

Will Fischer:

I'm going to talk about one of the specific block grant proposals that is on the table right now, which is to convert the housing voucher program to a block grant. The voucher program is the biggest federal low-income housing assistance program. Currently, there are a little over two million vouchers, and about 100,000 of those are in New York City.

Background on Housing Voucher Program

- There are currently about 2.1 million housing vouchers.
- Vouchers can be used to rent a housing unit of the family's choice that meets basic standards.
- Program is administered by state and local agencies.

Families are allowed to use vouchers to rent apartments in the private market, and typically the family pays about 30 percent of their income in rent and the voucher makes up the rest of it. The administration's proposal is called Housing Assistance to Needy Families, or HANF. That doesn't seem to be a coincidence that it rhymes with TANF. This would replace the voucher program in all states. There had been some talk that it would be optional for states, but that is not the case. It has been introduced as legislation in both houses of Congress. States would have a choice of whether to run the program themselves or turn it back over to the local agencies that mainly run it now, or else privatize the program.

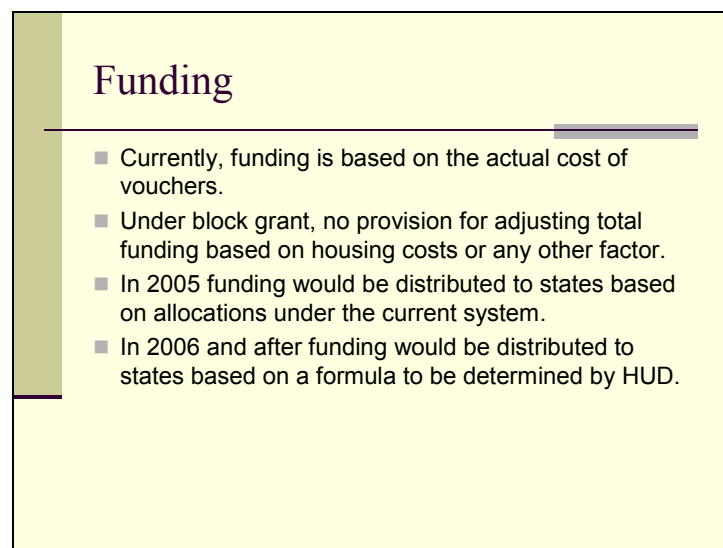
Block Grant Proposals in H.R. 1841 and S. 947

- Housing Assistance for Needy Families (HANF) would be established in 2005
- Would replace existing voucher program in all states
- States could run program themselves or through local PHAs, private companies, or faith- or community-based organizations

The biggest change and the one that carries the most risk is in the area of funding. Currently, the program is funded based on the actual cost of vouchers. So if there is any outside factor that causes those costs to go way up, like an increase in rents in the market, then that is covered.

Under the HANF proposal, there would be no provision for funding adjustments based on changes in housing costs or any other factor. Whatever the overall funding level is, it would be split up among states based on the current allocations initially, but then, after 2006, there would be a new formula that would be set up by HUD.

The existing allocations of vouchers among local areas would be gone under HANF. So it would be entirely up to states how to distribute the money locally. So New York State would be free to shift resources from New York City to upstate, or from upstate to New York City at its own discretion.



Funding

- Currently, funding is based on the actual cost of vouchers.
- Under block grant, no provision for adjusting total funding based on housing costs or any other factor.
- In 2005 funding would be distributed to states based on allocations under the current system.
- In 2006 and after funding would be distributed to states based on a formula to be determined by HUD.

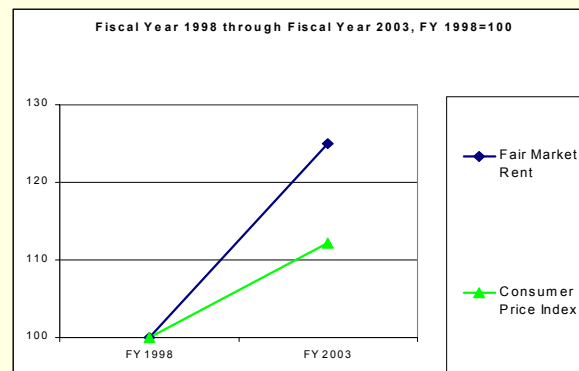
Because of this severing of the link between funding and the actual costs of vouchers, you have this risk that there is going to be an erosion of funding over time. The best evidence to think that this would happen is the same numbers that the other speakers have been talking about all day. The tendency with block grant programs has been that they've eroded relative to inflation. These 11 block grants that we've looked at have fallen by 11 percent.

Funding for Other Block Grants Has Not Kept Pace with Inflation

- Analysis of 11 block grants shows that inflation-adjusted funding has fallen by 11% since establishment of block grant (or 1982 if later)
- Excluding child care, funding for block grants fell 22%
- SSBG has lost 65% of its funding and LIHEAP has lost 53%

The thing with the voucher program is that even if it bucks this trend and manages to keep pace with inflation, that wouldn't be enough funding, because what matters with the voucher program is that it keep pace with housing costs. Lately the rate of increase in housing costs is much more rapid than in overall inflation.

Voucher Fair Market Rents Have Risen More Rapidly than Overall Inflation



You see one line goes sharply up and the other is a lot less; the upper line is a 25 percent increase in the fair market rents that determine how much vouchers can cover. The other line is the consumer price index between 1998 and 2003. So there's been a really big divergence between those two things. We did some calculations, that show, even in the optimistic scenario, that if the block grant was adjusted based on inflation, you would have a loss because of this much greater increase in rents, you would have a loss of about 13 percent of the value of the block grant. That would be equivalent to a cut of 260,000 vouchers nationally and in New York State of about 12,000 vouchers.

States Would Likely Be Forced to Impose Cuts

States would be able to:

- Reduce number of vouchers
- Shift assistance to higher income families
- Reduce the amount of rent that vouchers cover
- Raise rents paid by families with vouchers

States wouldn't necessarily impose these cuts just by cutting the number of vouchers. They would have a lot of options because there is all sorts of loosening of protections under the block grant.

I should say that all these things that I'm about to talk about wouldn't initially affect people who are receiving vouchers at the time the block grant is enacted because there is a grandfather clause that protects them for five years. But even that is subject to appropriations, so if the cuts were deep enough, even those people could be at risk. But the simplest option states would have is simply to reduce the number of vouchers. Currently, only about one in four people who are eligible for vouchers receive any kind of federal housing assistance and there are long and growing waiting lists in most parts of the country, so this would be something that would be felt and would hurt people.

The second option that the states would have is to shift assistance away from the neediest families to families of somewhat higher incomes. The block grant would weaken current rules that target vouchers on the poorest people. This would save money for states because it is cheaper to serve people with higher income because subsidies are income based.

The third option that states would have would be to reduce the amount of rent that vouchers cover. This would have serious negative effects because, as you know, units that have lower rents don't tend to be scattered around metropolitan areas. They tend to be in very poor neighborhoods, and so if you cut spending this way, it would be a lot harder for people to use vouchers to move out of those very poor neighborhoods to areas with more jobs, better schools, lower crime.

The fourth thing that states could do in response to funding erosion would be to raise the rent payments by families with vouchers. The administration has made a big deal of the provision in the bill that maintains a cap at 30 percent of the amount that families could be required to pay. But that would only apply during the family's first lease term. After that term – which is typically one year – states would be free to raise rents as they liked.

Another negative effect that the block grant could have would be on the participation of landlords in the program.

Currently a voucher is an assured source of rent and that is a major attraction to landlords. Under the block grant, they would be much less assured. You can see a statement by the National Association of Realtors and a number of landlord groups saying that they don't like this idea.

Block Grant Could Deter Landlords From Participating

- National Association of Realtors and six other owners groups, February 25, 2003:

"Apartment owners and managers look to uniformity and consistency of program rules and funding levels when deciding to participate as voucher landlords. HUD's proposal creates uncertainty in this regard, the result of which will have a chilling impact upon market participation in the program."

Now the Administration has put forward a number of claims supporting the block grant. Most of these don't hold. Rather, all of these don't hold up.

Administration Claims Regarding Housing Voucher Block Grant

- Would address problem of recaptures
- Would reduce subsidy overpayments
- Would allow consolidation to a more manageable number of agencies
- Would improve coordination with TANF

The first one has to do with the situation we've had in recent years, where there has been a lot of unspent money under the voucher program. But last year Congress passed some fixes to the funding mechanism that would address Section 8 recaptures, and when they're pressed, even HUD officials say that this problem has already been solved.

The second issue is a claim by the administration that this block grant would allow states to simplify rules for determining voucher payments and that this would allow them to reduce errors in those payments. It may be true that those rules could be simplified, but that could just as easily be done, and probably be done better, by simplifying the federal rules than by splitting up the states and passing the buck.

The third is that it would reduce the number of agencies and make the program more manageable. Currently there are 2,600 agencies that run the program. And it may be that there are too many. This isn't an issue in New York City where the agencies that run the program run tens of thousands of vouchers, but there are many small agencies around the country that run 100 or 200 vouchers. Again, this is something that could be done under the current program just as easily as it could be done with the states.

The last thing is that it would improve coordination with the welfare program – and again this is the same argument that this could be done easily; there are measures that could be taken under the current program. But the number of people on vouchers that rely on TANF is relatively small; it is only 13 percent of the caseload, so most of the people are disabled, elderly, or working poor families who wouldn't benefit from improved coordination anyway.

I'll just close by pointing out that I think it is hard to look at this proposal and not look at the larger funding context that the other speakers were talking about. The category that the voucher program is in is not an entitlement program. As Bob said, there is going to be \$168 billion cut in these programs according to the most recent budget resolution. That would have to come from a lot of different programs. Congress hasn't specified where it would come from, but it would be hard to imagine them getting serious cuts out of the voucher program without making this change. Or it would be much more difficult without making this change to the block grant program.

Budget Plans Call for Large Reductions in Category that Includes Voucher Program

- Budget resolution approved by Congress in April 2003 requires \$168 billion in cuts to domestic discretionary programs compared to CBO baseline over a ten-year period.
- Resolution doesn't say where reductions would come from, but many programs would need to be cut.

Thank you.