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FLEXIBILITY PROVIDED TO STATES UNDER HOUSING VOUCHER BLOCK GRANT WOULD BE ACCOMPANIED BY MAJOR CONSTRAINTS

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The Administration has stated that it will submit legislation to convert the housing voucher program (sometimes known as the "Section 8" voucher program) to a block grant to the states in 2005. Under the block grant, states would be required to serve at least as many families as they currently serve and would receive additional flexibility to administer the program. The Administration has provided little further information to date.

While a block grant could provide added flexibility in a number of areas, it appears this flexibility would be constrained in important ways.

- In some major areas of program administration, states would experience financial costs under a block grant for exercising options that are already available to state and local agencies and for which the cost currently is borne by the federal government. Examples of actions that could carry added costs for states under a block grant but are fully funded under the existing system include adjusting maximum voucher payments to reflect changes in local rents and targeting vouchers on groups — such as the homeless or families moving from welfare-to-work — that are more expensive to serve.

- Overall voucher block grant funding would be likely to erode over time relative to need. This would leave states with little opportunity to use any added flexibility they receive to implement new initiatives or to extend assistance to populations that are currently underserved. Instead, the added flexibility could primarily turn out to be flexibility to institute program cutbacks, such as raising rental charges to poor families and elderly and disabled individuals.

- Only states that are found to be "successful" under federal performance criteria would receive full block grant funding. The sample criteria listed in Administration documents include many that encourage particular policy priorities rather than simply rewarding effective program management. For example, states that administer their program through state or local agencies would be considered less "successful" than those that administer their program through private faith-based or community-based organizations.

Some Types of Flexibility Provided by the Current Funding Structure Would Be Eliminated

The state and local housing agencies that currently administer the voucher program have substantial flexibility in many policy areas. The current funding structure, which provides funding based on the *actual cost* of vouchers, is a principal underpinning of this flexibility. Under this cost-based funding structure, agencies can make decisions that promote their program goals but increase the average cost of their vouchers without being penalized financially, as long as their policies fall within the parameters set by the regulations and statutes that govern the voucher program.

The following are examples of policy options that are now available to state and local agencies. Each of these options raises the per-voucher costs of agencies that implement them. Under the current system, the agencies receive federal funding to cover the added costs in full.

- **An agency can set aside a portion of its vouchers for families with children in which the parent is transitioning from welfare to work.** Families with children require housing units with more bedrooms than other groups an agency could choose to target. Consequently, providing vouchers to such families generally costs more per voucher.*

- **An agency can expand the number of families provided incentives to work through the Family Self-Sufficiency program.** The Family Self-Sufficiency Program (which also provides case management services to help participants prepare for and obtain employment) gives recipients of housing assistance an incentive to increase their earnings and build assets by providing escrow accounts into which the housing agency deposits the increased rental charges that a family pays as its earnings rise. Families that complete the program may withdraw funds from the escrow accounts for any purpose after five years. These accounts raise voucher costs because they divert rental payments that would otherwise have gone to the housing agency.

- **An agency can provide special accommodations for disabled people.** People with disabilities may require housing with special characteristics or located near particular services. In many cases, housing agencies are required by civil rights law to ensure that voucher holders with disabilities have access to such housing. Housing units with special amenities, however, such as elevator access, often have higher rents than typical housing units in the area.*

* A block grant would have additional negative consequences for housing agencies that provide vouchers to large families or people with disabilities, beyond the increased *rental cost* burdens described in these bullets. Housing agencies that serve such households also often experience higher *administrative costs,* because large families and people with disabilities often experience greater difficulty finding housing that they can rent than other households do. Under current law, housing agencies receive a one-time payment of $75 in administrative fees for each household that newly leases housing with a voucher and either has a disabled member or has three or more minor children. This additional funding almost certainly would not be available under a block grant.

- **An agency can give families and individuals who are homeless preference for admission into its voucher program.** Homeless people are likely to have very little income and therefore to require a larger subsidy to enable them to afford housing. Consequently, an admissions preference for the homeless typically leads to an increase in voucher costs.

- **An agency can raise its "payment standard" to respond to rapidly rising rents in its jurisdiction and enable families to find decent housing where they can use their vouchers.** Under the current system, agencies can choose to set the payment standard, which determines how much rent a voucher can cover, anywhere between 90 percent and 110 percent of the Fair Market Rent, and can request permission from HUD to raise the payment standard even higher if needed. (In most areas the Fair Market Rent is HUD's estimate of the amount needed to cover the rental costs of the least expensive 40 percent of housing units in the local market.) Increases in the payment standard raise voucher costs.

- **An agency can seek to reduce concentration of voucher holders in high-poverty neighborhoods by helping families with vouchers relocate to neighborhoods with lower crime rates, more jobs and better schools.** Such assistance can include ensuring that voucher holders receive housing listings from a broad range of geographic areas and providing help with transportation to visit housing units in neighborhoods that might otherwise be inaccessible. Often safer neighborhoods with better educational and employment opportunities have higher rents, so an increase in the proportion of voucher holders who live in such neighborhoods raises the average cost of the vouchers administered by an agency.

- **An agency can use a portion of its vouchers to support development of affordable housing through the Low-Income Housing Tax Credit.** Agencies may currently set aside up to 20 percent of their vouchers for use at particular buildings, a practice (known as "project basing") that can facilitate development of affordable housing by ensuring developers a steady stream of rental revenues with which to repay debt incurred during construction. But some tax credit-funded developments — particularly those located in low-poverty areas — have rents that exceed typical rents in the metropolitan area in which they are located. Under current law, housing agencies can make voucher payments to such developments that exceed their general payment standard. Doing so raises per-voucher costs.

Under the existing cost-based system, an agency exercising any of these options receives additional federal funding to cover the added costs that the agency incurs. As a result, state and local housing agencies can make decisions based exclusively on their determination of the policies that will be in the best interest of their communities. Federal policymakers have structured the program in this way because it helps further the voucher program's goals and makes the program more responsive to local needs.

Under a block grant funding structure, by contrast, *the full cost of any increase in per-voucher costs would be borne by the state*. If a state implemented a policy option that raised its average cost per voucher by 10 percent, for example, it would be required to reduce its expenditures by 10 percent in some other way or to contribute its own funds to compensate for the increase. It would therefore be much more difficult for a state to exercise such an option under the block grant than it is for state and local agencies to do so under the current system.

Eroding Funding and Long Waiting Lists Would Limit Flexibility

States would likely receive added flexibility in other areas under a block grant, but the implications of this new flexibility would depend in substantial part on the level of funding that is provided to states. If funding were inadequate to support the level of assistance currently provided by the voucher program, it would be difficult for states to make use of the flexibility under the block grant to advance their housing goals. Instead, state flexibility would consist largely of flexibility to determine how cuts in voucher assistance would be implemented.

It is very likely that funding for a voucher block grant will erode over time relative to need. Historically, funding for many block grant programs that serve low-income families has failed to keep pace with changes in need. Ensuring that funding for the housing voucher program is maintained at a level sufficient to meet program needs represents a particular challenge because program costs are driven substantially by local rental costs, which often grow at rates different from general inflation or overall economic growth.

HUD officials have indicated that funding under the housing voucher block grant would be adjusted from year to year based on inflation, but have not specified what index would be used to make this adjustment. Between 1998 and 2003 the Fair Market Rents used in the voucher program rose by 25 percent. During the most closely comparable period, the overall consumer price index rose by only 12 percent and the housing consumer price index rose by 15 percent. These figures underscore the risk that inflation-based adjustments to voucher funding would not keep pace with program costs.

Furthermore, any inflation index the Administration proposed would be used to establish the "authorization ceiling" for the block grant each year — that is, the maximum amount that Congress would be *allowed* to appropriate, rather than the appropriation level itself. Since the block grant would be a discretionary program whose actual funding would be determined in the appropriation process, Congress could — and likely would — appropriate less than this amount in at least some years. The appropriations levels for hundreds of programs throughout the federal government are set below the levels authorized for those programs; the Appropriations Committees receive a specific amount of funds each year to cover all of the appropriations bills, and cannot come close to fitting within this amount unless they fund large numbers of programs below their authorized levels.

Block grants are particularly susceptible to such treatment, since it usually is difficult to identify who would be hurt and how if funding for a block grant is shaved. It is likely that in some years — especially years in which the funds allotted to the Appropriations Committees are tight — funding for a housing voucher block grant would be frozen at the prior year's level or increased by less than the amount called for under the inflation-adjustment formula in the legislation establishing the block grant. For a detailed discussion of the funding risks that would accompany a block grant, see http://www.cbpp.org/3-3-03hous2.htm.)

It should also be noted that it is extremely unlikely that states would experience a drop-off in need for voucher assistance. Because of funding limitations, the voucher program currently assists only about one-fourth of the eligible households. In most areas, waiting lists for the voucher program are long and growing.

In this sense, the experiences of states under a voucher block grant would likely contrast greatly with their experiences during the early years of the Temporary Assistance to Needy Families (TANF) block grant, which replaced the Aid to Families with Dependent Children program in 1996 as the nation's primary welfare program for families with children. The inflation-adjusted value of the TANF block grant has eroded steadily during the period since the block grant was established. However, in the years immediately after the establishment of the block grant, welfare cash assistance caseloads fell rapidly, reducing the amount of money that states needed to commit to cash assistance. This enabled states to establish, or provide expanded resources for, a range of TANF-funded initiatives serving the working poor or other groups. Because, unlike welfare prior to enactment of the 1996 law, housing assistance is not an entitlement program and the demand for housing assistance greatly exceeds the number of vouchers available, there would be no such caseload reduction under a housing voucher block grant.

If federal funding for the voucher program falls behind program costs, states would be required to make decisions regarding how to carry out the required cuts in assistance. It is likely that the block grant would provide states with substantial added flexibility with which to do so. States might, for example, be able to shift rental burdens to voucher recipients by requiring them to pay more than 30 percent of income for rent or reducing the total amount of rent that a voucher could cover (and thereby making fewer housing units accessible to voucher families). But states would have little ability to use their added flexibility to begin new initiatives or to provide additional assistance to groups that are currently underserved, except to the extent that they are willing to contribute their own revenues or impose even sharper reductions in assistance on the families and elderly and disabled individuals currently receiving assistance.

Full Funding Under Block Grant Would Be Linked to Adoption of Certain Program Priorities

Under the Administration's block grant proposal, as outlined in the budget justifications that HUD has submitted to Congress, states that do not exhibit "successful performance" under a series of assessment criteria would not receive full funding. States that are labeled as successful would receive their regular funding allocations and would also have access to funds that are taken away from "unsuccessful agencies." It is not clear what proportion of block grant funds would be contingent on state performance.

The Administration has identified a number of criteria that might be used to measure success under the block grant. While some of these criteria would simply assess the quality of program administration, others would have the effect of punishing or rewarding states based on whether or not they adopt particular policy priorities. For example, a state would be at greater risk of losing funding if it chose to:

- target assistance on homeless people, who are likely to face greater barriers to work — and consequently take longer to attain steady employment — than average applicants;

- concentrate resources on rental assistance rather than homeownership assistance (perhaps because the state determined that many of the households it intended to serve were not financially prepared for homeownership or that most homes in the area were unaffordable for voucher holders even with assistance); or

- administer the program through state agency offices or by subcontracting with the public housing agencies that currently administer the program rather than through faith-based and community-based organizations.

The use of assessment criteria to determine whether states receive full funding would represent an imposition of federal control that does not exist under the current system. Currently, the only criteria related to policy or performance that can cause a state or local housing agency to lose voucher funding are an agency's failure to use a significant proportion of its authorized vouchers or substantial non-compliance with program requirements.

Conclusion

Converting the housing voucher program to a block grant would carry serious risks for states that would administer the block grant and for the people they would serve. The Administration has pointed to increased state flexibility as a major justification for undertaking this fundamental change. It is clear, however, even from the limited details that the Administration has provided concerning its proposal, that this flexibility would be accompanied by major constraints.

In some important areas of program administration, states under a block grant would bear financial costs for making policy decisions that state and local housing agencies may make freely — and without being saddled with additional costs — under the current system. As a result, in these areas, states would actually experience *less* real flexibility than state and local agencies currently have. State flexibility would also be limited by new federal performance criteria that would penalize states that make certain policy choices by denying them full funding. Moreover, whatever additional flexibility is provided to states under a block grant could consist largely of flexibility to determine how to reduce assistance in response to eroding funding, rather than flexibility to take actions of their choice to better meet the housing needs of their citizens.