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NEWLY PROPOSED HOUSING LEGISLATION WOULD LEAVE PUBLIC HOUSING AGENCIES VULNERABLE TO SUBSTANTIAL FUNDING CUTS AND SHIFTING HUD MANDATES

by Barbara Sard

The State and Local Housing Flexibility Act of 2005, proposed by HUD and introduced in Congress in April,¹ would make sweeping changes in federal housing policy. Among other things, the proposed legislation would convert the Section 8 housing voucher program into a block grant, eliminate the requirement that rents be affordable to public housing residents and voucher-holders, and give HUD authority to waive virtually any statutory provision under an expanded “Moving to Work” (MTW) program.

In place of the current statutory rules, HUD proposes to substitute yet-to-be-developed performance and funding standards that could be used to determine the amount of funding each agency receives and even whether an agency continues to administer its own housing voucher program. HUD also would have unlimited discretion under the proposed MTW program to determine which agencies would be eligible for sweeping waivers for their public housing and voucher programs.

In sum, the bill would erase the current statutory shape of the public housing and Section 8 voucher programs and replace it with a framework to be determined later by HUD, subject to the approval only of the Office of Management and Budget.

At first blush, the increased local discretion promised by the proposed legislation may be attractive to public housing agencies (PHAs). Many PHAs believe that HUD’s current rules micromanage PHA operations and unduly constrain their ability to make the best use of available resources to respond to local housing needs. Eliminating the legislative foundation for the public housing and Section 8 voucher programs would, some PHAs may believe, lead to enhanced local autonomy that would enable them to serve their communities and deal with the possibility of shrinking federal resources.

But there are many reasons to conclude that HUD’s proposal, if enacted, would in fact impair the ability of PHAs to meet community needs.

- **By eliminating any objective basis for determining appropriate funding levels, the bill would open the door to deep funding cuts in the voucher program.** With the voucher program converted to a block grant and a large proportion of PHAs operating under Moving to Work waivers, there would no longer be any objective basis for determining the amount of funding needed to

¹ HUD’s proposal has been introduced as S. 771 in the Senate by Senator Allard (R-CO) and as H.R. 1999 in the House by Rep. Gary Miller (R-Diamond Bar CA).

serve a set number of families. HUD and Congress would be able to make significant cuts in funding, while accurately asserting that PHAs could continue serving the same number of families — for example, by serving higher income families, shifting costs to tenants, or shifting funds to less expensive modes of assistance (such as a shallow downpayment assistance grant for a family making \$35,000 per year, rather than a deep rental subsidy for a family struggling to get by on the minimum wage or a formerly homeless person with disabilities).

On a national level, it would be impossible to estimate the likely reduction in the number of families assisted at a specific funding level that the Administration or Congress proposed. This inability to quantify the number of families who would be hurt by a budget proposal would weaken arguments for adequate voucher funding, just as the difficulty in demonstrating the link between the number of families served and proposed levels of public housing funding has contributed to its erosion. PHAs, rather than Congress, would be responsible — and bear the blame — for deciding whether to achieve savings by cutting the number of families served or increasing families' rent burdens, serving higher income households, or capping rents to landlords.

PHAs need not look far for an illustration of what would be likely to happen to voucher funding if the proposed Flexible Voucher Program (FVP) were enacted. In its fiscal year 2005 budget, HUD proposed a cut in housing voucher funding of \$1.6 billion (about 12 percent) relative to the amount needed to continue providing the current level of services — cuts that the Administration asserted would have no impact on the number of families served due to the increased flexibility that would be granted to PHAs under the FVP to alter targeting and rent rules. HUD also justified a proposed cut in administrative fees by pointing to the \$130 million in savings it claimed could be achieved by changing the rent rules and reducing the frequency of rent recertification interviews and inspections.² Congress rejected both of these proposed funding cuts, at least in part due to the continuation of current program rules.

- **By eliminating the current affordability protections for tenants and the income targeting rules that require a majority of assistance to be directed to poor households, the bill could jeopardize broad-based support for the housing voucher program.** Because it is the primary source of housing assistance for the lowest income seniors, people with disabilities and families with children, the housing voucher program enjoys broad support from a cross-section of groups committed to serving these populations. Housing vouchers are an indispensable part of initiatives to prevent and ameliorate homelessness, enable people with disabilities to live in the community and provide safety for battered women and their children. If housing vouchers are no longer guaranteed to serve these vital roles, it is likely that many of these groups will place a lower priority

² HUD, "The Flexible Voucher Program: Why A New Approach to Housing Subsidy Is Needed," May 18, 2004, p. 13, available on the internet at <http://www.hud.gov/offices/pih/programs/hcv/fvp/wponfvp.pdf>. HUD requested \$54 million less for voucher program administrative fees in 2005 than the level appropriated in 2004.

on supporting adequate funding for the program. In addition, the unwieldy patchwork of local rules that would emerge from a block grant, together with new restrictions on voucher portability that the block grant would permit, could lead to pressure from some advocates for consolidation of the voucher program at the state or regional level.

- **The bill would expand, rather than constrict, HUD's discretion**, by authorizing HUD to develop performance standards that could determine whether agencies may continue to administer the housing voucher program or are eligible for waivers under Moving to Work. In addition, beginning in 2008 after conclusion of negotiated rulemaking, HUD would determine the rules for funding each agency's voucher program, including administrative fees. At that point, annual funding also could vary based on HUD's assessment of agency performance. HUD could take away the voucher contract from an agency found not to be performing adequately and award it to a for-profit company or a faith-based or community-based entity. HUD could, behind closed doors, pick the entity to receive funds diverted from housing agencies. HUD would not be required to allow other PHAs to compete for the contract or even to disclose the criteria it used to determine who would be awarded the contract.

HUD's performance standards are likely to reflect its priorities, such as promoting homeownership and cost containment. (Both of these criteria are specified for evaluation of MTW agencies.) Well-managed agencies that set different priorities — such as serving the neediest families and people with disabilities in order to prevent homelessness — could be at risk.

Unlike the current statutory and regulatory rules, which change fairly slowly, the performance standards could easily be altered by HUD from year to year, resulting in constantly shifting mandates that undermine the predictability of PHAs' funding levels and programmatic structure. The annual changes in the Notices of Funding Availability (NOFAs) for HUD's competitive grant programs illustrate the types of changes HUD could make if given the opportunity to tweak its priorities each year. To pick merely one example, changes that HUD made to last year's NOFA for Section 8 voucher Family Self-Sufficiency (FSS) coordinators to reward homeownership activity led to the loss of all funding for about one-third of the PHAs with HUD-funded coordinators.

HUD may claim it will negotiate in good faith with PHAs on mutually acceptable funding and performance measurement rules, but one need only look to the agreement that HUD recently brokered with PHAs regarding the public housing operating formula — which HUD promptly broke — to realize that such promises are not reliable.

- **The bill will do little to ease funding pressure on public housing and could lead instead to further funding cuts and loss of units.** Some PHA staff may

believe that capping voucher funding through a block grant will increase the funding available to the public housing program. The real decline in public housing funding in recent years certainly is cause for concern. In light of the Administration's budget proposal to reduce domestic discretionary spending by \$214 billion in the five years from 2006 — 2010,³ however, it is most unlikely that HUD or Congress would reallocate money saved as a result of cuts in the voucher program to public housing. There is no budgetary rule that would compel Congress to use funds cut from the voucher program in future years for other housing programs, and no reason to expect that Congress would place a higher priority on restoring public housing funding than on other potential uses of those funds, such as cutting taxes or easing reductions in funding for politically popular programs elsewhere in the budget.

The elimination of the public housing rent rules also would undermine the ability of PHAs to advocate for adequate operating subsidies, since HUD could simply point out that agencies could obtain additional funds by raising tenant rents. HUD has recently used this type of argument to try to blunt criticism of proposed changes in the operating subsidy rule, highlighting PHAs' ability to retain the full amount of any increase in tenant rent payments as a way for PHAs to mitigate any loss of funding under the proposed rule.⁴

Moreover, while the flexibility afforded agencies in the MTW program to reduce the number of families served and use voucher funds to make up for deficits in public housing operating budgets may ease financial pressure on PHAs in the short term, this flexibility could very well be used to justify further cuts in public housing funding in the future. In recent years, Congress has frequently pointed to PHAs' ability to use public housing capital funds to meet operating costs to deflect criticism for failing to provide full funding for the operating subsidy formula.

If PHAs do not receive sufficient funds to maintain their public housing units in adequate condition, they may be forced to cease operating distressed projects. Under the "mandatory conversion" section of the Quality Housing and Work Responsibility Act, a PHA must convert distressed units to voucher assistance if it would be less expensive to provide vouchers to remaining tenants than to rehabilitate and operate the public housing project. HUD is expected to issue the final rule implementing this provision shortly. Ironically, if PHAs reduce the average cost of voucher assistance under the Flexible Voucher Program, this cost equation could compel them to cease operating public housing units.

Conclusion

³ See Jim Horney and Richard Kogan, "Assessing The Administration's Five-Year Appropriation "Caps," revised March 1, 2005, available on the internet at <http://www.cbpp.org/2-28-05bud.htm>

⁴ "Regulatory Impact Analysis of 'Revisions to the Public Housing Operating Fund Program,' (FR-4874-P-01)," available on the internet at http://www.hud.gov/offices/pih/publications/4874_op_fund_prop_ea.pdf.

The proposed HUD bill appears to promise greater autonomy for PHAs. But the relief from HUD mandates would come in exchange for greater HUD discretion to shift funding and set programmatic priorities. The lack of specific program rules will increase the likelihood of substantial reductions in future funding due to an inability to quantify the consequences of funding cuts and the rationale that PHAs can make programmatic changes that will generate savings to offset funding reductions. PHAs could well end up with fewer resources and less real ability to meet their communities' needs. If the voucher program is no longer considered to be successful, it will be difficult to garner additional resources to rebuild it should federal priorities change in the future.

An alternative approach to deregulation would be to work within the existing system to identify the specific statutory provisions and HUD regulations that are most burdensome and to propose changes that fix these particular problems. Under this approach, statutory and regulatory changes would be made to streamline program administration and strengthen predictability of funding and program structure, while maintaining the core structure of the public housing and voucher programs — a deep rental subsidy that covers the difference between the costs of housing and what low-income families can afford to pay. This is, after all, what makes public housing and the Section 8 programs unique.

Replacing this core model with a formless housing grant targeted on families with incomes at or below 60 percent of the area median income would start to blur the distinctions between these programs and the HOME block grant, which largely fits this same description. The forced merger of HOME and voucher funding could be a real risk, as illustrated by the Administration's proposal this year to merge the Community Development Block Grant with 17 other community development programs and cut funding for the merged programs by 30 percent on the grounds that the programs are duplicative. It is quite possible that such a merger would also transfer administration of the combined block grant to the fewer than 700 state and local entities that administer HOME funds, rather than the approximately 2,500 agencies that administer the voucher program.

To ensure the strongest possible basis for maintaining adequate funding levels for public housing and the Section 8 voucher program, the core structure of the program needs to be maintained. To strengthen funding and programmatic predictability for PHAs, HUD's discretion needs to be reduced, not increased, with a streamlined set of rules set by statute or regulation to minimize annual changes. The State and Local Housing Flexibility Act of 2005 would substantially undermine both of these core objectives.