



CENTER ON BUDGET AND POLICY PRIORITIES

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March 23, 2004

“FAMILY SELF-SUFFICIENCY” PROGRAM IMPERILED BY HUD’S FISCAL YEAR 2005 BUDGET REQUEST

by Barbara Sard

One HUD program that the Administration’s budget places in jeopardy is the little-known Family Self-Sufficiency (FSS) program. Currently serving more than 75,000 individuals who participate in HUD rental assistance programs, FSS is a program that helps low-income tenants build assets and increase their earnings so that they can better meet their families’ needs and become independent of welfare assistance.

In its strategic plan for fiscal years 2003 to 2008, HUD stated: “The Family Self-Sufficiency (FSS) program is HUD’s primary tool for helping families in the Housing Choice Voucher and public housing programs build assets and increase their incomes.” Many graduates of the FSS program become homeowners. Others start businesses or obtain post-secondary education.

But the Administration’s fiscal year 2005 budget proposes to eliminate dedicated funding for the FSS coordinators who administer FSS programs for Section 8 voucher holders. The budget also proposes to convert the voucher program itself into a block grant and to cut voucher funding in fiscal year 2005 more than \$1 billion below the fiscal year 2004 level.

These proposals threaten the viability of local FSS programs. If these proposals are enacted, many FSS programs will be unable to continue to employ coordinators to administer the programs and will no longer be “made whole” by HUD for deposits to escrow accounts that help FSS participants build assets. In addition, the escrowed savings that tens of thousands of current FSS participants have built up could be placed at risk. Local housing agencies, which would face severe shortfalls in voucher funding if the Administration’s budget cuts in the voucher program are approved, could look to these escrow accounts as potential sources of funding to help make up for the loss of revenue.

Many current FSS participants who have significant escrow savings have worked hard to make progress toward self-sufficiency, increasing their work hours and/or finding better-paying jobs. Many of these tenants also have worked to get ready for homeownership by improving their credit history and taking financial literacy classes. It would be unfair to deny these families the benefit of the escrowed savings promised to them in the FSS contracts that they signed with their local housing agencies. The standard FSS contract, however, permits local housing agencies to terminate their commitments under the contract — including their promise to provide successful program graduates with their escrowed savings — if the resources to complete the contract become unavailable to the agencies. By depriving housing agencies of the resources they need to run the housing voucher and FSS programs, the Administration’s proposed fiscal

year 2005 budget could trigger this contingency clause, to the detriment of FSS participants nationwide.

The Family Self-Sufficiency Program

Established in 1990 as a result of a policy initiative by the first President Bush, the FSS program is an innovative program that helps low-income families enrolled in the housing voucher or public housing programs to build assets, increase their earnings, and make progress toward self-sufficiency. Participants in the FSS program receive case management support to help them access work-promoting services in the community. They also build assets through escrowed savings accounts that grow as their earnings increase.¹ Participants who successfully fulfill their responsibilities under the program and become independent of welfare assistance for at least a year may access their escrow funds for the downpayment on a home, further education, capital to start a business, or other purposes.²

Prior to the submission of this year's budget proposal, the Bush Administration had indicated strong support for the FSS program. As noted above, HUD's strategic plan for fiscal years 2003-2008 lauds the program. In fact, HUD promised in that strategic plan to "work to significantly expand participation in the FSS program." This promise was echoed in HUD's fiscal year 2004 Annual Performance Plan, which highlights FSS as a "key initiative" that advances the goal of "helping individuals achieve self-sufficiency."

At least 67,000 individuals with housing vouchers are currently enrolled in the FSS program.³ Approximately 7,700 individuals who reside in public housing also are enrolled. Although there has not yet been a national evaluation of the program, there is evidence of the program's effectiveness. For example:

- An evaluation of the Portland, Oregon FSS program through mid-2000 found that the average annual earnings of graduates increased from \$4,000 at the beginning of the program to \$17,500 at graduation, an increase of 338 percent.⁴ As of the

¹ As with other families in public and assisted housing, FSS participants typically pay approximately 30 percent of their income for rent and utilities. Thus, when the income of an FSS participant increases, the participant's rent contribution goes up. Unlike other assisted residents, however, the FSS participant has the opportunity to get some or all of its increased rent payments back. FSS program rules require that an amount generally equal to the increased rent paid by the FSS participant be deposited into an escrow account maintained by the local housing agency on the participant's behalf.

² For further background on the FSS program, see Barbara Sard, "The Family Self-Sufficiency Program: HUD's Best Kept Secret for Promoting Employment and Asset Growth," Center on Budget and Policy Priorities, <http://www.cbpp.org/4-12-01hous.htm>.

³ SEMAP Report run on HUD's PIC data system on February 16, 2004, reflecting data from October 1, 2002 through January 1, 2004. The actual number of FSS participants with vouchers may be higher; some housing authorities have reported that HUD's data systems undercount the number of FSS participants.

⁴ Karen J. Gibson, Assistant Professor, School of Urban Studies and Planning, Portland State University, *The Goals Family Self-Sufficiency Program: A Survey of Graduates*, December 2002. The economy was strong during much of the time period covered by this evaluation. Earnings growth among FSS participants has apparently slowed during the more difficult economic conditions of the past few years.

end of 2002, the average asset accumulation among graduates was \$7,000, with 40 percent of graduates becoming homeowners.⁵

- Montgomery County, Maryland has reported average escrow accumulation among FSS graduates of \$8,000, with 25 percent going on to become homeowners. The average earnings of graduates at graduation is \$27,130, up from \$9,180 at enrollment, an increase of nearly 200 percent.⁶

The fiscal year 2005 budget does not appear to affect continued funding for the FSS program for public housing residents. Accordingly, this analysis focuses on the impact that the Administration's budget proposal would have on the FSS program for families with housing vouchers, which is referred to here as the Housing Choice Voucher FSS program.

Funding for Housing Choice Voucher FSS Programs

Currently, Housing Choice Voucher FSS programs are funded through two main sources:

- In the last four years, \$45 - \$48 million has been set aside annually in appropriations bills to pay for FSS coordinators, who administer the program locally.
- Housing agencies receive Section 8 subsidy funds to cover the costs of the escrow accounts.⁷

The Administration's proposed fiscal year 2005 budget would dramatically alter the funding situation for Housing Choice Voucher FSS programs. In contrast to 2004 and prior years, the Administration has requested *no* dedicated funding for Housing Choice Voucher FSS coordinators. The budget also proposes to convert the Housing Choice Voucher program itself into a block grant and to reduce its funding substantially.⁸

- For fiscal year 2005, the Administration proposes to cut housing voucher funding more than \$1 billion below the fiscal year 2004 level.⁹ As HUD budget

⁵ *Summary of Outcomes/Challenges -- Housing Authority of Portland Family Programs*, December 6, 2002.

⁶ FSS Statistics as of 12/31/03 provided by Nancy Scull, FSS Coordinator for the Housing Opportunities Commission of Montgomery County. These statistics are particularly impressive in light of the high costs of homeownership in the expensive Washington D.C. metropolitan housing market.

⁷ HUD provides funding to PHAs based on the actual cost of housing vouchers. FSS escrow deposits are included in the calculation of PHAs' actual costs.

⁸ For a detailed analysis of the Administration's FY 2005 housing voucher proposals, see Barbara Sard and Will Fisher, *Administration Seeks Deep Cuts in Housing Vouchers and Conversion of Program to a Block Grant*, available on the Internet at: <http://www.cbpp.org/2-12-04hous.htm>.

⁹ The FY 2004 appropriations act provided \$14.23 billion to support existing housing vouchers in use, including \$48 million for Housing Choice Voucher FSS coordinators. For FY 2005, the Administration requests \$13.18 billion for

documents show, the proposed funding level is more than \$1.6 billion — or 12 percent — below the level of funding needed in fiscal year 2005 simply to continue serving the same number of families, at the same level of assistance, as in fiscal year 2004.¹⁰

- The reduction in voucher funding under the Administration’s budget would grow larger with each passing year. The Congressional Budget Office projects that by 2009, expenditures for the voucher program budget would be \$4.6 billion — or 30 percent — lower under the Administration’s budget than the amount needed to continue serving the current number of families at the current level of assistance.
- The Administration also proposes, as part of the voucher block grant, to reduce local housing authorities’ administrative fees.

Likely Effects of FY 2005 Budget Proposals on Housing Choice Voucher FSS Programs

It is unclear what role the Administration contemplates for Housing Choice Voucher FSS programs under the proposed block grant. A HUD press release issued in February, entitled: “Reform To Section 8 Aims to Help Families Achieve Self-Sufficiency,” makes multiple references to helping families achieve “self-sufficiency” but does not mention FSS once.

HUD’s fiscal year 2005 budget summary is somewhat more promising. Under the block-grant proposal, public housing agencies would receive a “base” amount of funds to administer the voucher program. The base amount of administrative funds for a PHA would be set at seven percent of the voucher subsidy funds the PHA receives (a significantly lower percentage than PHAs currently are provided). Some PHAs would receive additional — or “bonus” — administrative funds, which would be awarded on the basis of how individual PHAs rate on performance criteria that HUD would set. The HUD budget summary notes that PHAs could use these “bonus” funds for, among other things, “FSS staff salaries to ensure coordination with state agencies, faith-based organizations and other non-profit providers of supportive services.”¹¹

Not all PHAs would receive bonus funding, however. In addition, while HUD has not specified the precise criteria for award of the bonus funds, the bonus funds appear tied, in part, to “changes in the number of households no longer needing assistance” — in other words, to increases in the number of families who leave (or are forced off) housing assistance.¹² It is not

voucher renewals and no funding for Housing Choice Voucher FSS coordinators. This is a reduction of \$1.05 billion.

¹⁰ See Barbara Sard and Will Fisher, *supra*.

¹¹ HUD’s Q&A on the impact of the proposed block grant also cites bonus funding as the potential source of funding for FSS coordinators. See: <http://www.hud.gov/offices/pih/programs/hcv/fvp/fvpfaq.pdf>. Accessed 2/18/2004.

¹² HUD’s FY 2005 Budget Summary Book, page 17. HUD’s February 12, 2004 press release states that “HUD will give incentives to PHAs that help transition families out of the [Section 8] program on to self-sufficiency. . . .” Similar language is used in HUD’s February 2004 Q&A: “Incentive bonuses will also be awarded for homeownership and self-sufficiency efforts, especially as they succeed in transitioning families off of assistance.”

clear that such bonuses would be consistent with the more patient model of steady progress toward self-sufficiency that FSS represents; under FSS, participants usually have up to five years of stable housing assistance in which to address barriers to work and to accumulate assets.

Another problem with relying on “bonus” funding to pay for FSS coordinator costs is the unpredictability of such funding. Even if a PHA could obtain enough bonus funding to cover the costs of an FSS coordinator, the PHA likely would not know in advance that it would qualify for those funds or in what amount. In addition, given the lack of specificity in the Administration’s proposed block-grant legislation regarding the criteria for awarding the bonuses, HUD could change the criteria from year to year, and a PHA might qualify in one year but not the next. PHA executive directors might decline to take the risk of hiring FSS coordinator staff, given the uncertainty of continued bonus funding.

It is possible that a PHA could pay for the costs of an FSS coordinator out of its “base” amount of administrative fees. Given the substantial reductions in such fees that would occur under the block grant and the funding levels in the Administration’s budget, however, it is unlikely that many PHAs would elect to do so.

Costs of the Escrow Accounts

Under the proposed block grant, PHAs would no longer receive additional subsidy funds from HUD to compensate them for FSS escrow deposits. If a PHA wished to continue supporting FSS escrow deposits under the block grant, the PHA apparently could use ordinary voucher subsidy funding for this purpose. But such a course would not be attractive to many PHAs; using regular subsidy funds for FSS escrow deposits would reduce the funds available to a PHA for rental subsidies. In light of the deep cuts in voucher program funding proposed as part of the block grant, it is unlikely that many PHAs would be willing to absorb such a revenue diversion.

As noted above, the reduction in voucher funding would exceed 12 percent in fiscal year 2005 and rise to about 30 percent by fiscal year 2009. In the face of such large funding reductions, many housing authorities would likely decide that they should seek to maintain rental subsidy assistance to as many current voucher holders as possible, rather than continue to fund the FSS program. After all, every dollar spent on FSS under these circumstances would be one dollar less that could be spent to maintain the existing level of housing subsidies.

It is not clear from the Administration’s fiscal year 2005 budget proposal whether PHAs that are currently required to enroll families in FSS would continue to be obligated to do so.¹³ On the one hand, the proposed legislation does not specifically propose to eliminate the statutory provisions that include this requirement. On the other hand, HUD apparently intends to eliminate most current program requirements. HUD’s Q&A on the proposed voucher block

¹³ Housing agencies that received new increments of housing assistance (i.e., funds for new vouchers or public housing units) between 1991 and 1998 are obligated to graduate at least one family from FSS for each new unit funded during this period. Current law permits these agencies to expand their FSS programs beyond the size needed to meet this mandate. In addition, under current law, housing agencies not subject to this FSS mandate may voluntarily establish FSS programs.

grant states that “The current federal FSS Program requirements will not be mandatory. PHAs may opt to continue administering the FSS program as currently designed, or make one or more changes to the program design.”

What Would Happen to the FSS Escrows of Existing Participants?

The Contract of Participation between housing agencies and FSS participants provides that the housing agency “may declare this contract null and void if the resources and services necessary to complete the contract are not available.”¹⁴ If the budget proposals described above are adopted, it is likely that some housing agencies will choose to rely on this contingency clause to cancel contracts with existing FSS participants, causing the participants to lose the escrowed savings they have earned but not yet received.

In fact, there appears to be a financial incentive under the proposed block grant for PHAs to cancel their existing FSS contracts with FSS participants, and thereby to secure access to the escrowed funds. Under current practice, PHA contributions to FSS escrow accounts are treated by HUD as a reduction in rent contributions by assisted households, which results in a corresponding increase in the HUD subsidy funding that the PHA receives. In other words, the PHA is “held harmless” for deposits made into FSS escrow accounts. Furthermore, under current practice, a participant’s forfeiture of her escrow account counts as an increase in tenants’ rent contributions, which leads to a corresponding decrease in HUD subsidy funding. This system thus ensures that PHAs neither gain nor lose financially from the administration of FSS escrow accounts.

By contrast, under the proposed block grant, each PHA would receive a set amount of voucher subsidy funding that does not vary with changes in the amount of rent contributed by assisted households. Under such a system, the forfeiture of FSS escrow accounts would increase a PHA’s resources without causing the PHA to lose any HUD funding.

The loss of the escrowed savings would be a severe blow to many FSS participants. Consider the hypothetical case of an FSS participant who has been working for four years to accumulate savings to buy a home. The participant is one year away from meeting all of the FSS program goals and having enough escrowed funds to make a downpayment on a home. Following enactment of the Administration’s proposed budget, however, the housing agency informs the participant that the agency lacks sufficient funds to complete its obligations under the contract. As the housing agency explains, the federal budget cuts have forced it to use all available funding to minimize the number of families who lose housing assistance. The housing agency has done everything it can think of to cut expenses, including terminating the FSS coordinator and all other staff who are not essential to administration of its core housing voucher program. But there still is a shortfall. Given its central mission as a housing agency, the agency has concluded it has no choice but to use the escrowed funds to minimize the number of families losing their housing assistance. In such a case the housing agency may be making the best decision for other families it serves. Yet the FSS participant will lose not only the escrow funds she has built up with four years of effort but also her dream of homeownership.

¹⁴ Form HUD-52650.

Conclusion

The Administration's fiscal year 2005 budget would imperil Housing Choice Voucher FSS programs. If the Administration's proposed changes in the housing voucher program are enacted, housing agencies will no longer receive dedicated funding for FSS coordinators. Nor will they be reimbursed for deposits into FSS escrow accounts. While some housing agencies would receive unspecified bonus administrative funding that could be used to cover FSS coordinator costs, it is unlikely that this funding would be reliable enough to support ongoing FSS staff positions. In addition, housing agencies would be under tremendous pressure to cut costs to cope with overall reductions in voucher program funding that would start at 12 percent in fiscal year 2005 and rise to 30 percent by fiscal year 2009. Facing such substantial funding reductions, many housing authorities would likely decide they could no longer afford to continue supporting the FSS program.