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HOUSING VOUCHER BLOCK GRANT BILLS WOULD JEOPARDIZE AN EFFECTIVE PROGRAM AND LIKELY LEAD TO CUTS IN ASSISTANCE FOR LOW-INCOME FAMILIES

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Summary

On April 29, two similar bills (H.R. 1841 and S. 947) were introduced that would end the existing Housing Choice Voucher program (sometimes known as the "Section 8" voucher program) and replace it beginning in fiscal year 2005 with a block grant to the states, which would be called Housing Assistance for Needy Families (HANF). The Administration included such a proposal in the budget it unveiled in February, but until now details on how the proposal would work were unavailable. The two new bills provide the specifics of the Administration's plan.

Analysis indicates that this radical change in the nation's largest low-income housing program is likely to damage substantially a program widely viewed as effective in providing housing assistance to low-income families and elderly and disabled individuals. In particular, the block grant bills would eliminate the existing funding structure, under which Congress adjusts funding for the program each year based on changes in *actual voucher costs* and under which Congress seeks to provide sufficient funds each year either to cover all authorized vouchers or to cover all authorized vouchers *in use*. Instead, under the new proposal, Congress could simply pick an amount to appropriate for the block grant each year. There would be no formula underlying the annual funding level that was related to the number of vouchers in use or to changes in rents. In light of the tight funding constraints that the Appropriations Committees will operate under in the years ahead, as well as the past history of funding levels for other similar block grants, it is likely that funding for the new block grant would not keep pace with changes in rental costs — and could be frozen in many years at the previous year's level. If funding falls behind the program's needs, as likely would occur, states would either have to contribute their own funds to the program or reduce assistance to low-income families and elderly and disabled individuals in one or more of the following ways:

- **Reducing the number of families that receive housing vouchers,** despite the fact that three out of four low-income families eligible for vouchers already go without housing assistance because of funding limitations. A reduction in the number of vouchers would make the shortage of affordable housing still larger.

- **Cutting costs by shifting housing assistance to higher-income families.** Such families need smaller subsidies to be able to afford housing. As a result, the

average cost of providing a housing voucher to these families is smaller than the cost of serving poorer families. The block grant would likely lead to the shift of some vouchers from poor families to moderate-income families, both because the block grant funding levels likely would not keep pace with housing costs and because the block grant proposals would substantially weaken current rules that target most vouchers on poor families. The new proposal would authorize HUD to allow states to use up to 45 percent of vouchers to serve households at any level, with no upper income limit.

- **Cutting costs by shifting rental burdens to families participating in the program.** Another cost-saving measure that states could feel compelled to adopt would be to shift more of the rental costs to the families being assisted. This could be accomplished by requiring families 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).

The proposed block grant legislation poses other significant problems as well. The potential for funding not to keep pace with housing costs would likely deter some landlords from accepting vouchers, since the rental revenues that vouchers provide would be less reliable. Seven national organizations representing apartment owners have written a letter expressing strong concerns that a block grant would reduce private-sector participation in the program.

The block grant bills would also grant states greatly expanded power to decide where voucher holders could live. This could be done by declaring neighborhoods or sections of a state off limits to families with vouchers, by requiring that families use their vouchers in designated developments, or by setting maximum voucher payments at levels that make many neighborhoods unaffordable to voucher holders. In some states, there would be substantial political pressure to use this power to direct voucher holders to high-poverty neighborhoods with predominantly minority populations. Placing limits on where voucher holders can live would make it more difficult for families to use their vouchers to move to neighborhoods with more jobs, lower crime, or better schools and would thereby undercut the program's role in helping families move from welfare to employment.

Background on the Housing Voucher Program

Housing vouchers are the nation's principal form of low-income rental housing assistance. Households with vouchers typically pay approximately 30 percent of income for rent, with the vouchers covering the remainder of the rental cost for modestly priced units. The approximately 2.1 million vouchers currently authorized by Congress reach only a modest fraction of the low-income households eligible for them. Due to funding limitations, about three-fourths of the low-income households that are eligible for vouchers do not receive any form of federal housing assistance.

Approximately 17 percent of households with vouchers are elderly. An additional 22 percent include an adult with a disability. As a result, pensions and disability or retirement benefits (such as Social Security or SSI) are the primary source of income for 42 percent of voucher holders. Another 35 percent of voucher holders are working poor families that receive their income primarily from wages. Approximately 13 percent rely primarily on income from benefits from welfare programs for families with children or state general assistance programs.[1]

The voucher program is highly effective in providing needed housing assistance. The bipartisan, Congressionally-chartered Millennial Housing Commission strongly endorsed the voucher program in the report it issued in May 2002, describing it as "flexible, cost-effective, and successful in its mission." A 2002 study by the General Accounting Office found the voucher program to be the most cost-effective of the federal housing programs that the study examined.

Funding for Housing Vouchers Would Be Likely to Erode Over Time

The block grant bills would eliminate existing statutory and regulatory provisions that commit the federal government to adjusting funding each year to reflect the actual costs of vouchers.[2] These bills contain no alternative provision to adjust voucher funding from year to year based on changes in housing costs or any other factor. Instead, the bills would simply authorize Congress to provide whatever level of appropriations Congress considers appropriate for operating the voucher program each year. In the absence of a structure for adjusting funding, it is likely that funding would be frozen or that adjustments would be inadequate to keep pace with rising housing costs. If funding were not adjusted adequately, it would fall behind the amount needed to maintain assistance at its current level, with the shortfall growing with each passing year.

The existing system has consistently resulted in annual funding levels that have been sufficient to avoid shortfalls. The final decision regarding the funding level is made each year by Congress, but statutes and regulations commit the federal government to funding vouchers based on their actual cost. In addition, because of the program's nature and structure, it is difficult for Congress to fund the program at a level that fails to meet this commitment. HUD and the Appropriations Committees estimate each year the amount that is needed to renew all existing housing vouchers (or all vouchers expected to be in use). An appropriation of less than that amount can readily be identified as a federal funding cut that would result in a particular number of vouchers being lost and a corresponding number of low-income families and elderly and

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[1] HUD Multifamily Tenant Characteristics System data for the 18-month period ending September 2000, as reported in *Housing Choice Voucher Location Patterns: Implications for Participants and Neighborhood Welfare,* HUD Office of Policy Development and Research, January 2003, pp. 92-93, Tables A-5 and A-6. About eight percent of the families with an elderly or disabled head or spouse also have minor children. A total of 61 percent of voucher households are families with minor children, and eight percent are non-elderly non-disabled single individuals or couples without children.

[2] The 1998 housing act required HUD to renew the cost of housing vouchers each year based on a formula to be developed through a negotiated rulemaking. The renewal rule that resulted from this rulemaking process requires HUD to provide renewal funding to housing agencies for their authorized number of vouchers based on the agencies' actual average voucher costs in the previous year, adjusted for inflation. In the fiscal year 2003 appropriations act, Congress reaffirmed that vouchers should be renewed based on actual costs and required that funding be provided for the authorized number of vouchers in use, as explained below.

disabled individuals not being served. Few policymakers advocate cutting the number of vouchers, and sufficient funding to renew all existing vouchers (or, for fiscal year 2003, all vouchers *in use*) is routinely provided.

This reluctance to provide insufficient funding to the voucher program is illustrated by Congress' actions during consideration of fiscal year 2003 appropriations for the voucher program. In October 2002, the House Appropriations Committee approved a funding level of $11.7 billion to fund the vouchers that it expected to be in use during 2003. When Congress approved a final 2003 appropriations bill in February 2003, it provided $12.4 billion to fund roughly the same number of vouchers. This substantial increase, which came at a time when the fiscal environment was tight and funding increases for many popular programs were being rejected, was provided to cover an upward revision in HUD's estimate of how much vouchers would cost on average in 2003 — and therefore of the amount needed to provide sufficient funding for all vouchers in use.

By contrast, under a block grant, there would be no specific appropriation level that could be identified as being needed to assure that all existing vouchers are maintained. To be sure, it could be determined how much funding the block grant would need to keep pace with inflation, but that can be determined for virtually all discretionary programs. Each year's Congressional Budget Office "baseline" shows the amount each program needs to stay even with inflation. Despite the CBO baseline, appropriations for numerous programs are frozen or increased by less than inflation each year.

Moreover, it would be virtually impossible to identify what specific cuts in the voucher program would be instituted — and who would be harmed — if the appropriations levels for the block grant failed to keep pace with program needs. Such decisions would be made subsequently in the states, not in Washington. In similar situations, various other block grants have had their funding frozen or have fallen behind the level needed to keep pace with inflation.

- An analysis of 11 block grants that serve low-income people in the areas of housing, health, and social services shows that, when adjusted for inflation, funding for these programs fell by an average of 11 percent from 1982 (or the first year the program was funded as a block grant, if later) through 2003.[3]

- The only two block grants that experienced substantial inflation-adjusted growth are both grants that fund child care assistance; these grants received funding increases in the late 1990s when the establishment of work requirements under the TANF program greatly increased the need for child care assistance to current and former welfare recipients.

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[3] The block grants included in this analysis are the Child Care and Development Block Grant, Child Care Entitlement to States, Community Development Block Grant, Community Services Block Grant, HOME Investment Partnership, Low-Income Heating and Energy Assistance Program, Maternal and Child Health Block Grant, Preventive Health and Health Services, Social Services Block Grant, State Children's Health Insurance Program, and Temporary Assistance for Needy Families.

- Inflation-adjusted funding for the nine block grants in areas other than child care fell by an average of 22 percent from 1982 (or the first year the program was funded as a block grant, if later) through 2003.

Funds Provided for *Administration* of the Voucher Block Grant Would Likely Be Inadequate in Some States

The block grant bills would limit the funding that a state could use to administer the voucher program to 10 percent of the state's total funding. For many states, this amount would be lower than the amount that local housing agencies in the state currently receive to administer the program. Yet states would have to take on added administrative responsibilities. In addition to undertaking (either directly or through contracts) the administrative activities that state and local housing agencies currently carry out — such as maintaining waiting lists, determining eligibility and rent contributions, conducting housing inspections, ensuring that rents are reasonable, and reporting data to HUD — states would be required to take on many additional functions that currently are the responsibility of HUD, such as setting maximum subsidy limits and monitoring the expenditure of funds.

While the flexibility provided under the block grant might enable some states to reduce costs for some components of program administration, it is likely that the administrative funds that would be provided under the block grant would be insufficient to cover costs for many states. This would be particularly likely to be a problem in states with large rural areas, where state housing agency staff would need to travel long distances to conduct inspections and carry out other program functions. States with relatively low housing costs, many of which are located in the Midwest and South, also may have difficulty covering administrative costs that are limited to 10 percent of overall program funding; wage levels and other administrative costs vary much less across geographic areas than housing costs do. States that are unable to administer the program with the funds available under the 10 percent cap would be required to choose between contributing their own funds and cutting administrative costs by scaling back services — for example, by prohibiting the use of vouchers in some rural areas or reducing staff time spent on bringing new owners into the program.

There would be substantial pressure on Congress to freeze or cut funding for a housing voucher block grant in coming years. The budget resolution adopted by Congress in April 2003 calls for $168 billion in reductions in domestic discretionary programs (the category of the budget that includes the housing voucher program) below the budget baseline, that is, below the 2003 level adjusted for inflation, over the period from 2003 to 2013. The budget resolution does not specify which programs will be cut, but reductions of this magnitude can only be accomplished by cutting funding for a wide range of programs. To some extent, the block grant proposal may have been motivated by recognition that it would be considerably easier to apply a portion of these cuts to the voucher program if it were converted to a block grant than if the existing structure were retained.

If Assistance for Low-Income Families is Reduced, Some States and Sub-State Areas Would Bear a Disproportionate Share of the Cuts

If funding for a block grant fails to keep pace with program needs, states would face an unattractive choice between imposing cuts and contributing their own resources to maintain voucher assistance at its current level. States could cut assistance in three ways:

- by reducing the number of vouchers;
- by shifting vouchers to higher-income families (which require smaller subsidies to afford housing); or
- by shifting 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).

Some states would likely be forced to impose deeper cuts in assistance than others. The block grant bills include a provision that requires that states receive at least the same level of funding that they received in the previous year or, if the overall level of funding for the block grant is reduced, at least the same proportion of the total amount of funding as they received in the previous year. These provisions, however, would provide only limited protection for states.

First, this minimum level or proportion of funding that a state would receive would be adjusted downward or upward by HUD based on its assessment of a state's performance and relative changes in each state's housing costs. (It should be emphasized that this provision does *not* create a link between housing costs and the overall national level of funding for the voucher program.) As a result, states that are found to have low performance could face greater erosion of funding than others and could experience larger cuts. In many cases, the performance criteria listed in the bills would reward states that adopt certain policy priorities and penalize states that adopt other priorities, rather than simply rewarding or penalizing states based on how effectively they administer the program. For example, states that improve conditions for elderly and disabled people (rather than for all eligible families) or that emphasize homeownership assistance (which tends to provide assistance to higher income families) over rental assistance would receive higher performance ratings and funding allocations than other states.

Moreover, states in which the cost of providing voucher assistance increases more rapidly than the cost of housing would experience disproportionate cuts relative to their needs. Voucher costs are affected by various factors — such as the cost of housing units at the low end of the price scale and the incomes of voucher holders — that would not be fully reflected in a general housing cost index. For example, if a regional recession caused the incomes of many families with vouchers to decline in some states, the average cost of providing vouchers to families in those states would rise (because the families would be able to afford to pay a smaller proportion of the rent). The share of voucher funding provided to such states, however, would not be adjusted accordingly.

In addition, the voucher block grant would eliminate existing federal allocations of vouchers to local housing agencies and other sub-state jurisdictions, with the result that state governments would be free to shift resources from one part of a state to another. A state could choose to shield regions with greater influence in the state capital from reductions in assistance and implement larger cuts in less-favored regions. This could be accomplished by shifting vouchers from one part of a state to another or providing more ample administrative resources to certain parts of the state.

In addition, states could adjust subsidy amounts in a manner that benefits certain parts of the state over others. The block grant would eliminate existing federal rules that relate voucher funding in each metropolitan area or rural county to actual rental costs in those areas and that adjust funding levels from year to year based on changes in local housing costs. Housing costs often rise more rapidly in one part of a state than in another. If a state applied a change in its level of federal funding equally across the state, families in areas that had experienced greater rental cost increases would be hurt disproportionately. Similarly, if a state received flat funding from HUD and as a result made no change in subsidy levels throughout the state, families receiving vouchers in areas with larger cost increases would lose more purchasing power.

Number of Vouchers Would Likely Be Cut

One way in which states could respond to the likely erosion of voucher funding would be by reducing the number of families that their voucher programs serve. The block grant bills contain a provision that requires states to continue to serve at least as many families under the block grant as they do on average during the 120-day period ending in September 2004. This requirement has little meaning, however, because it is "subject to availability of appropriations." In other words, a state would be permitted to reduce the number of families it serves in response to erosion of funding over time.[4] Moreover, even this limited requirement ends in 2009. After that year, there would be no floor on the number of families that states could serve.

The inclusion in the block grant bills of a performance standard that rewards states that serve more families may discourage states from reducing the number of families assisted, although the impact of this standard would depend on its implementation and on the extent to which block grant funding is linked to performance. Regardless, it is likely that at least some states would respond to dwindling funding by reducing the number of vouchers they provide.

The reduction in the number of housing vouchers that is likely to occur under the block grant would come at a time when the need for voucher assistance is great. In most locations, there are long and growing waiting lists for the voucher program. A HUD analysis of Census data shows that in 1999 (the last year for which this analysis is available), nearly five million low-income households that did not receive housing assistance had what HUD terms "worst case housing needs," which means they either paid more than half of their income for rent and utilities or lived in severely substandard rental housing. Most of the low-income families (as distinguished from the elderly and disabled individuals) with "worst case" housing needs are low-income *working* families. In addition, since housing costs have increased faster than

[4] A separate provision would provide "grandfathering" protection for families that are receiving assistance at the time the bill is enacted. Such families would be entitled to continued assistance under the provisions of the existing voucher program through 2009. This provision would not prevent states from cutting the overall number of vouchers. In 1999, HUD estimated that turnover in the tenant-based program was about 11 percent per year nationally, so the number of families with grandfather protection would decline rather rapidly over time. (See note 1 above: *Housing Choice Voucher Location Patterns* Appendix C-4, page 110.) Moreover, even the grandfathering requirement is subject to appropriations — although states would be required to impose other cuts, such as reduction in the amount of the subsidy, before actually cutting families with grandfather protection from the program.

incomes since 1999, the housing affordability problem is likely to be even more severe today than it was in 1999, the year these Census data cover.

Large Number of Vouchers Would Likely Be Eliminated in the First Year in Which the Block Grant is in Effect

In addition to the probable loss of vouchers due to erosion of funding over time, there is a strong possibility that there would be a large reduction in the number of vouchers available in fiscal year 2005, the first year the proposed block grant would be in effect. If, as appears likely, the overall funding level for the voucher program in fiscal year 2005 were set at the funding level provided to state and local housing agencies during fiscal year 2004 (or is increased by an amount equal to or below the amount needed to cover the annual increase in per-voucher costs), tens of thousands of vouchers would immediately be eliminated. This is because voucher funding in 2004 will only cover vouchers actually in use during 2004. Each year, some vouchers are left unused, often because families that are issued vouchers are not able to find housing where they can use their voucher.[5]

HUD estimates that at least four percent of currently authorized vouchers, or about 80,000 vouchers, will be unused in fiscal year 2004. If the block grant were enacted, local housing agencies that are about to lose administration of the voucher program to their state would likely be less responsive to performance incentives that currently encourage them to use as many of their vouchers as possible. Furthermore, landlords would probably be reluctant to enter into new voucher contracts (as is required when a tenant rents an apartment with a voucher) with local agencies that are about to cease administering the program. As a result, the number of *unused* vouchers would likely increase beyond the level anticipated by HUD. Such vouchers would likely be eliminated under the block grant. HUD reports show that the proportion of vouchers in use has been increasing in recent years,[6] and the current system makes funding available to agencies to use all authorized vouchers if they are able to do so. It is probable that a significant number of the vouchers that would be eliminated under the block grant would otherwise have been used to serve families in fiscal year 2005 and subsequent years.

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[5] Even if there were a substantial increase in funding in fiscal year 2005, each state would receive the same proportion of the total funding as agencies in that state received in fiscal year 2004. States with the largest proportion of unused voucher funds in 2004 would suffer the largest permanent loss of voucher funding.

[6] A recent study commissioned by HUD to gain a better understanding of the reasons for the differences among PHAs in voucher utilization found that utilization rates were increasing rapidly during calendar years 2001 and 2002. (Meryl Finkel, Jill Khadduri, Victoria Main, Linda Pistilli, Claudia Solari, Kristin Winkel, and Michelle Wood, *Costs and Utilization in the Housing Choice Voucher Program*, Abt Associates 2002, unpublished report.) In addition, HUD's Fiscal Year 2002 Performance and Accountability Report states that voucher utilization reached 94 percent that year, and the Budget Justifications submitted by HUD to Congress in February 2003 indicate that HUD anticipates continued improvement in voucher utilization, to 95 percent and 96 percent respectively, in fiscal years 2003 and 2004. (See HUD's Budget Justifications, A-15, and OMB Program Assessment Rating Tool for Housing Vouchers, p. 5.)

Vouchers Could Be Shifted from Poorer Families to Those with Higher Incomes

A second way in which states could reduce expenditures if funding fails to keep pace with need would be by shifting vouchers to families with higher incomes. Because vouchers make up the difference between the rent for a modestly priced apartment and 30 percent of a tenant's income, poorer families receive larger average subsidies and are therefore more expensive to serve. Shifting vouchers to higher-income families could be attractive to states, as it would reduce costs per voucher, making it possible to spread inadequate funding among more families. Moreover, to the extent that the block grant's performance standards encourage states to serve as many families as possible regardless of income, states would feel pressure to shift vouchers to higher-income families, as doing so would enable the number of families assisted to be larger than it otherwise would be. Furthermore, in some states there also would likely be political pressure to shift vouchers to families with more income, because programs that serve moderate-income families are often more popular in states than programs that serve poorer families.

Without vouchers, however, the poorest households are far more likely than other households to live in substandard housing or to pay more than half of their income for rent. Because vouchers allow recipients to live in buildings of their choice, this form of assistance — unlike public housing and other programs that subsidize families living in a particular development — can be targeted on the neediest families without concentrating those families in certain locations.

Under the block grant, states also would have substantially greater flexibility to divert vouchers to higher income families. The bills would weaken an existing rule that requires housing agencies to ensure that at least 75 percent of the families newly admitted to the voucher program each year are what HUD defines as "extremely low-income families" — that is, families with incomes below 30 percent of the local area median income (nationally roughly equivalent to the poverty line).

Currently, housing agencies may obtain HUD approval to admit fewer extremely low-income families, but only if the agencies provide substantial evidence demonstrating that meeting the targeting requirement would be impossible and that reducing the requirement would enable the agency to serve other families living in severely substandard housing or facing very high rent burdens. Under the block grant bills, to receive waivers of the targeting requirement, states would be required to show only that they cannot reasonably implement the targeting requirement.[7] It appears that this criterion could be met even if the only impediment to a state meeting the targeting requirement was inadequate funding or a competing policy priority, such as a preference for families likely to become homeowners. The HUD Secretary would have complete authority to approve such waivers, with no requirement for public participation.[8]

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[7] The Senate bill requires a state to show that it cannot "reasonably" meet the 75 percent targeting requirement in a particular year (see section 7(a)(2)(B)), but gives no indication of what evidence would be needed to make such a showing. The House bill requires proof that the 75 percent requirement "cannot be met," but says nothing about what types of reasons may be adequate proof (section 6(a)(2)).

Waivers could be used to reduce the proportion of families admitted that have extremely low-incomes to 55 percent.

The bills also would give HUD the authority to raise income eligibility limits for elderly or disabled households to *any* level.[9] Up to 25 percent of all vouchers — and up to 45 percent of vouchers in states that have received waivers of the targeting requirement — could be provided to elderly and disabled households with incomes exceeding the voucher program's income eligibility limit. That limit is already fairly high — 80 percent of the local area median income, which on average across the nation equals $31,640 for a one-person household and $36,160 for a couple. Households with incomes above these levels have substantially less need for housing assistance than households with lower incomes. Moreover, substantial numbers of elderly households with annual incomes above these income levels have substantial assets that they can and do draw upon, further lessening their need for housing subsidies.

Rental Burdens for Low-Income Families Would Likely Rise

A third option that states could use to implement cuts and lower costs would be to shift rental burdens to low-income families. Under the block grant, this could be accomplished both by reducing the voucher "payment standard" (the maximum amount of rent that a voucher can cover) and by increasing the rental payments that families with vouchers are required to make above the current level of 30 percent of family income.

Currently housing agencies must, with limited exceptions, set the voucher "payment standard" within a range that is based on the area's "fair market rent." The fair market rent is the amount required to rent a modestly-priced apartment in a local area, as estimated by HUD based on local housing market data.[10] Under the block grant proposals, states would be able to set the

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[8] Currently, a PHA wishing to reduce the proportion of extremely low-income families admitted to the voucher program has to include such a proposal and its justification in its annual plan, which is subject to public and resident comment as well as to HUD approval. The block grant bills would eliminate the requirement for such a plan for the voucher program. Instead, states would have to include quantifiable objectives for certain performance criteria for the voucher program in the consolidated plan that they now submit to receive other block grant funds from HUD, but none of those criteria address the income of families to be served. As a result, the consolidated plan would not need to describe proposals to secure waivers from the targeting requirements and no public participation requirements would apply to the decision to waive the targeting requirement.

[9] HUD would have the authority to set higher income eligibility limits for elderly and disabled households by regulation. If HUD issued such a regulations, states could serve elderly or disabled households with incomes up to the new eligibility limits without requesting a waiver.

[10] Under current law, HUD must approve any payment standard set below 90 percent of the FMR and can do so only if it will not result in a significant percentage of families paying more than 30 percent of their income for rent. See Section 8(o)(1)(E)(i) of the U.S. Housing Act, 42 U.S.C. 1437f(o)(1)(E)(i). HUD's regulations (at 24 CFR 982.503(d)) set an objective standard to guide HUD's determination: a lower payment standard may not be approved if it would result in more than 40 percent of families in the voucher program paying more than 30 percent of their income for rent. In addition, payment standards must be set high enough to allow extremely low-income families to find units that will not cost more than 40 percent of their income; otherwise, agencies would not be able to meet the current targeting requirements.

payment standard at any level they choose that is “reasonable and appropriate.” States would have no incentive or obligation to set payment standards at an adequate level. Indeed, the performance standard that would reward states for serving a greater number of families may well pressure states to reduce payment standards in the same manner in which it may pressure them to serve families with higher incomes; low payment standards would offer another opportunity to spread dwindling resources among more families. Furthermore, it appears that states could set different payment standards for rental units than for homeownership units. As a result, states could provide larger subsidies to higher income families to enable them to meet the payment ratios established by mortgage lenders while at the same time reducing payment standards for the generally lower-income families that must rely on rental housing.

Reducing payment standards would have the effect of shifting rental burdens on to low-income families. States would be prohibited from requiring families to pay more than 30 percent of their income for housing at the time they initially rent a unit, but this requirement would apply only to families that find units with rents at or below the payment standard. If a state lowered the payment standard to a level that was insufficient to rent most housing units in an area and families “chose” to lease units that charged rents above the payment standard, families could experience rent burdens well above 30 percent of their incomes. (As is discussed below, lowering the payment standards also would have the effect of limiting the number of housing units available to families with vouchers.)

Furthermore, states would be permitted under the block grant proposals to require families to pay more than 30 percent of their income in rent after the expiration of a family’s initial lease period. As a result, states would be able to increase the amount of rent that low-income families must pay even without reducing the payment standard. For most families, the protection against rent increases would last for a year (the usual lease term under the current program) or less.

The impact of the 30-percent limit on rent burdens would be further weakened by changes in the definition of income used to determine a family’s rent obligation. Currently, housing agencies cannot require that families with vouchers pay more than 30 percent of the family’s “adjusted income” for rent. Adjusted incomes are calculated by subtracting several deductions from the family’s gross income; these deductions have the effect of providing higher subsidies to elderly and disabled households with high medical expenses, to working families with child care expenses, and to larger families. The block grant bills would prohibit states from requiring families to pay more than 30 percent of *gross* income, thereby allowing states to require larger rent payments from virtually all new participants. The block grant bills would also allow each state to decide how a family’s gross income will be determined. A state could, for example, include in its calculation of a family’s income sources of income that must be excluded under current law, such as foster care payments and earnings of minors in the family. Including income from such sources would further increase the size of the rent payments that could be required from some new participants.

In addition, states would be required to impose minimum monthly payments of at least $50 on each new participant in the voucher program, including elderly and disabled individuals, even if this rent is above 30 percent of the family’s gross income. Today, state and local housing agencies have the option to impose minimum rents of up to $50, but only about 40 percent of the agencies that administer the voucher program charge a minimum rent of $50. Sixty percent of housing agencies have concluded that a $50 minimum rent would cause undue hardship and either charge no minimum rent or charge a minimum rent of less than $50. Furthermore, under current rules, all households facing certain hardships, such as loss of a job or a delay in approval of disability benefits for a disabled individual, are exempt from the minimum rent requirement. Under the block grant bills, those hardship provisions are dropped, although states would be allowed to grant case-by-case exceptions to the minimum rent requirement.[11]

Block Grant Would Likely Undermine Housing Choice Currently Provided by Vouchers

One of the principal advantages of the current housing voucher program is that it allows voucher holders to move to areas of their choice, including neighborhoods with more job opportunities, lower crime, or better schools. This market-based approach was adopted during the Nixon and Reagan administrations as an alternative to public housing and other programs that tie housing assistance to a particular building and, as a result, concentrate poor people in certain locations. Research indicates that by enabling families to move to lower-poverty neighborhoods, vouchers may reduce welfare receipt and have positive effects on employment, earnings, educational outcomes, and child well-being.[12] A voucher block grant could undermine housing choice in three ways.

First, for the reasons described above, it is likely that if a block grant were enacted, a number of states would reduce voucher payment standards. Lower payment standards would reduce the total number of units that are affordable to poor families with vouchers. Furthermore, because rents often vary substantially from one neighborhood to another, lower payment standards would effectively limit the geographic areas where poor families can use their vouchers. In many cases, the areas that would become unaffordable to poor voucher holders would be those with better quality schools, lower crime, and more job opportunities. Under the current program, agencies are encouraged by performance standards and funding rules to set payment standards that are adequate to make modest apartments in a range of neighborhoods broadly accessible to voucher holders. The block grant bills would eliminate these standards and rules.

Second, a block grant would eliminate the existing rules that cap at 20 percent the proportion of vouchers that housing agencies can require to be used at designated housing projects. Allowing a limited number of vouchers to be "project-based" in this manner has

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[11] The Administration's budget request for fiscal year 2004 also includes a proposal to require all housing agencies to impose minimum rents of no less than $50 a month. On May 9, the Administration submitted an amendment to the budget request which would omit the option to set a minimum rent above $50 per month. Unlike the block grant bills, the proposal in the budget request would exempt all elderly and disabled families from the minimum rents.

[12] For a summary of this research, see Barbara Sard and Margy Waller, *Housing Strategies to Strengthen Welfare Policy and Support Working Families*, Center on Budget and Policy Priorities and Brookings Institution Center on Urban and Metropolitan Policy, 2002.

advantages because it ensures that there are units available where these vouchers can be used, even in tight housing markets, and because it allows vouchers to be used to support production of affordable housing by guaranteeing developers a source of rental revenue they can use to repay debt incurred during construction. Eliminating the cap on project basing, however, would allow states to project-base most or all of their vouchers, a step that would eliminate the choice-based nature of the voucher program and could cause families with vouchers to become concentrated in particular locations. In some states, there would be substantial political pressure to use project-basing to direct vouchers to high-poverty neighborhoods with predominantly minority populations, rather than allow families to use vouchers in the neighborhoods of their choice.

Third, the bills would allow states to restrict housing choice by barring the use of vouchers in certain areas. Residents who resent the presence of voucher holders in their neighborhood could ask their state agency to place a moratorium on the use of additional vouchers in the area. Fair housing laws would prohibit such a moratorium if it could be proven to be intended to keep members of racial or ethnic minorities from living in an area, but it would often be difficult to demonstrate that a geographic restriction was motivated by unlawful discrimination, particularly if proponents offered some other public policy rationale to justify it.

Unpredictable Funding Would Disrupt Voucher Program and Deter Landlords and Lenders from Participating

The housing voucher program depends for its effectiveness on the willingness of property owners to rent units to voucher-holders. Under both the current system and the proposed block grant, landlords must meet certain requirements, such as housing quality inspections, that are not required of owners in the private market. The primary incentive for landlords to participate in the program is the consistency of rental revenues from vouchers. The mere possibility that voucher commitments might be withdrawn may deter some landlords from participating. That, in turn, could make it more difficult for low-income families with vouchers to find landlords who will accept vouchers and consequently reduce the number of families who are able to use their vouchers.

In a letter sent in February 2003, seven national associations representing apartment owners expressed strong concerns that a block grant would jeopardize the reliability of voucher funding and consequently "have a chilling impact upon market participation in the program." The voucher block grant bills that have now been introduced, which eliminate the federal commitment to maintain voucher funding at a level sufficient to meet the program's needs, bear out these concerns.

The uncertainty of block grant funding could have an even greater impact on the use of vouchers to support homeownership. Vouchers can only be used to support home mortgages to the extent that mortgage lenders are confident that funding will continue to be available for the length of the mortgage. It would be more difficult for lenders to have a strong degree of confidence under the block grant. The block grant would offer only very limited protections for families participating in this program. States would be permitted to reduce voucher subsidies to such families if funding is inadequate and could terminate their assistance entirely beginning in 2009.[13]

Rationale for Block Grant is Unpersuasive

The Administration and other proponents of the block grant proposal have failed to provide a compelling justification for the radical change they have proposed. Proponents have pointed to a number of goals that they argue would be addressed by the voucher block grant. It has been argued that a block grant would allow states to reallocate unused vouchers to help ensure that more of the vouchers are used, would improve coordination with the Temporary Assistance to Needy Families (TANF) welfare program, would simplify program administration by reducing the number of agencies administering vouchers, and would provide housing agencies with greater flexibility to respond to local needs. Several of these goals, however, would actually be impeded in significant ways if the block grant proposal were enacted. Moreover, in every case, the goals could be advanced without the radical transformation the Administration has proposed.

- **The block grant would eliminate vouchers that could have been reallocated under the current system.** It is true that under the proposed block grant, states would be able to reallocate unused vouchers and voucher funds from one part of the state to another *during* a fiscal year. Under a policy established in 2001, however, HUD already has the authority to recover vouchers from housing agencies that cannot use them and reallocate the vouchers to agencies that can use them promptly to serve additional families. So far, HUD has failed to implement this policy fully — reportedly due to administrative snafus — and has only reallocated a small number of vouchers, but if HUD fully implements the policy in the future the number of vouchers reallocated will grow. Under the block grant, by contrast, reallocation of unused vouchers would be made more difficult. As noted above, states would probably *not* receive funding under the block grant for vouchers that are not in use in fiscal year 2004. If this were the case, these vouchers would be eliminated altogether rather than reallocated. In addition, after the initial year, a state's allocation of block grant funds would be reduced by any funds it does not use in the prior fiscal year, so funds left unused in a given year would in effect be taken away from the state and the state would not have the ability to reallocate them.

- **Block grant funding structure would place constraints on local flexibility.** The block grant would provide greater flexibility to states than is available to state

[13] The Senate bill includes a provision that would amend the current voucher statute to specify that the statutory provisions concerning the use of vouchers for homeownership (and for project-based assistance) would no longer apply to vouchers funded under the block grant after fiscal year 2009. For example, restrictions on the ability of housing agencies to reduce or terminate subsidies for families that are using their vouchers to make mortgage payments or cover other homeownership costs would no longer apply. The House bill is somewhat ambiguous on these matters, but it appears to require that the current provisions of the voucher statute concerning homeownership and project-based assistance would continue to apply to families already in these programs at the time of transition to the block grant. Such protection would not be provided to families entering the program in the future.

and local agencies under the current system in a number of areas of program administration. In other areas, however, states would experience financial costs under a block grant for exercising options that already are 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 include: increasing maximum voucher payments to reflect increases 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. Currently, housing agencies receive federal funding based on the actual cost of vouchers, so they pay no financial penalty for taking actions that raise their costs per voucher but benefit their community. Under the block grant, states would need to pay for such increases in costs by contributing their own resources to the program or by instituting offsetting cuts in other aspects of the voucher program. As a result, the amount of real flexibility available to housing agencies to take these steps (and other steps that raise per-voucher costs to make the program operate more effectively) would be reduced.

- **The block grant would undercut the components of the voucher program that have facilitated coordination with TANF without making alternative provisions for encouraging coordination.** The argument that a voucher block grant would improve coordination of services for the 22 percent of voucher holders who receive welfare benefits (13 percent rely primarily on income from welfare) is based on the premise that coordination would be stronger if both programs were administered by the states. This may be true to an extent, but many state-administered voucher programs currently have little or no coordination with TANF while some locally-administered voucher programs have excellent coordination with TANF. None of the performance criteria or planning requirements in the block grant bills directly encourage coordination with state TANF programs.

  At the same time, the block grant would undermine coordination with TANF by eliminating the federal commitment to two initiatives that have facilitated coordination in recent years: the welfare-to-work voucher program and the Family Self-Sufficiency program (FSS). The welfare-to-work voucher program provides new housing vouchers for current and former welfare recipients for whom lack of housing assistance is a barrier to getting or keeping a job. (For additional information see http://www.cbpp.org/8-28-02hous.htm.) The FSS program 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. FSS also provides case management services to help participants prepare for and obtain employment. (For additional information on FSS, see http://www.cbpp.org/4-12-01hous.htm.)

Under the block grant, there would be no requirement that states continue the welfare-to-work voucher program or the FSS program for current participants.[14] States could elect to use a portion of their administrative funds to pay for FSS case managers and could continue to allow working families enrolled in FSS that increase their earnings to contribute to a savings account in lieu of increased rental payments, but they would receive no additional federal funds to support such efforts as they do today. Since it is likely that funding under the block grant would fail to keep pace with program needs and that, in at least some states, the administrative funds the state would receive would be inadequate to cover the costs of administering the voucher program (see box on page 5), many states could choose to discontinue the FSS program.

- **Block grant could increase rather than reduce program complexity.** Currently, basic rules of the voucher program are uniform across the country, while local agencies have the option to vary certain policies that are best adapted to local circumstances. There are many important advantages to such uniformity and predictability. For example, large national companies such as Fannie Mae and Freddie Mac have been willing to develop underwriting guidelines that can be relied on by lenders throughout the country that wish to make loans to families participating in the Section 8 homeownership program. Without substantial uniformity in the applicable rules, it would likely be more difficult for lenders to sell these loans on the secondary mortgage market, and fewer lenders would be willing to make loans that they would have to continue to hold. This could reduce the potential effectiveness of the program. Similar national rules also make it easier today for some large apartment owners to participate in the program. Fewer large companies may be willing to make their units available to families with vouchers in the future if the companies have to become familiar with different rules in each state in which they operate.

  Eliminating uniform national rules such as housing quality standards also could increase program complexity within states. The block grant bills would substitute state and local housing codes, where they exist, in place of federal housing quality standards. This would mean that units in each county, city or town could be subject to different requirements concerning housing conditions, since many states have a patchwork of local and state codes. Inspectors could have a more difficult job than they currently do, as they would have to learn the requirements

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[14] The bills specify that families receiving voucher assistance at the time of the transition to the block grant would continue to receive assistance "subject to the terms and conditions" of Section 8 of the U.S. Housing Act, (see note 4 above) but neither the welfare-to-work voucher program nor the FSS program is authorized under Section 8. The welfare-to-work voucher program was established by the fiscal year 1999 appropriations act; no other statute governs the program. The FSS program is contained in Section 23 of the U.S. Housing Act (42 U.S.C. 1437u); it applies to public housing residents as well as voucher families. Even if the grandfathering requirement were to be construed to require the continuation of these programs for current participants, states would be under no obligation to continue to serve families making the transition from welfare to work when current families leave the program and these special vouchers become available for reissuance. Nor would states be obligated to enroll any additional families in FSS.

that apply in each area. Where the state or local codes that apply to existing housing are substantially weaker than current federal rules (including lead paint rules), families' safety could be impaired.

- **The number of administering agencies could be reduced under the existing funding structure.** There is no inherent link between the change in the voucher funding system that the block grant bills would make and a reduction in the number of agencies administering the voucher program. Congress can reduce the number of administering agencies under the existing system if it chooses to do so. For example, administration could be consolidated at the metropolitan or regional level without radical changes in the basic funding structure. Conversely, because a state could choose to allow all local agencies to continue to administer the voucher program under the block grant and local agencies likely would seek to persuade their states to do so, conversion to a block grant funding structure would not necessarily reduce the number of administering agencies significantly. To the contrary, it could merely add another layer of bureaucracy without accomplishing meaningful consolidation.

Conclusion

The conversion of the housing voucher program to a block grant represents a fundamental change in a program that provides assistance to approximately two million low-income families and elderly and disabled individuals. It would be likely to have a number of adverse consequences, including the continual erosion of voucher funding, the diversion of assistance away from the families that need it most, and a weakening of the principle of housing choice that has been a cornerstone of the voucher program's success.

The record of the housing voucher program does not demonstrate a need for the type of change the Administration has proposed. To the contrary, research has demonstrated that the program is cost-effective and suggests that it improves education, health, and employment outcomes for the families it assists.

The Administration has pointed to a number of goals that it argues would be advanced by the voucher block grant. In every case, however, these goals could be addressed without the radical transformation the Administration has proposed. The largest changes proposed by the Administration — the termination of the link between voucher funding and housing costs and the withdrawal from the federal commitment to consistent support for existing vouchers — are essentially unrelated to the goals the Administration has cited.

Some aspects of the voucher program's performance could be improved. But such improvement can best be achieved through measured reforms tailored to meet specific challenges, rather than by radically altering the characteristics of the voucher program that have underpinned its success.