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PROPOSAL TO GREATLY EXPAND "MOVING TO WORK" INITIATIVE RISKS DEEP CUTS IN HOUSING ASSISTANCE OVER TIME

By Douglas Rice and Will Fischer

Overview

A recent proposal from Representative Gary Miller (R-CA) to permit an unlimited expansion of the Moving to Work (MTW) demonstration, which now exempts 35 housing agencies from nearly all federal housing laws and regulations so they can experiment with alternative ways of administering low-income housing aid, risks deep cuts to housing assistance over time.

The proposal could lead a very large share of the nation's 3,900 state and local housing agencies to convert their Housing Choice Voucher and public housing funding streams to Moving to Work block grants. Many agencies are likely to be attracted to the MTW option, particularly in view of the bleak budget outlook and sizable funding shortfalls that agencies already face. Further budget cuts are inevitable, they might reason, and block grant funding would at least give them more flexibility to decide how to use shrinking resources — to use a larger share of funds for program administration or public housing renovations, for example, two areas that have been hit particularly hard in the 2011 and 2012 funding cycles.

But such reasoning ignores the fact that large-scale conversions to MTW block grants would likely lead over time to even deeper cuts in program funding than would otherwise occur. Funding for the four major housing block grant programs — the Native American Housing Block Grant (NAHBG), HOME Investment Partnerships program, the Community Development Block Grant (CDBG), and Public Housing Capital Fund — has declined sharply in relation to other low-income housing programs over the past decade (see Figure 1). Together, those four block grants have lost fully *38 percent* of their value since 2001, after adjusting for inflation.

Funding for most other federal block grant programs has likewise shrunk substantially over time in real (i.e., inflation-adjusted) terms. Ten of the 12 major discretionary-program block grants that are targeted on lower-income households and have been in effect for some time shrunk in real terms over the past decade, with eight of the ten being cut by between 20 percent and 64 percent (see Table 1). The other two programs reflect special circumstances not applicable to low-income housing programs, as explained below.

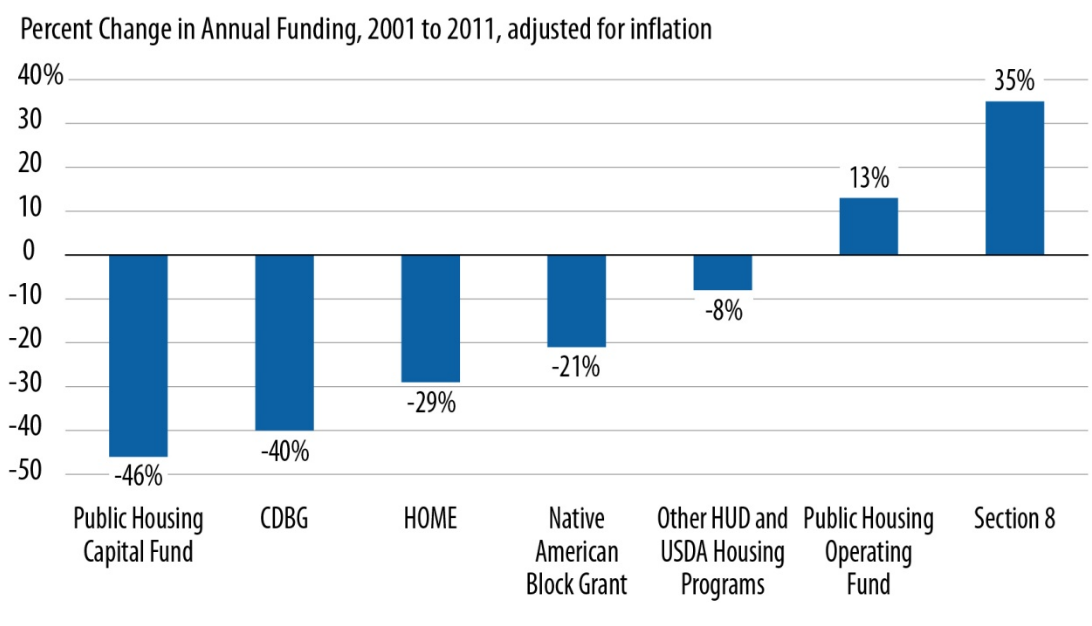
This same pattern holds for mandatory-program block grants. Federal funding for the Temporary Assistance for Needy Families block grant has shrunk 27 percent in real terms since TANF's enactment in 1996. Funding for the Social Services Block Grant has fallen 85 percent since its creation in 1972.

Block grants are particularly vulnerable to funding cuts over time because the broad flexibility they confer regarding the use of the funds makes it extremely difficult for federal policymakers to determine how many families will receive assistance under a proposed funding level. Policymakers can justify cutting a block grant by making claims that the entities administering it will use that broad flexibility to absorb a funding reduction without eliminating assistance for any families. This is very different than today, when federal policymakers usually endeavor to provide enough funding for Section 8 vouchers each year to maintain the current number of vouchers in use.

Moreover, the fiscal pressure on block grant programs is likely to increase over the next decade as Congress struggles to adhere to the binding spending limits enacted under the Budget Control Act of 2011 (BCA).[1] Indeed, the consequences of this pressure are already evident in the final HUD appropriations law for fiscal year 2012, the first year under the new BCA spending limits. Congress *increased* funding for housing vouchers and Section 8 project-based rental assistance, the two largest non-block grant housing assistance programs, while *deepening further* the cuts to NAHBG, HOME, CDBG, and the Capital Fund to levels that are 22 percent, 57 percent, 48 percent, and 51 percent below their respective 2001 funding levels, adjusted for inflation.

Figure 1:

Major HUD Block Grants Have Declined Sharply Compared to Other Housing Programs



Source: OMB public budget database and other sources. Figures represent changes in annual budget authority, except that outlays were compared for the Section 8 programs to minimize distortions caused by one-time rescissions of funds and other factors. "Section 8" includes both the Housing Choice ("tenant-based") voucher and project-based rental assistance programs. "Other" category includes discretionary budget authority for all HUD and USDA housing programs other than public housing, Section 8, HOME, and the NAHBG; it does not include community development or mortgage credit programs.

The historical trend in housing block grant funding strongly suggests that a sweeping expansion of MTW block grants would risk considerably deeper cuts in funding for public housing agencies. The Miller proposal therefore offers a very risky tradeoff: in exchange for less regulation and more flexibility, agencies would trade away the funding mechanisms that have enabled stakeholders to successfully defend funding for vouchers and public housing operations over the past decade.

The effects of such a tradeoff could be devastating to low-income families. While agencies may be able to reduce administrative costs modestly under MTW, such savings would likely compensate for only a small share of any funding reductions. As a result, agencies would be compelled to cut costs in other ways, such as by increasing housing costs for assisted residents, shifting assistance from lower to higher income families, and reducing the number of families assisted.[2] In addition, as in many other block grants, most federal rules that protect residents would no longer apply.

Proposal Would Make MTW Block Grants Available to Most Housing Agencies

Congress established MTW in 1996 as a limited initiative to develop and test alternative ways of administering rental assistance. Despite its name, MTW is primarily a *deregulation* initiative that:

- Authorizes HUD to waive most federal laws and regulations under the public housing and Housing Choice Voucher programs for participating agencies.[3] For instance, MTW agencies typically do not have to limit rents for assisted families to 30 percent of their income or enable families to use vouchers to move to neighborhoods with more jobs or better schools. MTW replaces other federal rules — such as the requirement that agencies target vouchers on households with extremely low incomes —with much looser requirements.

- Allows housing agencies to consolidate funds from the public housing and Housing Choice Voucher programs into a single, fungible pool of resources that they may use for a much broader range of activities than those authorized under the regular public housing and voucher programs.

Congress originally limited MTW participation to 30 public housing agencies.[4] This limitation was important for two reasons: first, MTW gives housing agencies broad discretion to modify program rules, and restricting the number of test sites limits the potential risks that such discretion carries for the low-income families that MTW agencies assist. In addition, it is extremely difficult for HUD to oversee and collect reliable research information from a large number of test sites. Indeed, the most rigorous results have come from a sub-group of just six MTW agencies that took part in the controlled Jobs-Plus experiments; most MTW test sites, in contrast, have produced few demonstrable policy lessons due to poorly designed and implemented research evaluations.

Representative Miller's draft proposal would retain the central features of MTW, convert the demonstration to a permanent program, and eliminate the limits on the number of agencies that may join MTW.[5] Indeed, the proposal, as drafted, appears to *require* HUD to accept into the program any state or local housing agency that applies, so long as HUD deems the agency to have adequate capacity to administer its proposed MTW plan and acceptable performance under the public housing management assessment system. (Voucher program performance is ignored.) Moreover, the proposal sets no minimum standards for agency capacity or performance, leaving it up to HUD to do so. While HUD could choose to set strong performance thresholds to limit participation, it could also go in the opposite direction and extend MTW status to the vast majority of agencies. In addition, even if the current HUD administration were to limit expansion to reward high performing agencies, a new administration could adopt vastly broader selection criteria and allow any and every agency in.

Furthermore, the proposal would not allow HUD to limit waivers of the U.S. Housing Act to preserve important protections for low-income tenants or to facilitate rigorous research on the effects of new policies imposed by MTW agencies.[6] As a result, agencies accepted into the program would face few restrictions with respect to how they administer rental assistance for low-income families, and few requirements regarding meaningful evaluation of the effects of the sweeping changes they could make.[7]

In short, the Miller proposal would transform MTW from a limited research demonstration into a full-fledged block grant program open to thousands of agencies that serve millions of low-income families — and, in so doing, largely eliminate federal standards on the use of as much as $25 billion a year in federal funds.

Many housing agencies would likely take Congress up on the offer of MTW participation. For one, many agencies are interested in reducing federal regulation and oversight of their programs. Second, by removing restrictions on the use of funds, MTW would enable agencies to reprogram funds to address funding shortfalls for program administration and public housing capital repairs. Due to chronic underfunding, public housing developments confront a growing backlog of repair and renovation needs estimated at roughly $26 billion. Agencies also will experience shortfalls in administrative funding in the voucher and public housing programs in 2012, and likely in future years, given the overall federal budget outlook. Under MTW, agencies could seek to fill these gaps by diverting housing voucher funding that non-MTW agencies now must use to assist low-income families.[8] A substantial number of agencies may be inclined to prioritize their staff and properties they own over the provision of rental assistance.

Proposal Similar to Bush Administration Block Grant Plans

Representative Miller's proposal is not the first effort to convert the housing voucher and public housing programs into a block grant. From 2003 to 2005, the Bush Administration introduced a series of very similar housing block grant proposals:

- In 2003, the Bush Administration proposed to replace the voucher program with a state-run block grant called Housing Assistance for Needy Families (HANF). The Administration included the proposal in its fiscal year 2004 budget, coupled with a funding request that was roughly $1 billion below the amount needed to renew all housing vouchers in use. The conjunction of these proposals made explicit that a primary goal of HANF was to facilitate cuts in rental assistance funding.

- In 2004, the Administration introduced a revised proposal, the Flexible Voucher Program (FVP).[9] Like HANF, FVP would replace the voucher program with a block grant, though one administered by housing agencies rather than the states. In addition, FVP eliminated important provisions of the voucher authorizing statute, such as requirements that agencies target vouchers to families with extremely low incomes and not raise rents to unaffordable levels. FVP, like HANF, also would have allowed agencies to impose time limits or work requirements on voucher recipients. In fiscal year 2005 (as in the previous year), the Administration proposed a voucher program funding level that would have resulted in a substantial cut in the number of families receiving assistance.

- In 2005, the Bush Administration incorporated a modified FVP proposal into a broader package of changes called the State and Local Housing Flexibility Act (SLHFA). SLHFA, which Rep. Miller sponsored, would also have created a permanent Moving to Work program.

These proposals sparked vigorous opposition by many housing residents and other program stakeholders. Even groups that were receptive to some features of the proposals, such as the public housing agencies that favored some deregulation of rental assistance programs, raised serious concerns about the potential impact of the block grant on future program funding. Congress held hearings on the proposals but took no action on them.

Expanding MTW Would Lay Groundwork for Cuts in Housing Assistance

Block grants can appeal to state and local grantees because they offer reduced regulatory oversight and greater flexibility in the use of federal funds. But block grants have usually experienced considerable declines in federal funding over the long term, as Table 1 shows. Of the 12 block grants reflected in the table — which includes all major discretionary-program block grants that are targeted on low-income households and have been in effect for some time (see footnote 10) — nine have experienced cuts in real funding levels (i.e., funding levels adjusted for inflation) since their inception, and ten have experienced cuts since 2001. In most cases, the cuts equal 20 percent or more.

Three programs in Table 1 show funding gains, but all three reflect unusual circumstances not applicable in the low-income housing arena. The growth in funding for the Child Care and Development Block Grant (CCDBG) resulted from large increases provided in the initial years of the block grant's existence; since 2001, CCDBG funding has declined in real terms. The higher level of funding in 2011 for the Low-income Home Energy Assistance Program reflects a sharp increase in funding that Congress provided in 2009 and sustained in 2010 and, at a somewhat reduced level, in 2011 because of the weak economy and high oil prices. In 2012, however, LIHEAP funding fell to $3.5 billion, 19 percent *below* the real level in the year of the program's inception. The third program is Title I education; among discretionary programs, education programs such as Title I generally receive favored status and enjoy much broader political support than low-income housing programs do.

These funding patterns are a consequence of the basic features of the block grant structure — features that MTW shares:

- Block grants offer recipient agencies loosened standards and rules regarding the activities and purposes for which funds may be used. Such flexibility typically makes a program's impact less clear to the policymakers who make funding decisions.

- The formulas or other means used to determine block grant funding levels typically do not take into account the number of families assisted, the actual costs of that assistance, or the performance of local agencies in delivering assistance.

Because block grants lack a clear and quantifiable relationship between program funding and the impact on low-income families and communities, it is easier for lawmakers to cut their funding, even when the block grant has the support of strong political constituencies.

Table 1:

Funding History of Major Discretionary Low-Income Block Grant Programs[10]

Program	Year of inception	Funding in FY 2011 (millions)	Change in funding since 2001*	Change in funding since inception*
Preventive Health and Health Services Block Grant	1982	$80	-64%	-57%
Public Housing Capital Fund	1998	$2,040	-46%	-40%
Community Development Block Grants	1982	$3,336	-39%	-57%
Training and Employment Services Block Grants	1982	$2,884	-38%	-55%
Home Investment Partnership Program	1992	$1,607	-29%	-32%
Maternal and Child Health Block Grant	1982	$661	-27%	-22%
Native American Housing Block Grant	1998	$649	-21%	-21%
Mental Health and Substance Abuse Block Grants	1992	$2,102	-20%	-5%
Child Care and Development Block Grant	1991	$2,223	-12%	89%
Community Services Block Grant	1982	$678	-11%	-18%
Education for the Disadvantaged (Title I)	1981	$15,567	35%	128%
Low-income Heating and Energy Assistance	1982	$4,701	86%	12%

*Adjusted for inflation

Source: Office of Management and Budget documents, House Conference Report 112-331, and other sources. Housing and community development programs are in boldface.

Agencies Risk Losing Billions in Funding Under Sweeping MTW Expansion

Under a greatly expanded MTW, funding for public housing agencies would very likely confront budgetary pressures similar to those that other block grants have faced.

Public housing agencies receive the vast majority of their funding through the Housing Choice (Section 8) Voucher program and the public housing operating fund. The voucher and public housing programs both have well-defined purposes, and agencies' funding eligibility under both programs is based on the number of families assisted and the costs of that assistance, as estimated by HUD.[11] Thus, the funding formulas for these programs provide a concrete basis for examining proposed funding levels and enable stakeholders to spell out the specific consequences of funding shortfalls for low-income families.

When Congress appropriates funds for the housing voucher program, for example, Members know fairly precisely how many families will receive assistance — as well as how many families may lose or gain assistance — under a given level of funding.

In the public housing operating fund, the consequences of funding cuts are less predictable than under the voucher program, since agencies can absorb some cuts through less visible measures such as deferring maintenance or shaving staff salaries. This distinction is probably a major reason why the operating fund has experienced deeper shortfalls than the voucher program in many years. Yet there is still a clear, objective measure of what adequate funding is, and a rationale to argue that underfunding will have serious adverse effects over time.[12]

MTW lacks this clarity about program purpose and cost effectiveness. There are few constraints on what MTW agencies may do with the funds they receive; they can, for example, buy or renovate properties (for homeownership as well as rental) or provide case management and social services rather than help low-income families obtain housing.[13] MTW agencies also face few restrictions on the amount of funding they may use to pay for staff and other administrative costs. Thus, the impact of a given level of funding — or a proposed reduction in funding — on actual low-income families is uncertain.

Under a sweeping expansion of MTW, Congress thus would lose sight of how agencies are using funds in the voucher and public housing programs and what the specific consequences of potential funding cuts would be for low-income families or communities. As a result, as competition for scarce federal resources intensifies in coming years, stakeholders would find it much more difficult to defend funding for public housing agencies, and Congress would find it easier to justify funding reductions by pointing to agency flexibility.

To get a rough sense of how great the risks of this tradeoff are, consider the following. Over the past decade, total annual funding for the four major housing block grants has fallen by 38 percent, in real terms. (See Figure 1.) If funding for the public housing operating fund and voucher program fell by that percentage over the next decade, it would represent an annual loss of more than $10 billion in funding for public housing agencies by the year 2021, compared to the 2011 level adjusted for inflation. A funding reduction of this magnitude is equivalent to eliminating rental assistance for at least *1 million* low-income families.[14]

Experience Under Current MTW Is Poor Guide to Future Funding Under Expanded MTW

Most current MTW agencies have received relatively rich funding streams in comparison to other housing agencies, but this is due to factors that would no longer apply if Congress greatly expanded the program.[15] Since Congress funds MTW agencies through the much larger voucher and public housing programs, the amount of funding available for MTW agencies largely reflects decisions about funding levels for those programs — which, in turn, typically reflect Congress' commitments to fully fund voucher renewals and public housing operating costs at non-MTW agencies. In short, to date, MTW has received a free ride on the back of the regular voucher and public housing programs.

A broad expansion of MTW would remove the existing subordinate relationship between MTW and the regular programs: MTW would become a more independent program, and Congress would likely treat it as such in making decisions about annual funding levels. Indeed, if MTW were to expand to include most housing agencies and assisted residents, MTW would become the dominant program, and funding for the agencies that remained in the regular programs could be determined by the decisions made about MTW block grant funding. If this occurred, Congress would no longer base voucher program funding decisions on HUD's calculation of how much funding is required to renew all vouchers in use, as voucher assistance would be only one of a wide range of activities for which MTW agencies could use voucher program funds. In either case, as competition for scarce federal resources continues to increase, pressure to reduce funding for MTW would be difficult to resist, and the future course of funding would likely follow the historical path of other block grants.

Funding Squeeze Would Compel Agencies to Use MTW Flexibility to Make Harsh Cuts

If MTW funding followed the trend in other housing block grants, state and local agencies would be forced to cut expenditures in the programs deeply over time. Agencies could save some funds through administrative streamlining under MTW, but such savings would be limited. (Congress could permit agencies to carry out the most promising streamlining measures — such as less frequent income reviews and housing quality inspections — by amending the U.S. Housing Act *without* expanding MTW.[16])

Agencies instead would need to reduce spending mainly through cuts in assistance for low-income families. Because MTW removes many federal standards that protect low-income families, it would expand the menu of cuts that agencies could choose from. The major options available to MTW agencies include:

- **Increasing rent burdens on assisted families.** Housing assistance recipients today generally pay 30 percent of their income for rent and utilities. Federal law permits agencies to set "minimum rents" that families must pay regardless of their income but caps these rents at $50 per month. MTW eliminates these standards and instead permits an agency to charge families virtually any rent it chooses.

  Some MTW agencies have raised rents considerably for the lowest-income families.[17] In the face of funding cuts, rent increases would likely grow sharper and considerably more widespread. Even a 10 percent reduction in funding for housing vouchers and the public housing operating fund could result in annual rent increases of more than $700 for low-income families, on average, if agencies absorbed the reduction entirely through such measures. Under a 20 percent reduction, housing costs for low-income families would increase by as much as $1,400 per year. (These figures are in 2011 dollars.)

- **Shifting assistance to higher-income families.** MTW agencies are exempt from the statutory requirement that agencies set aside a sizeable share of housing assistance for "extremely low-income families" (those with incomes below 30 percent of the local median income, which is roughly equivalent to the poverty line in the typical locality). Under that requirement, 75 percent of families entering the voucher program and 40 percent of those entering public housing must have incomes below 30 percent of the local median income. Instead, MTW requires that 75 percent of families assisted have incomes below 50 percent of median.

Shifting assistance to families with somewhat more income would generate added rent revenues, as long as agencies retain a policy of basing rents on resident incomes. Agencies could use such revenues to offset some funding cuts. But such shifts would leave more extremely low-income families without housing assistance.

Congress has targeted a substantial share of low-income housing assistance on extremely low-income families because without such assistance, these families face the highest cost burdens and the greatest risk of homelessness and other hardship. HUD data show, for example, that 5.1 million extremely low-income households without housing assistance had "severe housing problems" in 2009 — meaning that they paid more than half of their income for rent or lived in severely substandard housing. More than three of every four renter households in this income category who did *not* receive assistance — 77 percent of such households — had severe housing problems in 2009. By comparison, only 33 percent of unassisted renters with incomes between 30 and 50 percent of the area median income had severe housing problems.[18]

- **Assisting fewer families.** Some MTW agencies may opt to leave existing program standards largely in place so that they can continue to assist the lowest-income households without imposing high rent burdens on those families or limiting their housing choices. To maintain the current level of assistance in the face of funding cuts, however, agencies would have to reduce the number of families that they assist. As noted above, for example, a 38 percent reduction in funding for public housing and vouchers would eliminate assistance for at least 1 million low-income families if agencies absorbed the reduction solely by helping fewer families. Even today, the amount of housing assistance falls far short of the need: only one in four eligible low-income families receives federal housing assistance, and many agencies have very long and growing waiting lists.

- **Restricting housing choices for low-income families.** Housing agencies could also reduce costs by lowering the maximum amount of rent a voucher can cover, called the "payment standard." A family that rents a unit for a rent above the payment standard must pay all of the extra cost itself.

  Agencies generally must set maximum rents within 10 percent of the local Fair Market Rent (FMR), HUD's estimate of the cost of modest rental housing in each metropolitan area or rural county. MTW agencies, in contrast, can set payment standards at any level they choose. Funding reductions could compel agencies to use this flexibility to significantly lower payment standards across the board. This would force families either to pay more in rent or move to a unit with a rent below the new, reduced payment standard. Such low-cost units are often located disproportionately in higher-poverty neighborhoods with relatively high crime rates, poor schools, and few job opportunities.

Some MTW agencies have used the above flexibility to raise rent burdens on the neediest families, restrict housing choice, or assist fewer families than they could have with available funds, while others have opted to avoid such policies. For the most part, however, agencies have made these decisions in the context of *abundant* funding; when they raised rents or restricted choice, it generally reflected the agency's policy preferences. But if a large increase in the share of the voucher and public housing programs subject to MTW block grants caused funding to drop or erode substantially over time, all MTW agencies would be compelled to reduce expenditures, and harsh cuts likely would become more common.

Notes

[1] For more on the BCA, see Richard Kogan, "How the Across-the-Board Cuts in the Budget Control Act Will Work," Center on Budget and Policy Priorities, December 2, 2011, http://www.cbpp.org/cms/index.cfm?fa=view&id=3635, and Richard Kogan, "Coming Reductions in Discretionary Funding Will Be Larger For Non-Defense Programs than Defense Programs," Center on Budget and Policy Priorities, January 3, 2012, http://www.cbpp.org/cms/index.cfm?fa=view&id=3650.

[2] The risk of long-term reductions in funding is only one of many strong reasons that large-scale expansion of the MTW demonstration would be unwise. See Will Fischer, "Expansion of HUD's "Moving-To-Work" Demonstration Is Not Justified," Center on Budget and Policy Priorities, September 27, 2011, http://www.cbpp.org/cms/index.cfm?fa=view&id=3590.

[3] The HUD Secretary has no power to waive statutes unless Congress specifically authorizes such power. Under MTW, HUD may waive any provision of the U.S. Housing Act of 1937 for participating agencies except for those governing labor standards and the demolition and disposition of public housing.

[4] In some recent annual appropriations laws, Congress has permitted HUD to expand MTW incrementally. Currently, 35 agencies that administer roughly 420,000 voucher and public housing units participate in the demonstration, and HUD may add four agencies in the near future.

[5] The proposal, dated October 5, 2011, is entitled, "The Moving to Work Improvement, Expansion, and Permanency Act of 2011," and is available on our website: http://www.cbpp.org/files/MTWbill.pdf.

[6] As noted above, HUD is currently granted the authority to waive most federal housing laws and rules for MTW agencies, but it retains the power of choosing which rules shall be waived in each agency's case; the latter power would be eliminated under the Miller proposal.

[7] Unlike the current MTW statute, the Miller proposal would require agencies to provide residents with an informal hearing or grievance procedure prior to any eviction or termination of assistance. Such procedures likely are already constitutionally required, however, and the proposed language actually could undermine existing rights of applicants and tenants to challenge other adverse agency actions, such as denying admission to the program or determinations of tenants' required rental payment. Moreover, agencies would have unfettered discretion to establish new conditions on tenant participation in the programs, such as time limits.

[8] This strategy generally results in agencies assisting significantly fewer low-income families with vouchers. See Will Fischer, *op cit.*

[9] Separately, the Bush Administration proposed a new public housing block grant demonstration for up to 100 public housing agencies.

[10] A GAO study identified 15 federal block grants in existence in 1993 (see Table II.1 of report number GAO/HEHS-95-74). Of those identified by GAO, we excluded three programs that are either very small or do not target benefits to low-income families or communities. We also excluded a mandatory program, as the process by which Congress makes funding decisions for mandatory programs differs significantly from that for discretionary programs such as the housing voucher and public housing programs. We then added three housing programs (HOME, NAHBG, and public housing capital fund) that have the essential characteristics of a block grant and are particularly relevant in this context (two of these programs were created after the GAO report was released). The resulting list includes most, if not all, of the large

federal discretionary block grant programs that target benefits to low-income families, but excludes some block grants that are either small, not targeted to low-income families, or mandatory programs. For CDBG, we chose 1982 as the initial funding year; this is the first year in which the new small cities block grant was incorporated into CDBG as a result of the Omnibus Reconciliation Act of 1981. Figures for "Education for the Disadvantaged" are for the entire account, which includes a handful of relatively small programs that are not block grants. Figures for "Training Employment and Services" include only the adult training and employment, dislocated worker, and youth activities block grants. Figures are budget authority, although annual obligations were used in some cases where budget authority figures were not available.

[11] HUD's estimates are based on recent actual program cost data in the voucher program and on costs at comparable developments in the private market in the operating fund, with adjustments based on recent data on tenant payments, utility costs, and other factors.

[12] By contrast, there is no established method to determine adequate funding for the Public Housing Capital Fund. As is typical of block grants, the Capital Fund's formula determines how HUD will distribute the funding that Congress provides among housing agencies, but does not calculate a full funding level.

[13] Every current MTW agency receives housing voucher funding via a block grant formula, and about one third receive public housing operating funding as a block grant. Every MTW agency is allowed the fungible use of voucher and public housing funds.

[14] This figure is based on the average cost per housing voucher in use, as of June 2011, including administrative fees, and adjusted for inflation.

[15] In addition to the reasons discussed in the remainder of this paragraph of the text, two other points are worth mentioning. First, most current MTW agencies initiated agreements under generous terms that are no longer available to new MTW agencies. Prior to 2003, Congress provided every agency with annual funding sufficient to cover the cost of using every authorized Housing Choice voucher, including those that were not currently in use. The amount of annual funding received under this scheme formed the initial-year baseline for agencies entering the MTW demonstration at that time. Since 2003, however, Congress has funded agencies based on actual voucher usage and costs. For agencies admitted to MTW since 2003, the more frugal recent-cost basis has been used to determine the funding baseline.

Second, MTW agencies were effectively exempted from the "reserve offset" policies authorized by Congress in 2008 and 2009 that reduced the amount of new budget authority provided to many non-MTW agencies in those years. For 2012, however, Congress has directed HUD to apply reserve offsets to MTW agencies as well, thereby removing this source of favorable treatment.

[16] See Will Fischer's testimony before the House Subcommittee on Insurance, Housing, and Community Opportunity on October 13, 2011: http://www.cbpp.org/cms/index.cfm?fa=view&id=3595.

[17] For instance, a HUD-sponsored study found that as of 2009, seven MTW agencies had set minimum rents of $125 or more for some or all poor families. Abt Associates *et al., Study of Rents and Rent Flexibility*, prepared for HUD Office of Public and Indian Housing, May 26, 2010, http://www.huduser.org/publications/pdf/Rent%20Study_Final%20Report_05-26-10.pdf, p 27.

[18] Barry Steffan *et al.*, *Worst Case Housing Needs 2009: Report to Congress*, HUD Office of Policy Development and Research, February 2011.