CENTER ON BUDGET AND POLICY PRIORITIES

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BLOCK GRANT WOULD UNDERMINE HOUSING VOUCHER PROGRAM

The full report can be viewed at http://www.cbpp.org/5-14-03hous.htm

A new report from the Center on Budget and Policy Priorities analyzes an Administration proposal to replace the nation's largest low-income housing program, called the Housing Choice Voucher Program or the "Section 8" voucher program, with a block grant to the states beginning in fiscal year 2005. The specifics of the Administration proposal are contained in two similar bills (H.R. 1841 and S. 947) introduced in Congress on April 29. Summarized below are the main conclusions of the Center's report.

Voucher Funding Would Likely Fail to Keep Pace with Housing Costs

Currently, Congress adjusts voucher funding each year based on changes in actual costs, to ensure that housing agencies have sufficient funds to cover all vouchers that families are using. A block grant would eliminate this funding structure: Congress could simply pick a lump sum to appropriate each year, with no built-in link to the actual number of families using vouchers and no built-in adjustment for rising rents.

History has shown that funding for block grants often erodes over time, in part because the human impacts of cuts can be difficult to see. An analysis of 11 block grants that serve low-income people in housing, health, and social services shows that, when adjusted for inflation, funding 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. Two of the 11 block grants fund child care assistance and received large funding increases in the late 1990s to respond to the growing need for child care under new welfare-to-work requirements. When these two block grants are excluded, the drop in inflation-adjusted funding for the remaining grants was even greater: 22 percent. In light of these data and the tight funding constraints Congress will face in coming years, funding for the new voucher block grant would be unlikely to keep pace with increases in rental costs.

If Funding Erodes, States Would Need to Scale Back Their Voucher Programs

If voucher funding falls behind the program's needs, states would have to contribute their own funds or scale back their programs 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.

- **Shifting housing assistance to higher-income families.** States might shift some vouchers from poor families to moderate-income families, who need smaller subsidies, on average, to be able to afford housing. Such a shift would become more likely not only because funding probably would not keep up with increases in rental costs, but also because the proposed block grant structure would substantially weaken current rules that target most vouchers on poor families.

- **Shifting rent burdens to families participating in the program.** Households with vouchers typically pay about 30 percent of their income for rent. (Since the early 1980s, federal policy has set 30 percent of income as the maximum a low-income family should devote to housing, given other demands on family budgets.) Under a block grant, states would be free to cut costs by requiring larger rental payments from voucher holders.

- **Limiting opportunities to use vouchers to escape high-poverty areas.** States could also save money by reducing the total amount of rent a voucher could cover. That would make it harder for families to use vouchers to move into neighborhoods with more opportunities (more jobs, better schools, less crime) but higher rents. The block grant also would give states broad power to direct vouchers to specific developments and declare certain neighborhoods or sections of a state "off limits" to families with vouchers. In some states, there likely would be substantial political pressure to direct voucher holders to high-poverty neighborhoods with predominantly minority populations.

Each of these changes would weaken the cornerstone of the voucher program's success: its use of a *market-based* approach that allows voucher holders to move to modest apartments in areas of their choice. Research indicates that by providing families the opportunity to move to lower-poverty neighborhoods vouchers may reduce welfare receipt and have positive effects on employment, earnings, educational and health outcomes, and child well-being.

Some Owners and Lenders Might Be Deterred from Accepting Vouchers

By eliminating the federal commitment to maintain voucher funding at a level sufficient to meet the program's needs, the proposed block grant would make rental revenues from vouchers less reliable and, as a result, likely deter some landlords from accepting vouchers. The National Association of Realtors and six other groups representing apartment owners have warned that a block grant would "have a chilling impact upon market participation in the [voucher] program." Similarly, lenders may be unwilling to rely on voucher subsidies to back home mortgage loans; this would undermine the use of vouchers to support homeownership.

Block-Granting Isn't Needed to Improve the Voucher Program

The stated goals of the plan's proponents could, in fact, be achieved more easily *without* a block grant. For example, a block grant would make it harder, not easier, to reallocate unused vouchers to families that can use them successfully (because the block grant would very likely eliminate funding for unused vouchers) or to undertake initiatives — such as targeting vouchers on homeless families — that can raise per-voucher costs but can benefit the community.

The bipartisan, Congressionally-chartered Millennial Housing Commission strongly endorsed the voucher program in a May 2002 report, describing it as "flexible, cost-effective, and successful in its mission." The Administration proposal risks undermining these achievements.