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ANSWERS TO QUESTIONS RAISED DURING ASSISTANT HUD SECRETARY LIU'S HOUSING VOUCHER BLOCK GRANT TESTIMONY

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HUD Assistant Secretary Michael Liu testified on May 22, 2003 before the Housing and Community Opportunity Subcommittee of the House Financial Services Committee regarding H.R. 1841, a bill that would eliminate the Housing Choice Voucher Program and replace it with a block grant to the states. This bill — along with a similar bill, S. 947, that has been introduced in the Senate — provides the specifics of a proposal that the Administration outlined in the budget it released in February, 2003. This document examines a number of questions raised during Assistant Secretary Liu's testimony.

Claims About Program Improvements Under the Block Grant

1. Is the block grant needed to reduce recaptures of unused voucher funds?

No. In his testimony, Mr. Liu referred to recaptures as a "staggering problem" that would be eliminated by the block grant, but later in his testimony he explicitly contradicted this statement by acknowledging that the Fiscal Year 2003 Appropriations Bill passed earlier this year solved the recapture problem. His second statement was correct: the reforms adopted in the Fiscal Year 2003 bill make recaptures of the magnitude that occurred in previous years impossible.

2. Would the block grant eliminate errors in determining subsidies for voucher holders?

No. It is not clear how the proposed block grant would reduce payment errors, let alone eliminate them. Mr. Liu argued that income rules under the program are too detailed and prescriptive. If Congress wants to simplify these rules, however, it can do so without block granting the program. The same income rules that apply to the voucher program also apply to public housing, homelessness assistance grants, and other HUD programs, so whether or not the voucher block grant is enacted, solutions would be needed to any problems HUD has identified with these rules. Furthermore, even without Congressional action, HUD could take steps to reduce overpayments by strengthening the incentives for housing agencies to reduce payment errors under the voucher program's existing performance measurement system. The block grant would just transfer the problem to the states, and there is no guarantee they would do a better job.

Funding

3. Do the block grant bills provide for funding adjustments to keep pace with rising housing costs?

No. The block grant bills make no provision for adjusting total block grant funding based on housing costs, general inflation, or any other factor. The bills direct HUD to establish a formula that would adjust funding based on housing costs, but the formula would be used only to decide what percentage of the total funding provided for the block grant nationally would go to each state. The formula would decide how the pie would be divided among states, but it would have no effect on the size of the pie.

4. Has inflation-adjusted funding for the HOME block grant risen over time?

No. Since it was established in 1993, the HOME housing block grant has lost 5 percent of its value when adjusted for general inflation. The loss of value is greater if the funding is adjusted for inflation in housing costs. Mr. Liu claimed during his testimony that inflation-adjusted HOME funding has risen, but he was apparently including funds that are provided under the HOME account but are categorically set aside for purposes such as housing counseling and therefore are not available for states to use in the same manner as other block grant funds. He also counted funds that the Administration has requested for fiscal year 2004 but that Congress has not yet approved. In fiscal year 2003, Congress provided $84 million less for the HOME program than the Administration requested.

Furthermore, HOME is not the best analogy for the proposed voucher block grant. Because most HOME funding is used for construction and renovation of physical structures, HOME funding is strongly supported by private companies that build and finance those projects and by governors and mayors who are able to point to HOME projects as concrete accomplishments. Funding for the voucher block grant may be more likely to follow the pattern of block grants outside of housing that require states to provide specific benefits directly to low-income families. These block grants have tended to fare much worse than HOME. For example, inflation-adjusted funding for the Low-Income Home Energy Assistance Program (LIHEAP) has fallen by 53 percent since it was created in 1982. Examples of other block grants that have lost a large proportion of their inflation-adjusted value include the Social Services Block Grant (SSBG), which has lost 65 percent of its value since 1982, and the Community Development Block Grant (CDBG), which has lost 34 percent of its value since 1982.

State Implementation

5. Would the block grant be optional for states?

No. The block grant would replace the existing program in every state. A state could choose not to run the program itself, but all of the new rules — including the funding structure that contains no provision to adjust funding regularly to reflect increases in rental costs and thus is likely to lead to an erosion of funding — would still apply to whatever other entity ended up administering the block grant in the state.

6. Would states be able to divert resources away from certain geographic areas under the proposed block grant?

Yes. Under the block grant, states would be free to shift resources away from sub-state areas that are not in favor in the state capital in several ways. A state could shift vouchers from one part of the state to another, fail to provide subsidy adjustments from year-to-year that are sufficient to keep pace with rents in areas where housing costs are rising rapidly, provide more ample administrative resources to some parts of the state than others, or even bar the use of vouchers in certain sub-state areas. Mr. Liu said in his testimony that a funding formula that would be developed by HUD after enactment of the bill could address the risk that states would shift resources away from rural areas. But that formula would govern allocations of funding *among* states and would not affect allocations among areas *within* a state.

Income Targeting and Eligibility

7. Do the voucher program's income targeting rules need to be changed to enable the states to serve needy people, including families moving from welfare to work and the elderly?

No. States would have no difficulty finding needy people to serve under the program's existing targeting requirement, which directs 75 percent of vouchers to what HUD defines as "extremely low-income" households — those with incomes below 30 percent of the area median income (nationally, this is roughly equivalent to the poverty line). There is no state in the country where there are more vouchers than there are extremely low-income households that need and want them.

Nor does the existing targeting requirement pose a major barrier to serving the specific groups Mr. Liu cited during his testimony. While some elderly households with substantial Social Security income do not meet the targeting requirement, program rules currently ensure that the neediest elderly individuals (those who depend solely on income from the Supplemental Security Income program) do qualify. Furthermore, housing agencies can direct 25 percent of their vouchers to households that do not meet the targeting requirement.

There are also many families in transition from welfare to work who have not yet escaped poverty and therefore could be served without changing the current income targeting requirement. In every county in the country, a family receiving the maximum welfare benefit qualifies as an extremely low-income household. Findings from surveys sponsored by the U.S. Department of Health and Human Services in six states and three counties in two other states in 1996 and 1997 show that the median earnings of former welfare recipients were below 30 percent of state median income in all nine sites. Moreover because the targeting requirement only applies at the time a family first receives its voucher, a family progressing toward self-sufficiency does not have to leave the program if its income rises over time (until the family's income reaches a level at which it is able to afford modest housing on its own without paying more than 30 percent of its income).

8. Is the proposal in the block grant bills to allow waivers of income targeting rules a significant change from current policy?

Yes. Currently housing agencies can obtain HUD approval to provide fewer than 75 percent of vouchers to extremely low-income families only if they can provide substantial evidence that it would be impossible for the agencies to meet the targeting requirement and that easing the requirement would enable them to serve other families living in severely substandard housing or facing very high rent burdens. Under the House block grant bill, states would need to show they cannot implement the requirement to receive a waiver but would not be required to submit any specific evidence. It appears that the bill's standard for a waiver could be met even if the state's only reason for not meeting the requirement was inadequate funding (because lower-income families need larger subsidies to be able to afford housing than higher-income families, and are consequently more expensive to serve) or a competing policy priority, such as a preference for families likely to become homeowners. The standard that a state must meet to obtain a waiver of the targeting requirement under the Senate block grant bill is even weaker than under the House bill.

9. Are the new rules regarding income eligibility limits for elderly and disabled people proposed in the block grant bills a significant change from current policy?

Yes. The block grant bills would allow HUD to set income eligibility limits for elderly and disabled people at any level. Currently, there is a limited pilot program that allows income limits for homeownership assistance for people with disabilities to be raised up to the area's median income. Outside of this pilot program, only households with incomes below 80 percent of the area median income are eligible for Section 8 assistance. The Administration has not said why, for the first time in the history of the Section 8 program, HUD should be given authority to allow federal resources to be used to provide assistance to people with incomes above the area median income.

Rent Rules

10. Would tenant payments for rents be limited to 30 percent of gross income under the block grant?

Only under limited circumstances. Mr. Liu said during his testimony that under the block grant, states could only require tenants to pay 30 percent of their gross income for rent. This is accurate, however, only with regard to the tenant's *first lease term* — in most cases, a period of one year. After that period has ended, states would be permitted to raise rents to any level. This is a major departure from current law, under which the 30 percent limit (which now applies only to income after certain required deductions are made, rather than to gross income as it would under the block grant) protects families for as long as they use their voucher.

11. Would the minimum monthly payments that would be required under the block grant affect the poorest families?

Yes. The minimum monthly payments that would be required of voucher holders under the block grant generally would be imposed on households with incomes below $167 a month. A household could have little or no income for a number of reasons. For example, a worker in the family could lose a job but fail to qualify for unemployment benefits (in many states large numbers of low-income workers do not qualify for unemployment benefits, for various reasons) or the family's breadwinner could have become disabled and be waiting for approval of disability benefits (which can be a very lengthy process). In his testimony, Mr. Liu suggested that most families affected by the minimum monthly payment requirement would have significant incomes that are exempted from the definition of income under the current system. Only a small proportion of families with vouchers, however, receive large amounts of income from the limited sources of income, such as the incomes of minors or foster care payments, that are currently exempted.

Reliability of Vouchers

12. Would landlords be able to rely on vouchers to the same extent that they do under the current system?

No. Mr. Liu correctly pointed out that most voucher contracts currently last for only one year and that states could continue this practice under the block grant. But the block grant would eliminate the federal government's commitment to provide enough funding to renew those contracts at the end of each year; this commitment is the most important underpinning of landlord confidence in the program. As a result, landlords could be deterred from accepting vouchers. The National Association of Realtors and six other groups representing housing owners and managers sent a letter to Secretary Martinez this year pointing out that the block grant could "have a chilling impact on market participation in the program."

13. Would families using vouchers to cover mortgage payments and other homeownership costs be protected under the block grant?

Not necessarily. The House bill would ensure that under most circumstances, families using vouchers to cover homeownership costs would continue to receive the same assistance as they currently do and for the same length of time as is required under current law. Under the Senate version of the bill, by contrast, this protection would only last for five years, a period far shorter than a typical mortgage term. In either case, however, the protection would be "subject to appropriations," so a state could cut back on assistance to families receiving homeownership assistance if funding for the block grant eroded over time, as would be likely. Furthermore, these protections only apply to families already receiving homeownership assistance under the current system, so voucher subsidies used to help new families cover the costs of homeownership after enactment of a block grant would be even less reliable.