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Welfare Reform and Housing

Welfare Reform & Beyond

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Executive Summary

Housing plays a central role in the lives of families; it is the largest single cost for most families, and its location determines a parent's access to employment and a child's access to education. Despite the impact housing can have on the lives of low-income families, government housing programs are often overlooked as a work support for low-income families. Although the number of households that met the government's definition of "worst case housing needs" decreased from 1997 to 1999, 4.9 million very low-income renter households continue to spend at least half their income on housing or live in severely substandard housing without receiving government housing assistance. Housing problems continue, or even intensify, as families leave welfare for work. This policy brief examines how the federal government intervenes in housing markets and analyzes the important housing reforms currently under discussion. These include changing the administration of housing vouchers, imposing work requirements and time limits on families receiving housing benefits, converting housing subsidies to a cash benefit, and others. Although answers to the nation's housing challenges are not obvious, the connections between housing stability and work are. These connections should spur more discussion and creative action on housing reforms during the upcoming welfare reform reauthorization debate.

Housing is more than bricks and mortar. It is a key factor in determining a family's access to economic and educational opportunities, exposure to violence and environmental hazards, and ability to accumulate financial assets. Too few low-income families reap the positive benefits of living in stable and reasonably priced housing, and many frequently move in and out of undesirable or unsustainable housing. This lack of stable housing can create difficulties for parents trying to retain employment and can increase the likelihood that their children will have problems in school.

Despite being the single largest cost for most families, housing receives little attention in welfare reform debates. A recent report from the U.S. Department of Health and Human Services found that, although around 80 percent of families leaving welfare participate in the workforce to some degree, roughly 25 percent have trouble paying rent. The fact that low-income families have housing difficulties is not new, and housing experts have long cited the need for more affordable housing. What is new is the growing recognition that housing assistance can be an important support for working families, joining the battery of other work support programs such as food stamps, child care, Medicaid, child support enforcement, the Earned Income Tax Credit, and the child tax credit. Moreover, the greater flexibility in use of federal funds under the Temporary Assistance for Needy Families (TANF) program means that TANF funds can be used to help low-income families with their housing costs— although providing on-going housing assistance with federal TANF funds does

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count toward the maximum of five years that a given family can receive benefits from the TANF program. Yet debates over welfare reform and low-income housing are rarely joined together because the programs are under the jurisdiction of different agencies and congressional committees and have different funding cycles.

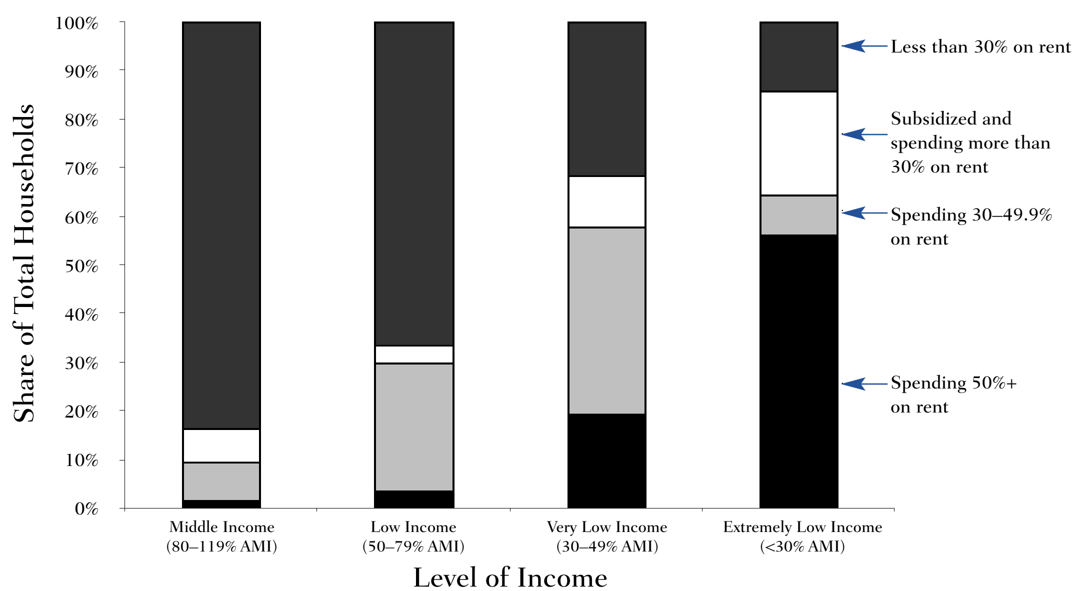
In this policy brief, we provide an overview of the current state of housing for low-income families, describe some current government interventions, and analyze a range of proposed housing reforms that Congress should consider as it debates reauthorization of the 1996 welfare reform law.

Housing Needs of Low-Income Families

Roughly 20 percent of all middle- to low-income households in the U.S., over 13 million in all, live in substandard housing or pay more than half of their income in housing costs, well above the affordability standard of 30 percent of gross income established by the U.S. Department of Housing and Urban Development (HUD). Whereas housing quality was the major housing problem in the decades leading up to the 1970s, today the leading problem for low-income families is affordability. While it is no surprise that poor families are disproportionately unable to afford housing, it may be surprising that more than 85 percent of renter households with incomes below 30 percent of area median income (AMI) spend more than 30 percent of their income on housing, with well over half of them spending more than 50 percent of their income on housing (figure 1, bar graph on far right).

To track the needs of poor families, every two years HUD publishes a report on renters without housing assistance who live in substandard housing or who pay more than half of their income in rent. This "worst case" housing report is a good proxy for the housing problems of current and former welfare recipients. Unlike studies that include households from all income levels, the worst case report limits the analysis to households with incomes under 50 percent of AMI defined as "very low-income" (table 1). In 1999, the latest year available, 4.9 million households had worst case housing needs.

Figure 1: Cost Burden for Housing Renters by Level of Income (1999)



Source: Harvard University, Joint Center for Housing Studies, Tabulations of 1999 American Housing Survey.

Area Median Income

Welfare programs generally use the federal poverty level as the primary measure for income eligibility. In contrast, housing programs use a locally calibrated measure—the percentage of the area median income (AMI). While the national average AMI was $52,500 in 2001, AMI ranged from $16,300 in Starr County, TX to $109,800 in Fairfield County, CT.

Using the national average:
30% of AMI = $15,750
50% of AMI = $26,250
Poverty line = $17,650 (family of 4)

The story in the worst case housing report is a straightforward one: in much of the country, there are more very low-income households than there are affordable housing units available to them. This shortfall affects renters with incomes less than 30 percent of AMI ("extremely low-income") the hardest. The shortfall in the number of units affordable to these households is made worse by the fact that almost half of units affordable to the poorest households are rented by households with higher incomes. As a result, for every one hundred extremely low-income renters in the nation, there are only thirty-nine units that are both affordable and available. The housing shortage particularly impacts renters in the western part of the U.S., where only twenty-five units are available and affordable for every one hundred extremely low-income renters.

Over the past eight years, the number of affordable rental units nationwide has declined. These decreases in the housing stock result primarily from rent increases that have pushed existing units out of the affordable range, rather than from demolition or other physical changes. Such rent increases are not universal. Rent increases were less than general inflation in twelve of the twenty-six largest metropolitan areas between 1997 and 2000. But affordability has reached very serious proportions in some housing markets such as San Francisco and Boston. To make matters worse, several factors may lead to a greater shortage of affordable housing in the future— these include rapidly increasing land costs, an aging stock, and a host of expiring federal arrangements, among them many properties that received federal subsidies in exchange for offering low-rent apartments that will reach the end of their 15-year affordability periods.

While the supply of affordable housing shrank in some parts of the nation, the number of working families increased. The share of worst case renters with children whose income derives primarily from earnings increased from 49 percent in 1993 to 68 percent in 1999.

Despite having jobs and earnings, many families continue to have trouble paying for their housing. The inability of working households to find available housing in a location and at a cost that permits self-sufficiency and stability poses a challenge both for those families and for the general objectives of welfare reform.

Government Housing Assistance Programs

Federal policies and programs influence both the supply of and demand for housing. In fiscal year 2001, the federal government dedicated $155 billion to housing assistance with about one-quarter of those funds targeted to low-income individuals. The remaining funding was provided in the form of tax breaks, the largest of which is the mortgage interest deduction, which cost $63 billion in 2001. HUD administers most of the funds targeted to low-income families. In this section, we divide federal housing programs into two groups: direct housing assistance designed to help individual families with their housing costs, and indirect housing programs designed to affect the housing markets in which low-income families live.

Direct Housing Assistance At a cost of $24 billion in 2001, 4.2 million low-income renters received assistance through public housing and Section 8. Roughly 1.3 million of those renters are tenants in public housing, 1.6 million receive vouchers to rent private market units of their choosing (known as Section 8 vouchers), and 1.3 million live in privately owned buildings with subsidies tied to the properties (known as project-based Section 8).

Public housing and Section 8 vouchers are operated through a decentralized network of roughly 4,000 local Public Housing Authorities (PHAs). Chartered by states and given significant autonomy to issue bonds and enter other long-term financing arrangements, PHAs generally operate at the local municipality or county level, often with multiple PHAs functioning in the same metropolitan area.

Like a lottery, direct housing assistance provides substantial benefits to the few households that receive it. With five- to ten-year waiting lists that are sometimes closed to new applicants, only one-fourth of those eligible for housing assistance actually receive it. Families receiving assistance pay about 30 percent of their adjusted gross income in rent, while the government pays the remainder. Although 1998 federal legislation gave local PHAs more authority to give preference to working families and required that PHAs disregard earnings in rent calculations for the newly employed, most PHAs have not yet taken full advantage of these work-support policies. As a result, every new dollar earned by low-income adults can mean an increase in rent of 30 cents as well as a potential loss in benefits from other work supports.

PHAs have little incentive and few resources to encourage or prepare their clients to move off direct housing assistance. Although HUD offers three such programs (Family Self-Sufficiency, Moving to Work, and homeownership options), these programs come with little or no additional funding and are only an option for local PHAs. Under Family Self-Sufficiency, families voluntarily sign a five-year contract during which they work toward specific employment goals. Increased rent due to increased earnings is saved in an escrow account designed to help participants buy a home or otherwise move off housing assistance, although there is no requirement to do so. The Moving to Work demonstration gives high-performing PHAs the opportunity to design and test innovative practices that promote self-sufficiency. Only twenty PHAs, however, are currently participating in the program. Likewise, few PHAs take advantage of their new authority to use the Section 8 voucher program to expand homeownership options and to sell all, or a portion of, a public housing development to eligible residents or resident organizations.

In addition to programmatic challenges, direct housing assistance programs face structural challenges. High maintenance and operating costs coupled with their reputation for fostering social problems have led policymakers to decrease public housing projects and, in many cases, to tear them down. Although HUD's HOPE VI program has successfully revitalized some public housing projects in the past five years, the unfunded backlog of needed repairs in HUD's public housing inventory averages $20,000 per unit. According to a report by the Joint Center for Housing Studies at Harvard, there is also concern about the potential loss of Section 8 units as the contracts of one million units expire by the year 2004, thereby allowing project owners to opt out of affordability agreements and to raise rents to market levels. And families receiving Section 8 vouchers who live in tight housing markets often have difficulty finding landlords who will accept their vouchers. Despite the voucher program's goal of encouraging residential mobility, most Section 8 families do not move into low-poverty neighborhoods unless explicitly required to do so by program rules. As a result, these families make short-distance moves, remaining in or near their original high-poverty neighborhoods, which are often characterized by high crime rates and a lack of job opportunities.

Indirect Housing Assistance Federal and local governments influence housing markets indirectly through a range of funding, taxing, and regulatory activities. HUD's largest production programs for increasing the supply of affordable units are the Community Development Block Grant (CDBG) and HOME, costing $4.8 billion and $1.7 billion respectively in 2001. For both of these programs, HUD allocates funding to a range of state and local jurisdictions, which then allocate resources to communities and housing producers. CDBG assists approximately 185,000 housing units annually, most for rehabilitation of existing owner-occupied homes. Since 1990, HOME program funds have been used to acquire, rehabilitate, or build over 500,000 housing units. These and other HUD funding streams are granted to local communities based on much-debated formulas that take into account housing stock, income levels, and unmet housing needs. Because each source of capital has its own affordability standard, rent ceiling, targeted population, and compliance mechanism, the use of CDBG and HOME funds can be complicated and multi-layered, at times causing difficulties for the direct-service agencies and developers who must layer the subsidies to reduce housing costs for tenants.

Another indirect program not administered by HUD is the Low-Income Housing Tax Credit, which cost $3.3 billion in 2001. With oversight from the U.S. Department of Treasury and state housing finance administrations, this program generates 60,000-80,000 new affordable apartments annually by providing tax credits to each state based on population. States distribute the tax credits to qualified developers who sell them to investors and use the capital generated by the transaction to pay part of the capital cost of the housing. The investor receives the federal subsidy only over time and through tax relief, after having proven that the project remains high in quality and available to low-income renters. While some states target their tax credits to lower-income families, without these targets developers are likely to serve only the upper limit of eligible renters (50-60 percent AMI) and gain the financing benefits of the program without offering units accessible to extremely low-income families.

Housing Reform Proposals

Given the dramatic decrease in the number of families receiving cash welfare and the resulting increase in the number of working low-income families, Congress has an opportunity to carefully examine federal housing policy to determine how best to accommodate the needs of the growing number of low-income working families. While there is widespread agreement that both direct and indirect housing assistance programs need improvement, there is little agreement on what those changes should be. Below are five of the most interesting proposals that Congress should consider.

Regional Administration of Section 8 Vouchers Recent reports on the Moving to Opportunity five-city demonstration project, which encourages Section 8 voucher families to move into low-poverty neighborhoods, have shown that such families see positive impacts on their health and safety as compared to families remaining in high-poverty neighborhoods. Proponents argue that regional administration of Section 8 vouchers would facilitate portability by reducing the number of Section 8 jurisdictions in a metropolitan area and by providing better housing counseling and search assistance. Under this proposal, HUD would select the administering agencies through a competitive process, potentially opening up the administration of vouchers to a wider variety of public, for-profit, and non-profit entities. Given the current difficulty finding landlords willing to accept Section 8 vouchers, some opponents argue that large-scale portability is not feasible without significant additional funds for housing search assistance. Others disagree with the very concept of integrating the poor into higher income neighborhoods, asserting that portability may weaken the important informal support that poor families must leave to move to higher-income neighborhoods.

Work Requirements and Time Limits A proposal that is sure to generate controversy is the establishment of mandatory work requirements and time limits on housing assistance for families headed by an able-bodied adult that live in public housing. Like recent efforts in welfare reform, time limits would change direct housing assistance into a transitional benefit by adding a sense of urgency for both the participants and for housing agencies. To be successful, however, PHAs would either have to provide augmented case management and employment services themselves or coordinate with local job programs, probably through the one-stop centers established under the Workforce Investment Act. In either case, additional funding would be required. Time limits are being tested in nine Moving to Work demonstrations, although these evaluations have not yet had enough time to produce results.

Convert Housing Aid to Cash The most radical proposal for housing reform is to eliminate federal housing initiatives altogether and provide direct housing assistance only through cash transfer programs such as the Earned Income Tax Credit. One approach would be to cover one-half of housing costs in excess of 30 percent of income, capped at the fair market rent of the jurisdiction. Determining and administering the adjustable housing add-on could become very complicated, although a similar adjustment is made in the food stamp program. Another administrative issue with an EITC-like approach would be working out a mechanism to provide housing subsidies on a monthly basis. The Department of Treasury, which now makes EITC payments almost exclusively on an annual basis, is ill-equipped to handle monthly payments. In addition, PHAs and other housing assistance providers will likely fight any proposal that eliminates the long-standing role of the federal government and local housing authorities in owning and operating housing for the poor.

Housing Trust Fund A coalition of organizations and elected officials is endorsing the establishment of a national trust fund to build and preserve 1.5 million rental units affordable to extremely low-income families over the next 10 years. Like state and local trust funds, the national trust fund would use on-going revenues from dedicated sources of funding such as the excess Federal Housing Administration (FHA) and Government National Mortgage Association revenue derived from lower than expected home loan default rates. Trust fund proponents argue that the excess revenue, which is normally returned to the federal treasury, should go to support the nation's affordable housing goals, whereas critics want to return the surpluses to low- and moderate-income FHA-insured homeowners as a rebate or reduction in their premiums. Critics also challenge the effectiveness of yet another source of capital layered upon many existing- and complicated- funding streams.

Deter Exclusionary Zoning Many local governments set zoning rules in ways that discourage reasonably priced housing. Minimum lot-size requirements, square-footage standards, prohibitions on accessory housing units, and occupancy standards that ban non-related households all conspire against a diverse, affordable housing stock. Congress could create incentives to influence local governments to be less parochial in their zoning decisions. Because local governments have almost complete control over zoning rules, designing these incentives in ways that are palatable to affluent areas is difficult, but not impossible.

Connecting Housing and Welfare

Most of the housing policy options described in this brief are long-term solutions. In the interim, welfare agencies, PHAs, and other housing providers and developers can work together to address the more immediate housing concerns of low-income working families as they transition from welfare to work. Some short-term changes include:

- enforcing the housing earned income disregard requirement created in 1998;
- expanding Individual Development Accounts to help families save for a down payment on a home;
- removing the barriers to housing assistance for two-parent families;
- providing housing advice and search assistance, as well as stop-gap housing assistance through local one-stop job centers to help families avoid homelessness; and
- changing the TANF program so that housing assistance paid for by TANF funds does not count against a family's five-year time limit.

The coming year provides an opportunity to bring together two currently unconnected debates in the halls of Congress—reauthorization of welfare reform and publication of the bipartisan Congressional Millennial Housing Commission report on improving federal housing policy. The Bush administration and the leadership in both houses of Congress should use these two events to stimulate a thorough examination of the federal role in helping low-income families obtain decent housing while maintaining and further promoting work incentives. At the very least, the administration and Congress should fund experiments to test many of the proposals reviewed here. Improving the coordination between housing, cash welfare, and work programs should be high on the public policy agenda for 2002.

The views expressed in this Welfare Reform & Beyond Policy Brief are those of the authors and are not necessarily those of the trustees, officers, or other staff members of the Brookings Institution.

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