most other project-based rental assistance programs, the housing agency (rather than individual families) "locates" the housing units through a public solicitation process. Families benefit from the subsidies by living in one of the units pre-selected by the housing agency to receive a subsidy. Minnesota is currently seeking to shift more of its program to a project-based model,[62] primarily because the extremely low vacancy rate in the Twin Cities and escalating rents throughout much of the southern part of

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[59] (...continued)
households with children and incomes below 50 percent of the area median income in 1995 that the U.S. Department of Housing and Urban Development considered to have "priority" housing problems, 70 percent lived in decent quality, uncrowded housing but paid more than half of their income for housing costs. HUD Office of Policy Development & Research, *Rental Housing Assistance –The Crisis Continues: The 1997 Report to Congress on Worst Case Housing Needs*, 1998, Table A-6.

[60] HUD Office of Policy Development & Research, *Waiting in Vain: An Update on America's Rental Housing Crisis,* March, 1999.

[61] Vouchers work best when recipients receive assistance in locating suitable housing and when there is outreach to landlords to encourage them to participate in the voucher program. Such assistance may be particularly important for welfare-to-work voucher programs that seek to help participating families move to areas with better job opportunities. Since landlords generally are not required to accept housing vouchers, and voucher recipients may have little or no experience with the housing market outside their current neighborhoods, housing search assistance and landlord outreach may be necessary to help voucher recipients find willing landlords in the desired neighborhoods.

[62] The legislation authorizing Minnesota's RAFS program permits up to half of the families assisted to be in the project-based component of the program.

the state have made it difficult for some families to locate housing in which they can use tenant-based subsidies.

Another potential benefit of project-based subsidies is that they may facilitate the delivery to participating families of services that support work. Service providers may be able to save time and money by providing services on-site where families live. Families participating in these services also will save time and travel costs, which may lead to improved attendance in the services programs.

A homeownership program like the one Kentucky has chosen to fund can work only in communities where the sale prices of homes are sufficiently low that a loan or grant of a reasonable sum can reduce the mortgage payments to levels affordable by families that have recently left the welfare rolls. Where home prices are sufficiently low, however, such a program can make a significant difference. For example, under commonly employed underwriting standards, a bank would be unlikely to approve a mortgage of more than about $40,000 for a family earning $16,000 per year. A loan or grant of $25,000 may make the purchase of a house selling for up to $64,000 possible for such a family. Increasing the price that a family can pay for a house from $40,000 to $64,000 may turn homeownership from a virtual impossibility to a reasonable prospect in many metropolitan areas.[63]

Even where housing prices are low enough to allow a first-time homebuyer program for former TANF recipients to be feasible, such a program may target scarce resources to families that are more able to afford housing than other families with lower earnings. Relatively few families recently receiving welfare benefits succeed at increasing their earnings to $16,000 annually without a second wage earner.[64]

Eligibility Criteria

As programs designed to assist families making the transition from welfare to work, most of these new state and county programs require that when families first receive assistance, the families must be current or recent TANF recipients. (To grant maximum flexibility to rural counties with fewer TANF recipients, the North Carolina program permits counties to include working families without a history of TANF receipt among those eligible for their programs, subject to a maximum family income limit.) In addition, as a condition for the initial receipt of

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[63] In 1998, according to data on realtor-assisted homes maintained by the National Association of Realtors, only 22 of 131 metropolitan areas for which they had data reported one or more realtor-assisted home sales for $40,000 or less, and only two such metropolitan areas reported sales of a reasonable number of two- and three-bedroom homes at this price. In contrast, 101 of the 131 metropolitan areas reported one or more realtor-assisted home sales for $64,000 or less in 1998. In 57 of the 131 areas, such sales comprised 20 percent or more of realtor-assisted sales of two- and three-bedroom homes.

[64] See Loprest, n. 49 above, pp. 12-14.

Table 3: Who is Eligible for TANF- or MOE-Funded State and Local Housing Assistance?

	Current TANF Recipients	Former TANF Recipients	Other	Geographic Scope and Referral Source
Connecticut		✓ Income ≤ 50% of state median income		Statewide; welfare agency initially determines if family meets TANF-related eligibility requirements
Kentucky		✓ Income ≤ $27,760		Statewide; referral by FSS program
Los Angeles County	✓			Homeless families in county referred by homeless service agencies
Maryland	✓	✓ Must have been a TANF recipient within the prior 12 months and have income ≤ 30% of the area median income		Operates in 16 of 23 counties and the city of Annapolis, based on competition open to counties and some cities
Minnesota	✓	✓ Limited to families who first received housing assistance while on TANF		Limited to the 30% of counties with the highest average rental costs
New Jersey		✓		Limited to five cities selected by state welfare and housing agencies
North Carolina	✓	✓ Must have income below 200% of the federal poverty line	✓ Must have income below 200% of the federal poverty line	Eight counties that submitted applications in competition
San Mateo County	✓	✓ Must have been a TANF recipient within the prior 12 months and have income ≤ 35% of the area median income)		Families must be recommended by county welfare agency or job counselor

assistance, each of the programs requires families to be working, in a training program, or otherwise in compliance with the job search, training or work requirements under the state or county TANF plan. To enable the programs to be of adequate size to operate efficiently within funding constraints, all of the states except Connecticut either limit the areas of the state in which the program operates or require agencies or counties to compete for the limited pool of funds, or both. The eligibility standards for the different programs are summarized in Table 3.

Income and TANF Receipt

Some of the programs are restricted to families that were receiving monthly TANF cash benefits upon entry into the program. Others are restricted to families that have worked their way off TANF benefits. Some serve both groups.

- The Minnesota and Los Angeles programs are restricted to families that were receiving monthly TANF cash benefits upon entry into the program. In Minnesota, families' rental assistance may continue if they become ineligible for monthly TANF cash assistance due to the amount of their earnings; it is not yet clear if this also will be true for the Los Angeles program.

- The Maryland, North Carolina and San Mateo programs serve both current TANF recipients and families that formerly received TANF benefits. Maryland and San Mateo require that families have received TANF benefits within the 12 months prior to their initial receipt of housing assistance. North Carolina does not impose any restriction on when families formerly received TANF benefits, although individual counties may do so. Each of these programs limits eligibility to families with less than a certain maximum income, as indicated in Table 3.[65]

- The Connecticut, Kentucky and New Jersey programs serve only working families that have become ineligible for TANF benefits. In Connecticut, families also must have exhausted the state's 21-month TANF time limit. Like the other programs that serve former TANF recipients, these states have set a maximum income limit.[66]

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[65] Federal housing programs traditionally set income eligibility limits based on a percentage of the area median income, rather than of the uniform federal poverty line, because housing costs tend to vary with area income. Although some of the state and local programs discussed in this paper follow the federal practice and set income limits in relation to the area median income, as adjusted for family size, others set income limits tied to the federal poverty line (or some multiple of the federal poverty line). For example, families are ineligible for housing assistance in the Maryland program if their income exceeds 30 percent of the area median income as adjusted for family size (about \$16,000, or \$1,330 per month, for a family of three in the Baltimore area); in San Mateo, the eligibility limit is 35 percent of the area median income as adjusted for family size (about \$22,000 per year, or \$1,833 per month, for a family of three). In North Carolina, the limit is 200 percent of the federal poverty line (about \$27,000 per year, or \$2,250 per month, for a family of three).

[66] The income limit in Connecticut is 50 percent of the state median income (\$31,717 per year, or \$2,643 per
(continued...)

- Under the North Carolina program, counties have the option to assist families that have never received TANF benefits but have incomes below 200 percent of the federal poverty line.

In addition to TANF status and financial criteria, some of the programs require families to have acute housing needs or grant priority to such families. The Los Angeles program is designed to serve homeless families, as are the programs in several of the North Carolina counties. San Mateo County requires that families be at risk of homelessness. New Jersey gives priority to families that are homeless or at risk of homelessness.

Employment-Related Requirements

Unlike welfare programs, housing programs have not traditionally linked continuing eligibility for housing benefits to continued employment by the program participant. The eight TANF- or MOE-funded state and county housing programs depart from this tradition by requiring families to be employed or to participate in job training or other self-sufficiency programs. The eight programs differ from one another in how they respond if families lose their jobs or cease participating in training or self-sufficiency programs while they are receiving housing assistance.

In Connecticut, families that lose their job also lose their housing subsidy. The New Jersey and Minnesota programs are more flexible in this regard. In New Jersey, a family continues to receive housing assistance for two months after a parent has quit a job voluntarily or been fired for cause to permit the parent to find a new job; the job search period is extended to four months if the loss of employment was not the family's fault and may be extended up to eight months under certain circumstances. Minnesota does not terminate families' rental assistance unless they have failed for six months to comply with their employment and training plan or to work at least half-time. The leeway offered by the New Jersey and Minnesota programs is consistent with evidence that many former welfare recipients have difficulty remaining continuously employed, even when the economy is strong.[67] If such families lose their housing subsidy when they lose a job, the resulting housing instability may well hinder their search for new employment.

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[66] (...continued)
month). New Jersey limits eligibility to 150 percent of the federal poverty line ($20,430 per year, or $1,700 per month, for a family of three), while Kentucky has set the maximum income at $27,760 ($2,300 per month) for a family of three or more.

[67] See Anu Rangarajan, *Keeping Welfare Recipients Employed: A Guide for States Designing Job Retention Services*, Mathematica Policy Research, Inc., June 1998. Available on the Internet at: *http://www.mathematica-mpr.com/Pesdemp.pdf.*

Sources of Funding

Table 4 summarizes the sources of funding the various programs employ. Five programs use TANF funds, alone or in combination with MOE or other state- or locally-controlled funds. The programs in North Carolina and San Mateo, California are funded in part with state- or locally-controlled funds that they do not claim as MOE funds.[68] Since the rules that apply to the use of TANF or MOE funds can be complex, these rules and their implications for the design of a state or local housing assistance program are discussed in the following section.

Table 4: Sources of Funding for State and Local Programs

	Federal TANF Funds	MOE*	Other State or Local Funds
Connecticut		✓	
Kentucky	✓		
Los Angeles	✓		
Maryland		✓	
Minnesota	✓	not yet determined	
North Carolina	✓	✓ (with County match)	✓
New Jersey		✓	
San Mateo	✓		✓

* The "MOE" column represents programs that account separately for the use of MOE funds, rather than mixing MOE funds in a single program with TANF funds.

[68] Both North Carolina and San Mateo County fund their programs partly through block grants distributed by the U.S. Department of Housing and Urban Development. North Carolina permits participating counties to use state-controlled Community Development Block Grant (CDBG) funds as a component of their programs. San Mateo uses county-controlled HOME program funds. Both CDBG and HOME funds can be used for housing construction or rehabilitation, rental assistance, and other purposes. See HUD Office of Policy, Development & Research, *Expanding The Nation's Supply of Affordable Housing: An Evaluation of the HOME Investment Partnership Program,* 1999; John Sidor and Cynthia Hernan, *States, HOME, and Tenant-Based Assistance,* Council of State Community Development Agencies, 1999.

IV. Considerations in Using TANF or MOE Funds to Provide Housing Subsidies

In deciding which funding stream(s) to use to provide ongoing housing assistance to families attempting to make the transition to work, it is important to consider how this decision will affect other aspects of program design. In particular, the choice of funding is closely intertwined with the fundamental question of what group(s) of families one wishes to target for assistance. This, in turn, also affects decisions regarding the criteria for initial eligibility and the continued receipt of assistance.

In this section, we discuss the rules that apply to the use of federal TANF or state MOE funds and how those rules affect the design of programs to provide housing assistance.[69] For the reasons explained below, it generally is best to employ a funding model that uses (a) TANF funds to provide rental subsidies to families already receiving monthly TANF cash benefits and (b) state MOE funds that are separately accounted for to provide housing assistance to working families that are not currently receiving TANF benefits.

The TANF "Purposes" Test

The first question to answer when one wishes either to use TANF funds or to count state expenditures towards the state's Maintenance of Effort (MOE) requirement is whether the funds

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[69] More detailed explanations of the final TANF rules and how they apply to a variety of types of spending are contained in Liz Schott, Ed Lazere, Heidi Goldberg, Eileen Sweeney, *Highlights of the Final TANF Regulations*, Center on Budget and Policy Priorities, April, 1999, available on the Internet at: *http://www.cbpp.org/4-29-99wel.htm*; Mark Greenberg and Steve Savner, *Final TANF Regulations: A Preliminary Analysis*, Center on Law and Social Policy, May, 1999, available on the Internet at: *http://www.clasp.org/pubs/TANF/tanffederal.htm*; and Mark Greenberg, *Beyond Welfare: New Opportunities to Use TANF to Help Low-Income Working Families*, Center on Law and Social Policy, July 1999, available on the Internet at: *http://www.clasp.org/pubs/TANF/markKELLOGG.PDF*.

will be spent to further one of the purposes of the TANF program. This hurdle is easily satisfied for programs that provide housing assistance to families with children.

Assistance to enable families to provide stable homes for their children is one of the stated purposes of the TANF block grant. Housing subsidies that pay a portion of families' rents directly to landlords, as well as homeownership programs, clearly further this purpose. Federal TANF and state MOE funds may be used to provide housing assistance to families with related minor children and to pregnant women.

The Consequences of Providing TANF "Assistance"

A key issue in analyzing whether to use federal TANF funds for a particular project is whether that use qualifies as "assistance." Families that receive TANF "assistance" are subject to certain requirements, discussed below, that do not apply if the TANF-funded benefits they receive are *not* considered "assistance" under the federal rules.

TANF benefits qualify as "assistance" when they help to meet a family's basic and ongoing needs. Benefits that are provided to meet a short-term, non-recurrent need for a period not exceeding 120 days are not considered "assistance."[70] If a state uses federal TANF funds to pay for part or all of a family's *ongoing* housing costs, this use qualifies as "assistance" under the federal TANF regulations. This is true even if the payments are considered by the state to be a "work support." Although the federal TANF rules exclude from the definition of "assistance" certain types of benefits for working families, such as child care and transportation, the rules explicitly state that this exclusion does not apply to ongoing rent subsidies because housing is considered part of a family's basic needs.[71]

Since ongoing housing assistance funded with TANF dollars is "assistance," the federal conditions that apply generally to receipt of TANF "assistance" apply to receipt of TANF-funded

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[70] This distinction has important implications for the funding of homelessness prevention programs, such as rent, mortgage or utility arrearage payments and emergency shelter and housing programs. The final federal regulations governing the TANF block grant give states substantially more flexibility to use TANF funds for these purposes than was the case under the former Emergency Assistance program. Under the new rules, payments that states make with TANF funds to meet a short-term need (not to exceed 120 days) do *not* cause the time-clock to run on families' five-year lifetime limit on receipt of federal TANF benefits. Examples of short-term benefits that could be provided for up to 120 days without invoking federal time-limits include: payments for rent, mortgage or utility arrears (in any amount) and prospective housing payments and/or emergency shelter costs. In addition, recipients of such short-term benefits do not need to assign their child support rights to the state, and such families are not considered in determining states' compliance with federal work participation requirements.

So long as the benefits are provided to meet a short-term non-recurrent need, they may be provided more than once during a year. For example, during a single 12-month period, a state could provide a family with both homelessness-prevention services and funds to repair a car, pay a utility bill, or meet another short-term crisis, without that aid counting against the family's lifetime TANF time limit or triggering the TANF work participation or child support assignment requirements.

[71] See Preamble to Final TANF Regulations, 64 Fed. Reg. 17720, 17757, 17762 (April 12, 1999).

housing subsidies. The most important of these is the condition regarding the federal five-year lifetime limit on receipt of TANF-funded assistance. Each month that a family receives the benefit of a TANF-funded housing subsidy counts toward the family's five-year lifetime limit on receipt of federal TANF assistance. If a family exhausts its federal TANF benefits, it may be unable to receive subsistence benefits in the future regardless of why the family becomes destitute or the extremity of its need.[72]

In addition to the five-year time limit, two other conditions apply to the receipt of TANF-funded assistance that involve families' child support rights and states' required work participation rates. For reasons explained below, neither of these conditions should be of great significance in determining which funds to use to support housing subsidies.

Like other custodial families receiving assistance from a TANF-funded program, custodial families receiving TANF-funded housing assistance must assign their child support rights to the state. This means that such families must transfer to the state their legal rights to receive child support payments. Generally, a state will use the child support payments a family has assigned to the state to reimburse the state and the federal government for the cost of cash assistance benefits provided to that family. Recent federal policy guidance has clarified, however, that states may *not* retain any portion of child support payments to reimburse the state and federal governments for a "vendor payment" — such as a housing subsidy paid directly to a landlord — even if the vendor payment qualifies as "assistance."[73] Thus, if the only TANF "assistance" the family receives is a housing subsidy in the form of a vendor payment — that is, a payment directly to a landlord or a bank rather than to the family — the child support payments are "passed through" by the state and received in full by the family.[74]

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[72] The general rule is that a state may not use federal TANF funds to provide "assistance" to a family in which the adult head of household or spouse of the head of household has received federal TANF "assistance" for 60 months. This rule applies even if a family moves to another state. States have the option to provide TANF assistance beyond 60 months to up to 20 percent of their TANF caseloads. They also may assist families that have exhausted their federal TANF assistance with state MOE funds. Similarly, states may provide benefits financed entirely with state MOE funds to certain families, such as families whose earnings the states wishes to supplement, families enrolled in post-secondary education, and families in which a parent is temporarily disabled; if these benefits are funded entirely with state funds that are separately accounted for, receipt of the benefits does not count against the families' five-year federal time limit.

[73] In its *Questions on TANF Policy Issues and TANF Data Reporting* issued in November, 1999, the U.S. Department of Health and Human Services (HHS) stated (in the answer to Question 6): "TANF assistance provided not as a money payment to the family, but in a different form (e.g., as a housing or child care voucher, food coupon, or in-kind benefit), is not considered 'assistance paid to the family' and subject to recovery by the State unless it: (1) is paid in that form at the voluntary request of the TANF recipient; and (2) would otherwise be available as a money payment to the recipient." This Q&A is available on the web at: *http://www.acf.dhhs.gov/programs/ofa/qapol.htm#definition*.

[74] Similarly, if a family benefitting from a TANF-funded housing subsidy paid to a landlord also receives monthly TANF-funded cash assistance and the child support collected by the state exceeds the monthly cash assistance amount, the state may not retain the excess portion of the child support to reimburse itself for the housing subsidy. Instead, it must pay the excess child support to the family, assuming the state has no other claim to the excess child
(continued...)

If a state provides housing subsidies through a TANF-funded program, the families in the housing program will count in determining whether a state has complied with federal work participation requirements.[75] The employment status of the small number of families in a TANF-funded housing subsidy program, however, is unlikely to affect state compliance. Moreover, most states are meeting their work participation requirement with little difficulty. This is due in part to the fact that states receive credit toward the work participation requirement for reductions in their TANF caseload that occur for reasons other than changes in TANF eligibility criteria. In the current economy, most states have had such large reductions in the number of families receiving TANF-funded assistance that the federal work participation requirement is reduced very substantially and made easy to meet.

In light of these various rules, no problem is posed by a state's using federal TANF funds to provide housing subsidies to families *already receiving* TANF assistance. If families are receiving TANF-funded cash assistance, their federal time clock already is running. Their receipt of rental assistance will not further affect their five-year time limit. As discussed below, however, it is better to use MOE funds accounted for separately from TANF funds to provide housing subsidies to families *not* currently receiving TANF "assistance."

States may wish to use TANF-funded housing subsidies as one tool to help families in their TANF cash aid programs succeed in job training programs and at initial work efforts and also as a means of encouraging families to increase their work effort. That is the purpose of the Minnesota program which conditions initial and continuing receipt of housing subsidies on families' compliance with their individual employment plans. Another possible target group for TANF-funded housing subsidies is TANF families that have such urgent housing needs that they are unlikely to be able to sustain full-time work without first stabilizing their housing situation. This is the group the Los Angeles program will target by assisting homeless families engaged in part-time work.

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[74] (...continued)
support based on past unreimbursed cash assistance.

[75] Families with an adult or minor parent head of household receiving assistance from a TANF-funded program are considered in determining a state's work participation rate. In 2000, an individual counts toward meeting the federal work participation requirement if she works an average of at least 30 hours per week, no more than 10 of which may be spent either in job skills training or education directly related to employment or in secondary school or G.E.D. programs. States must meet a specified work participation rate or face a federal fiscal penalty. The required work participation rate for FY 2000 equals 40 percent minus a factor known as the "caseload reduction credit." This credit is equal to the percent reduction in a state's TANF caseload below 1995 caseload levels due to factors other than eligibility changes. (A higher work participation requirement applies to two-parent families. Some states have had difficulty meeting this requirement.) For more information, see Appendix B, n. 87.

Using TANF Funds for Services To Complement Housing Assistance Funded Through Other Sources

Another potential role for TANF funds in a housing assistance program is to provide services that complement ongoing housing assistance funded through other sources. TANF funds can be used to provide such services as housing search assistance to help families locate suitable housing or case management or other job-related services to help families obtain or retain employment. The use of TANF funds for these purposes does not trigger the federal restrictions that apply to receipt of TANF "assistance."

For example, New York City recently created a rent subsidy program for homeless families that are working or participating in an approved work-related activity to help them secure their own housing and leave shelters. The City is providing $2 million of its general funds for rent subsidies of up to $400 per month for up to two years, while the State is providing $1.5 million of TANF funds for intensive case management services. Because the TANF funds are not being used to provide "assistance," the families in this program are not subject to the restrictions attached to receipt of TANF "assistance" (unless they are receiving other TANF benefits that meet the definition of "assistance").

Similarly, the San Mateo program uses TANF funds for case management services and life skills training, including training in tenancy skills. Durham County, North Carolina uses TANF funds for home-buyer training as well as employment assistance. None of these services qualifies as "assistance" for TANF purposes.

Use of MOE Funds to Provide Housing Assistance to Working Families

It is best to use MOE funds to provide housing assistance to working families not receiving regular TANF cash benefits. As discussed below, benefits provided with MOE funds that are accounted for separately from TANF funds do not count against families' five-year lifetime federal time limit on receipt of TANF assistance. Using MOE funds to provide housing assistance to working families not receiving monthly TANF cash benefits thus can avoid having the months of housing assistance count against the families' federal time limit on TANF receipt. In contrast, providing housing assistance with federal TANF funds to such families may reduce the assisted families' ability to access TANF assistance when it may be needed in the future for basic subsistence (for example, if the family loses a job and has difficulty finding another one due to an economic downturn).

When state MOE funds are commingled with federal TANF funds and not separately accounted for, all families assisted with the commingled funds are treated as if they had received federal TANF funds, with the accompanying restrictions, including the five-year lifetime time-limit. There are two ways that states can use MOE funds for housing assistance without causing the time during which families receive that assistance to count toward their federal lifetime limit; both require that MOE funds be accounted for separately from any TANF funds. One way is to account separately for benefits provided to families with MOE funds as part of the state TANF program; this is called a "segregated state program." The other way is to use MOE funds to establish a program that receives no TANF funds and is administered separately from TANF-funded programs; this is known as a "separate state program."[76] For example, Connecticut and New Jersey have chosen to target their rent subsidy programs on families with earnings that are no longer receiving monthly TANF cash benefits; rather than using federal TANF funds to provide this assistance, these states have established separate state programs funded with MOE.

Appendix B summarizes the differences between "segregated" and "separate" state MOE programs. As the Appendix explains, in the short run, these differences are unlikely to make a significant difference to families or states in terms of the design of a housing assistance program. As a result, a state's choice to administer a MOE-funded housing assistance program through a segregated or separate state program is likely to be made on other grounds, such as the practices the state follows with regard to other MOE-funded programs.

States that wish to establish a housing assistance program serving both families that receive TANF cash assistance and families that do not receive TANF cash aid can create a housing program that combines the use of federal TANF funds for families receiving TANF cash aid with the use of state MOE funds in a segregated or separate program for other families. North Carolina's program follows this model. By combining funds in this manner, states can help mitigate problems that may be caused by a program funded only with TANF funds.[77]

If states fund their rental assistance programs *solely* with TANF funds, families' time clocks will continue to run even if they increase their work effort and raise their incomes beyond the eligibility level for TANF cash assistance. Families that succeed in working their way off welfare will be faced with the difficult choice of giving up their rental subsidies or continuing to have their federal five-year clock run. Such an undesirable choice could discourage some families from working their way off welfare. The disincentive would be still greater if families that became ineligible for TANF cash assistance automatically lost eligibility for the rental subsidy as a result.

Eligibility Levels

The final federal rules governing the TANF block grant, issued in April 1999, make clear that states may set different income limits for different benefits and services. There is no requirement that a family provided housing assistance with MOE or TANF funds must be

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[76] The federal TANF rules issued in April 1999 made clear that states may use state MOE funds to run separate state programs to provide such services as ongoing housing subsidies and may do so without risking a federal penalty.

[77] An alternative model is to combine federal TANF funds with other funds that may not count as MOE because they are provided by other federal programs or by private sources. For example, the San Mateo program serves both TANF families and those who have worked their way off TANF in the previous year. For families not receiving TANF cash assistance, San Mateo funds the rental subsidies through county general funds, federal HOME program funds, and foundation grants. A second alternative is to collaborate with housing agencies to ensure that families with TANF-funded rental subsidies can receive federal Section 8 subsidies when they leave TANF for work. See the text box on p. 25, above.

eligible to receive TANF cash benefits. Under these rules, states must set income eligibility limits for receipt of each type of TANF or MOE benefit and specify the limits in their TANF plans, but the income limits for various benefits may differ.

States have broad discretion in setting these income eligibility limits, including limits for housing assistance programs. Families provided TANF- or MOE-funded housing assistance must qualify as "needy" under the housing assistance component of the state TANF plan (or, if the state's TANF plan does not have a housing assistance component, under a general TANF/MOE eligibility rule that covers otherwise unspecified services). But states can define "needy" largely as they see fit.

States should consider using an eligibility level for housing assistance that is higher than the welfare cut-off to help families retain jobs after they leave the TANF rolls and to prevent the severe "notch" effect that would result if housing assistance were terminated when eligibility for TANF cash assistance ends.

Consequences for Food Stamp Benefits

It is important to consider the potential impact on families' food stamp benefits of a program to provide housing assistance with TANF or MOE funds. Many of the working families that states wish to serve in their housing programs will have incomes sufficiently low to be eligible for food stamps. The maximum gross income for receipt of food stamps is generally 130 percent of the federal poverty line, or $18,044 for a family of three in FY 1999.

The key issue is whether the housing assistance provided to participating families will count as income in determining their food stamp benefit levels. If so, families could lose 30 cents in food stamp benefits for each dollar of housing benefits they receive, undermining the potential of the housing program to promote and reward work. Fortunately, it is fairly easy to avoid this result.

The Food Stamp Act exempts vendor payments made by state or local housing authorities from the calculation of income used to determine benefit levels, regardless of whether the payments are made with welfare program funds or other funds. A vendor payment for housing assistance made with TANF or MOE funds and paid to the landlord by the welfare agency (rather than a housing authority) also will not count as income, so long as the funds were not made available by reducing the amount of TANF- or MOE-funded cash assistance the family would otherwise have received.

States and others concerned about this issue should contact the Center for advice.

The Construction or Acquisition of Housing

TANF funds cannot be used directly for housing construction or acquisition, except when the funds are used to assist a TANF-eligible family to become (or remain) a homeowner.[78] Thus, Kentucky's program using TANF funds in the form of a forgivable loan to reduce the mortgage of a family buying a home *is* a permissible use of TANF funds. Durham County, North Carolina also uses TANF funds to help families purchase their first home, through contributions to families' Individual Development Accounts that are then used for a downpayment.[79]

TANF funds may not be used to pay for the construction of multifamily rental housing, even if that housing will be occupied initially by TANF-eligible families. Other funds would have to be used for the initial capital costs of construction, substantial rehabilitation, or acquisition. Once such properties are acquired, constructed or rehabilitated, however, TANF or MOE funds could be used to subsidize the rents of families living in such properties (with the time limit and other consequences discussed above if TANF funds are used). So long as TANF or MOE funds are being used to subsidize the rents of families that meet applicable eligibility requirements, the subsidy itself may either be project-based (tied to particular housing developments) or tenant-based (the tenant locates the unit).

Unspent Federal TANF Funds

While it is most sensible to use MOE funds to provide housing assistance to families that are working and not receiving monthly TANF cash benefits, many states are spending sufficient state funds to meet their MOE obligation but have unspent federal TANF funds for the current or prior fiscal years.[80] Often, and quite reasonably, states make a point of using their MOE funds first, to ensure that they do not fall short in meeting this annual obligation. However, as is explained below, states often can shift some expenses now covered with MOE to the TANF side of the ledger, in order to free-up MOE funds for uses for which MOE funds are better suited than funds from the TANF block grant. States that rearrange their use of funds in this way may be willing to increase the total funds they commit to poor families. In addition, more TANF funds

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[78] Generally, federal funds cannot be used for the construction or purchase of facilities owned by private parties without specific statutory authorization. *See* 64 Fed. Reg. 17,840 and 45 C.F.R. 263.11. The transfer of TANF funds to the Social Services Block Grant, discussed below, would not alter this restriction. The same restrictions may apply to MOE funds.

[79] Contributions to an Individual Development Account (IDA) are excluded from the definition of "assistance." 45 C.F.R. 260.31(b)(5).

[80] See Appendix C for a list of unspent TANF funds by state through federal fiscal year 1999. State reports on TANF spending and unspent and unobligated funds may be found at http://www.acf.dhhs.gov/programs/ofs/data/index.html.

An Example of How TANF OR MOE Funds Can Be Used for Project-Based Rental Assistance

The following example shows how TANF (or MOE) funds can be used to support project-based rental assistance. A state enters into a contract with a property owner that commits the state to provide a rental subsidy of $300 per month on behalf of 15 eligible families for 10 years. The state intends to use TANF funds to fulfill the contract. In the year the contract is signed, the total amount of funds to be spent over the duration of the contract — $540,000 — becomes an "unliquidated obligation" on the state's TANF block grant. (An "unliquidated obligation" is a sum the state has committed to spend but has not yet spent.) The state pays out the funds at an annual rate of about $54,000. But with future funding secured, the owner could use the contract with the state for 10 years of rental subsidies as collateral for a loan it may need to construct, rehabilitate or acquire the property. The state and the owner need not be concerned about a possible future reduction in the state's TANF block grant, as the funds are already obligated for the full duration of the contract. There would be substantial political and legal barriers to any attempt by Congress to rescind unspent TANF funds that states could demonstrate are contractually obligated. (It is possible, though unlikely, that a state could seek to avoid its future commitments under the contract if future federal TANF funding is reduced, in order to shift funds to needs it considers of greater priority. Whether this is legally permissible would depend on the terms of the owner's contract with the state.)

If federal TANF funds are used as outlined in this example, it would be wise to use such a funding mechanism only for transitional housing for families with multiple barriers to work or for a time-limited subsidy while families are likely still to be receiving TANF benefits. As discussed above, a TANF-funded rent subsidy cannot be provided to a particular family for more than five years due to the federal time-limit on receipt of TANF "assistance." Transitional housing with a project-based rent subsidy could be coupled with federal Section 8 vouchers for families who complete the transitional program and work their way off TANF. Alternatively, time-limited subsidies could be provided for some units in a development in which there are other units that are affordable to working families without additional subsidy.

If state MOE funds accounted for separately from TANF funds are used for the project-based subsidies, no time limit on the rental assistance would be required, and working families could be served from the commencement of the subsidy without potential adverse consequences for the families.

In 1999, California committed $5 million of state general funds for the Families Moving to Work Program that is designed much like this example. Under this program, state funds are used to reduce the rent payable by TANF families that may live for up to three years in developments financed with federal Low Income Housing Tax Credit funds. These developments have intensive, on-site services to help families transition to work.

will be spent, reducing the unobligated block grant balances that may ultimately be seen by Congress as a reason to reduce future funding for the TANF program (or even to recapture some of the current unobligated TANF balances).[81]

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[81] The current TANF statute authorizes level program funding through fiscal year 2002. New funding levels for (continued...)

In addition to the possibility of combining TANF and MOE funds, as described above, there are two strategies that states can use to spend more of their TANF block grant funds and provide housing assistance as part of their welfare reform strategy, without creating the problems that may result from providing rental subsidies only with TANF funds. One approach, good in some states at least for the year 2000, is to use the authority states have to transfer TANF funds to the Social Services Block Grant (SSBG) and to provide housing assistance through SSBG. The other and more promising approach in many states is to use federal TANF funds to replace MOE funds in some programs, such as the cash assistance program, and then to use the state funds freed up as a result to provide MOE-funded housing assistance.

Under certain circumstances, federal TANF funds transferred to SSBG may be used to provide rental subsidies (or other services) to families with children without any of the federal TANF restrictions.[82] In federal fiscal year 2000, states are permitted to transfer up to 10 percent of their current year's federal TANF block grant to SSBG; this transfer authority, however, is scheduled to be reduced to 4.25 percent beginning in FY 2001. Many states are not currently using their full transfer authority. TANF funds transferred to SSBG can be used to serve families with incomes up to 200 percent of the federal poverty line, or about $27,000 per year for a family of three.

Federal TANF funds also could be substituted, with no adverse consequences, for some expenditures now being met with MOE funds. Many states use MOE funds to defray a portion of the cost of the monthly cash benefits paid to families in the TANF program. This practice often is a consequence of the prior requirement (prior to enactment of the 1996 welfare law) for states to match with state funds all state expenditures financed with federal AFDC funds. There is no longer any federal requirement, however, for there to be a "state share" of families' monthly cash assistance benefits; monthly cash benefits can be paid mostly or entirely with federal TANF funds if a state so chooses, so long as the state meets its MOE obligation through other expenditures. A state can use its unspent TANF funds from prior years to pay current cash assistance benefits (or any other current expenditure that is a permissible use of TANF funds and qualifies as "assistance"). Such a shift in spending could enable states to use more of their federal TANF funds, while making room in their budgets for significant new investments with MOE funds — such as housing assistance — to help move parents into the workforce.

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[81] (...continued)
the TANF block grant will need to be authorized in 2002 for the period beginning in fiscal year 2003. The levels of funding provided for 2003 and beyond are likely to be influenced by states' actual levels of spending in the preceding years.

[82] Due to the prohibition in federal law against using SSBG funds for "room and board," it may not be permissible to use SSBG funds for rental assistance of unlimited duration that is not combined with a program of other social services. All of the rental assistance programs discussed in this paper, however, are time-limited, and many are coupled with required training for those not working sufficient hours (for example, Minnesota and San Mateo) or with intensive case management services (for example, many of the county programs in North Carolina). States contemplating using the SSBG transfer program to fund a rental assistance program are urged to contact the Center for further advice.

In addition, many states currently use MOE funds to provide a variety of transitional supports for working families, such as transportation or child care benefits, or to provide one-time payments for such non-recurring needs as car repairs or to prevent eviction or utility shut-off. The final TANF rules make clear that such work supports for working families or one-time or short-term payments are considered "non-assistance," meaning that TANF funds may be used for these purposes without invoking the restrictions that apply to TANF-funded "assistance." [83] It is advantageous for states, and poses no risk for families, to fund such benefits and services with federal TANF funds. MOE funds freed up as a result can then be used for housing assistance for working families.[84]

Conclusion

The lack of stable, affordable housing can be a significant obstacle to families' transition from welfare to work. States can help families overcome this obstacle by using federal TANF or state MOE funds to provide vouchers that subsidize the rents of apartments that families locate in the private market or to provide project-based rental assistance or homeownership assistance. An increasing number of states are recognizing the lack of affordable housing as a barrier to the success of their welfare reform efforts and are dedicating some TANF or MOE funds to help meet families' housing needs.

A list of contact persons who can provide additional information about the eight state or local programs discussed in this paper is attached as Appendix D. Readers also may contact the Center for further information about the matters this paper discusses.

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[83] Receipt of "non-assistance" does not count against families' federal time limit for receipt of TANF-funded assistance and does not require families to assign child support rights. Families receiving "non-assistance" benefits also do not count in determining states' work participation rates. Record-keeping burdens also are reduced when TANF funds are used for "non-assistance."

[84] A number of recommendations for using unspent TANF funds can be found in *Windows of Opportunity: Strategies to Support Families Receiving Welfare and Other Low-Income Families in the Next Stage of Welfare Reform,* Center on Budget and Policy Priorities, January, 2000. The report is available on the Center's web site at *http://www.cbpp.org/1-12-00wel.pdf.*

Appendix A: Methodology for Calculating the Median Fair Market Rent

The most definitive sources of information on rental costs in the United States are the decennial census and the bi-annual national American Housing Survey, both of which are conducted by the Census Bureau. Unfortunately, data from these surveys are available only after a several-year delay. Thus, for example, data from the 1997 American Housing Survey only became available recently.

One source of more up-to-date estimates of rental costs is the U.S. Department of Housing and Urban Development (HUD). Each year, HUD prepares estimates of the costs of a modest apartment of decent quality in different metropolitan areas and non-metropolitan counties. These estimates, known as "Fair Market Rents," reflect HUD's estimates of the 40th percentile of housing costs (rent and utilities) for non-luxury decent-quality rental housing occupied by families that have moved recently. Information on local Fair Market Rents — and the incomes needed to afford such rents — may be found in *Out of Reach: The Gap Between Housing Costs and Income of Poor People in the United States*, September 1999, a publication of the National Low-Income Housing Coalition, available on the Internet at: *http://www.nlihc.org/oor99/index.htm*. Additional data on HUD's fair market rents and income limits may be found on HUD's website: *http://www.huduser.org/datasets/pdrdatas.html*.

In this paper, we use HUD's FY 2000 Fair Market Rents for two-bedroom rental units as the basis for calculating the typical cost for a two-bedroom rental unit in metropolitan areas, which we estimate to be $648 per month. This is our estimate of the median FY 2000 two-bedroom Fair Market Rent for metropolitan areas, weighted by population. In other words, approximately half of the population of metropolitan areas in the United States live in areas with two-bedroom Fair Market Rents higher than $648 per month and half live in areas with lower two-bedroom Fair Market Rents.

Table 1 (on page 17 of the body of the report) shows the FY 2000 two-bedroom Fair Market Rents for the 15 largest Metropolitan Statistical Areas and Primary Metropolitan Statistical Areas. At the bottom of the table, we show the median of the Fair Market Rents for these areas ($757 per month), weighted by population. Approximately half of the households in the fifteen largest metropolitan areas live in areas with higher two-bedroom Fair Market Rents, while about half live in areas with lower two-bedroom Fair Market Rents.

Technical Note: Our calculations use the most recent Census Department population estimates for metropolitan areas, which are as of July 1998. The metropolitan areas included in the Census Department's population estimates match up well with those used by HUD to develop Fair Market Rents, but the correlation is not perfect. In all but two cases, the metropolitan areas in the Census database could be matched to similar regions in HUD's Fair Market Rent database. HUD's Fair Market Rent database, however, contains 19 special metropolitan Fair Market Rent regions that do not correspond to Census Metropolitan Statistical Area designations. These special Fair Market Rent areas appear to be parts of Metropolitan Statistical Areas or larger Primary Metropolitan Statistical Areas, as defined by the Census Bureau. Our estimates of the median Fair Market Rents do not account for these special Fair Market Rent areas. They also do not reflect Fair Market Rents for Puerto Rico.

Appendix B: Providing MOE-funded Housing Assistance Through a Segregated or Separate State Program

There are two principal differences between *segregated* and *separate* state programs funded with money that counts toward a state's Maintenance of Effort (MOE) requirement. One difference has to do with the assignment of child support benefits to the state; the other difference lies in work participation rules. These differences are summarized in Table B-1 and explained below. (In a "segregated" state program, state funds used to provide benefits to families are part of the state's TANF program, but the state accounts for these MOE funds separately from the TANF funds in providing reports to the U.S. Department of Health and Human Services. In a "separate" state program, a state uses MOE funds to establish a program that receives no TANF funds and is administered separately from TANF-funded programs.)

Child Support Assignment

Families receiving assistance through *separate* state programs are not required to assign to the state their rights to receive child support payments. Families receiving assistance through *segregated* state programs, by contrast, must assign their child support rights to the state. The impact of the child support assignment requirement is mitigated by HHS rules providing that states may *not* retain any of the child support paid on a family's behalf to reimburse the government for housing assistance paid to a landlord.[85] In effect, in these circumstances, the child support payments will be "passed through" by the state agency and received in full by the family.

While the child support assignment requirement that applies to *segregated* state programs should have no financial consequences for families in a housing subsidy program, receiving and

[85] As explained in n. 73, above, for these child support rules to apply, the payment of the housing subsidy as a vendor payment cannot be at the family's request; the housing subsidy program must be designed as a vendor payment program.

then passing through the child support payments may cause additional administrative burden to the state. Classifying a housing assistance program as a *separate* state program will eliminate the task of having a family assign its child support rights, which may be important if the program is to be administered by an agency other than the welfare department that is not accustomed to dealing with child support issues.

Work Participation Requirements

If a state funds housing assistance with state funds in a *segregated* state program, the families served are counted (along with others receiving assistance from a TANF-funded program) in determining whether a state is meeting its work participation requirements. States that fail to have a sufficient percentage of families engaged in a "work activity" for the federally-specified number of hours per week may be subject to financial penalties.[86] Families served in *separate* state programs, by contrast, are *not* counted for work participation purposes and are not subject to federal work requirements. A state providing housing assistance to families that meet the federal definition of "work" may prefer to serve such families in a *segregated* state program rather than a *separate* state program if it wants to increase its TANF work participation rate. Few states need to be concerned about this now, however, since the great majority of states met their overall work participation requirements with room to spare in 1999 due to the large reductions in TANF caseloads.[87]

Table B-1 summarizes the applicability of these various requirements to families receiving housing assistance benefits funded through various sources. The program requirements are listed in the first column. The next three columns show the applicability of these requirements if the housing assistance benefits are paid by TANF (or MOE funds commingled with TANF) funds, MOE funds in a segregated program, or MOE funds in a separate state

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[86] The federal definition of "work activity" includes some types of training, job search, and unpaid and subsidized work placements as well as unsubsidized employment. In the year 2000, a state may be subject to federal penalties if fewer than 40 percent of families receiving assistance from a TANF-funded program in a month are "working" at least 30 hours per week. The 40 percent figure is reduced, however, by the amount of the state's caseload reduction credit (see the next footnote). As a result, the percentage of families receiving assistance from a TANF-funded program that must be "working" is much lower than 40 percent in most states.

[87] States receive credit toward their work participation rate for reductions in their TANF caseloads below 1995 caseload levels due to factors other than eligibility changes. For example, if a state's total caseload declined from 25,000 in fiscal year 1995 to 20,000 in fiscal year 1999, and none of the caseload decline was due to state or federal eligibility changes, the caseload reduction credit for that state for fiscal year 2000 would be the percentage decline, or 20 percentage points. The credit amount would then be subtracted from the federally required work participation rate — 40 percent in fiscal year 2000 — to yield an effective work participation rate of 20 percent for that state (40 percent minus 20 percent). In the current economy, most states have had a sufficient reduction in families receiving TANF assistance for reason not traceable to eligibility changes that their work participation requirements have been reduced substantially, and made quite easy to meet. (The caseload reductions have not been sufficient, however, to enable all states to satisfy the separate work participation requirement of 90 percent for *two-parent* families. Some states may in effect avoid this requirement in the future by serving two-parent families through a *separate* state program.) Because the work participation requirement rises from 40 percent to 50 percent in 2002, it is possible that some states could eventually face some degree of difficulty. Such difficulty could be exacerbated if an economic downturn were to occur and cause welfare caseloads to rise.

program. It is important to note that this table applies to a housing subsidy program that provides benefits for more than four months in the form of payments directly to a landlord or bank. (A program that provides benefits for 120 days or less is not considered "assistance" under HHS rules. It also is possible that a homeownership subsidy will not be considered "assistance" if it is made as a one-time payment or as a contribution to a family's Individual Development Account; see notes 70 and 79, above.) The table also assumes that families are receiving no other TANF-funded benefits that are considered "assistance."

Table B-1: Consequences of TANF and MOE Funding Arrangements for a Housing Assistance Program

	Federal TANF Funds Only or Commingled with State MOE Funds	**State MOE Funds in a *Segregated* State Program**	**State MOE Funds in a *Separate* State Program**
Federal 5-Year Lifetime Time Limit	Yes	No	No
Child Support Assignment	Yes	Yes	No
Share of Child Support Retained by Government As Reimbursement for the Housing Subsidy	No	No	No
Family Counts for State Work Participation Rate	Yes	Yes	No

Appendix C: Total Unspent TANF Funds at the End of Federal Fiscal Year 1999

This Appendix provides data on the amount of unspent TANF funds each state had at the end of federal fiscal year 1999. The data come from expenditure reports (known as ACF-196 reports) that states have submitted to the U.S. Department of Health and Human Services as part of their TANF reporting requirements. The Center on Budget and Policy Priorities collected copies of these reports directly from the state agencies responsible for preparing the TANF financial reports. The data have not been verified by the U.S. Department of Health and Human Services and thus should be considered preliminary.

Table C-1 presents information on two types of unspent TANF funds: *unliquidated obligations* and *unobligated funds*.

- *Unliquidated obligations* refer to amounts that a state has committed to spend but has not yet paid out. This could include funds a state has contracted to pay a private service provider, such as a child care agency, for services to be provided in the future. Unliquidated obligations also could include payments that have not yet been made for services already provided. Finally, some states appear to report TANF funds set aside in a "rainy day" reserve as unliquidated obligations, although this is not a traditional application of this term (and the final TANF regulations indicate that rainy day reserves must be reported as unobligated funds).

- *Unobligated* TANF funds refer to the funds states have neither spent nor committed to spend as of a given date.

Because unliquidated obligations generally reflect an intent to make expenditures — and thus may not be available for spending in the way that unobligated funds are — analyses of unspent TANF funds often refer to unobligated funds only. There are, however, a number of states that report substantial amounts of unliquidated obligations — in some cases, as much as two-thirds of the TANF funds available to them since implementation of TANF in fiscal year 1997. These states typically report having little or no unobligated funds. It is likely that at least a portion of the funds that these states report as unliquidated actually reflect what are commonly considered unobligated funds. As a result, this table presents amounts of unliquidated obligations as well as amounts of unobligated funds.

The table measures the accumulated unobligated funds and unliquidated obligations as a percentage of the cumulative amount of TANF funding available to each state from fiscal year 1997 through the end of federal fiscal year 1999. It reflects the portion of all TANF funds available to the state since the inception of the TANF block grant that have not been spent.

> EXAMPLE: At the end of federal fiscal year 1999, Georgia reported $119.7 million in unobligated federal TANF funds and $16.1 million in unliquidated obligations. The total amount of unspent TANF funds was $135.8 million, which equaled 14 percent of the TANF funds that have been available to the state since the inception of its TANF program.

For more information, see Ed Lazere, *Welfare Balances After Three Years of TANF Block Grants: Unspent TANF Funds at the End of Federal Fiscal Year 1999*, Center on Budget and Policy Priorities, 2000, available on the Internet at: *http://www.cbpp.org/1-11-00wel.pdf.*

TABLE C-1: Total Unspent TANF Funds at the End of Federal Fiscal Year 1999

(All figures in millions)	**Unobligated Funds As of 9-30-99**	**Unliquidated Obligations As of 9-30-99**	**Total Unspent Funds**	**Unspent Funds As a Percentage of TANF Funds Available Since FY 1997**
Alabama	$31.4	$4.8	$36.2	12%
Alaska	7.0	0	7.0	5
Arizona	0	91.3	91.3	13
Arkansas	0	39.5	39.5	29
California	0	1,620.6	1,620.6	15
Colorado	0	77.1	77.1	24
Connecticut	40.7	0	40.7	5
Delaware	0	2.9	2.9	3
District of Columbia	37.3	32.8	70.1	26
Florida	0	392.6	392.6	23
Georgia	119.7	16.1	135.8	14
Hawaii	4.0	1.4	5.4	2
Idaho	19.2	17.8	37.0	47
Illinois	0	0	0	0
Indiana	0	199.5	199.5	32
Iowa	21.0	5.7	26.7	7
Kansas	0	0	0	0
Kentucky	0	0	0	0
Louisiana	112.2	0	112.2	24
Maine	0	0	0	0
Maryland	47.2	52.1	99.3	15

Table C-1, Continued.

(All figures in millions)	Unobligated Funds As of 9-30-99	Unliquidated Obligations As of 9-30-99	Total Unspent Funds	Unspent Funds As a Percentage of TANF Funds Available Since FY 1997
Massachusetts	$68.2	$0	$68.2	5%
Michigan	146.1	0	146.1	6
Minnesota	66.7	67.3	134.0	21
Mississippi	73.2	20.5	93.7	35
Missouri	11.4	15.3	26.8	4
Montana	26.6	0	26.6	21
Nebraska	9.2	0	9.2	6
Nevada	0	16.8	16.8	13
New Hampshire	6.0	4.6	10.6	9
New Jersey	0	253.1	253.1	23
New Mexico	56.9	0	56.9	18
New York	752.1	370.8	1,122.9	16
North Carolina	3.4	98.3	101.7	12
North Dakota	8.3	0	8.3	16
Ohio	150.0	583.9	733.9	34
Oklahoma	61.4	0	61.4	14
Oregon	0	23.8	23.8	5
Pennsylvania	174.6	125.3	299.9	16
Rhode Island	0	0	0	0
South Carolina	0.0	32.2	32.2	11
South Dakota	11.9	2.2	14.0	23
Tennessee	103.6	19.6	123.2	21
Texas	0	175.6	175.6	12
Utah	17.8	0	17.8	8
Vermont	3.0	0	3.0	2
Virginia	1.7	14.2	15.9	4
Washington	130.2	68.1	198.3	18
West Virginia	153.5	0	153.5	51
Wisconsin	30.7	290.4	321.2	34
Wyoming	35.2	0	35.2	58

Center on Budget and Policy Priorities

Appendix D: Contact Information for State and Local Housing Initiatives

Connecticut

Transitionary Rental Assistance Program ("T-RAP")

Kevin Loveland, Director
Family Services Division
Connecticut Dept. of Social Services
25 Sigourney St.
Hartford, CT 06106
phone: 860-424-5031
fax: 860-951-2996
Kevin.Loveland@po.state.ct.us

Lucille Scafani
Administrator of Time-Limited Rental Assistance Program
Connecticut Ass'n for Community Action
555 Windsor St.
Hartford, CT 06120
phone: 860-560-5846
fax: 860-527-3305

Kentucky

TANF Homeownership Program

Sheila Etchen, Director of Planning and Program Development
Kentucky Housing Corporation
1231 Louisville Rd.
Frankfort, KY 40601
phone: 502-564-4753
fax: 502-564-7322
setchen@kyhousing.org

Maryland

RAP to Work Initiative

Joanne Baumback, RAP Coordinator
Department of Housing & Community Development
100 Community Place
Crownsville, MD 21032
phone: 410-514-7494; 1-800-756-0119
baumback@dhcd.state.md.us
http://www.dhcd.state.md.us/rental/rapwork1.htm

Los Angeles County

Transitional Support for Homeless CalWORKS Families

Ruth Schwartz, Executive Director & Tricia Tasto, Project Manager
Shelter Partnership, Inc.
523 West Sixth Street, Suite 616
Los Angeles, CA 90014
phone: 213-688-2188
fax: 213-689-3188
rschwartz@shelterpartnership.org; ttasto@shelterpartnership.org

Grace Ruiz-Stepter
Community Development Commission
County of Los Angeles
4800 Cesar E. Chavez Avenue
Los Angeles, CA 90022
phone: 323-260-2820
gstepter@lacdc.org

Minnesota

Rental Assistance for Family Stability (RAFS)

Maggie Demco, Community Services Officer
Minn. Housing Finance Agency
400 Sibley St., Suite 300
St. Paul, MN 55101-1998
phone: 651-296-9836; 1-800-657-3647
fax: 651-296-9545
Maggie.Demco@state.mn.us

New Jersey

Work First New Jersey Housing Assistance Program

Roy Ziegler, Assistant Director
N.J. Dept. of Community Affairs
Div. of Housing and Community Resources
101 South Broad Street, 5th Floor
Trenton, NJ 08625-0051
phone: 609-633-8105
fax: 609-633-8084
dcaroyz@ix.netcom.com

North Carolina

North Carolina TANF-Housing Pilot Project

Pheon Beal, Chief, Economic Independence Section
Division of Social Services
N.C. Department of Health and Human Services
325 North Salisbury Avenue
Raleigh, NC 27603
phone: 919-733-7831
fax: 919-715-5457
pheonbeal@ncmail.net

For questions re North Carolina's use of CDBG funds, contact:

Bill McNeil, Director,
Division of Community Assistance
N.C. Dep't of Commerce
1307 Glenwood Ave., Suite 250
Raleigh, NC 27605-2600
phone: 919-733-2850
fax: 919-733-5262
bmcneil@dca.commerce.state.nc.us

San Mateo County

Housing Opportunities Program

Judy Gaither, Executive Director
Human Investment Project for Housing
364 South Railroad Ave.
San Mateo, CA 94401
phone: 650-348-6660
fax: 650-348-0284
jgaither@hiphousing.org
http://www.hiphousing.org