NEW AMERICA FOUNDATION
ASSET BUILDING PROGRAM

ISSUE BRIEF

September 2005

SHORING UP HUD'S FAMILY SELF-SUFFICIENCY PROGRAM:
RECOMMENDATIONS FOR CONGRESSIONAL ACTION

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EXECUTIVE SUMMARY

While consuming only a tiny fraction of the Department of Housing and Urban Development's (HUD) budget, the Family Self-Sufficiency (FSS) program is one of the nation's largest programs designed to help working poor families increase their savings and build assets. The program has three primary components – stable, affordable housing, asset-building escrow accounts and work-promoting case management – that function together to help families build assets and increase their earnings. The program is open to families receiving federal housing assistance through the public housing or Section 8 housing voucher programs. When the earnings of program participants increase, their rising rent payments are diverted into an escrow account which they can access after achieving their self-sufficiency goals. To date, evidence indicates that participation in FSS is linked to increased earnings, self-sufficiency, asset-building and homeownership.

Despite a proven track record, FSS faces an uncertain future. The greatest challenge is the instability of FSS funding, and the current appropriations bills under consideration by Congress could accelerate the program's decline. The main body of this report details the specific funding issues impacting three of the four separate accounts that fund FSS.

Most of the problems FSS faces can be fixed within current or requested funding levels for HUD without significantly impacting other HUD programs. By adopting the recommendations proposed in this paper, Congress can help to stabilize funding for FSS and reaffirm the nation's commitment to this successful program.

To stabilize funding for the FSS program, Congress should:

1. Provide the full $55 million requested by the Administration for Section 8 FSS Coordinators and direct HUD to distribute these funds in a manner that ensures that each agency with an FSS program of 25 or more slots receives funding for *at least* one coordinator.
2. Provide the $45 million included in the Senate Conference Report for the ROSS Program that HUD uses to fund public housing FSS coordinators, rather than the $24 million proposed by the House.
3. Direct HUD to specify, in a PIH Notice implementing the final public housing operating fund rule, that, in addition to an overall coordinator of a PHA's self-sufficiency activities, each PHA with a FSS program of at least 25 slots may obtain reimbursement through the operating fund for the costs of its first public housing FSS coordinator.
4. Investigate and address the adverse consequences of the new Section 8 voucher funding mechanism on housing authority participation in the FSS program.

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INTRODUCTION

The Family Self-Sufficiency (FSS) program has proven to be a promising strategy for helping poor families in public housing and the housing voucher program build assets and make progress toward self-sufficiency and homeownership. While consuming only a tiny fraction of the Department of Housing and Urban Development's (HUD) budget, FSS is one of the nation's largest programs designed to help working poor families increase their savings and build assets. Currently serving some 73,000 families, FSS provides a strong and unique program design that helps low-income families gain entry to an ownership society.

Despite a proven track record, FSS faces an uncertain future. In the short term, its funding sources have been undermined by changes in the manner in which federal housing assistance is allocated. In the long term, FSS needs a strong, visible commitment by the federal government to build on its success.

The impact of this uncertainty has already been felt as HUD data suggest there are 2,000 fewer participants in the program than there were just a year ago, and the decline appears to be continuing. The current appropriations bills under consideration by Congress could accelerate the program's decline by reducing the funding available for the coordinators that help link participants to needed services—an essential component of the FSS program. A more stable funding stream is a prerequisite for the program's long-term success.

Following a brief overview of FSS, this paper describes the funding issues affecting FSS and presents a series of proposed reforms that would provide meaningful support for this key asset-building program.

OVERVIEW OF FSS

Established in 1990 based on a proposal by the first President Bush, FSS is designed to promote employment and boost the assets of low-income families receiving federal housing assistance. FSS works by combining (a) stable affordable housing, provided through one of two HUD programs (public housing or the Section 8 housing voucher program that helps families rent apartments they locate on the open market), with (b) case management to help families access the services they may need to increase their earnings and (c) a strong financial incentive for families to increase their earnings, in the form of an asset-building escrow account.[2]

Here's how the FSS program works:

- **Case Management**. When a new participant enrolls in FSS, he or she meets with a case manager who helps the participant develop a personalized self-sufficiency plan and refers the participant to support services he or she may need to overcome barriers to work and achieve other goals in the plan. Examples of services to which participants are referred include employment search, employment training, high school or post-secondary education, financial literacy education, child care, and transportation assistance.

- **Asset-Building Escrow Accounts**. As with other families in public housing or the Section 8 voucher program, as the earnings of FSS participants increase, they pay more in rent. FSS participants, however, have an opportunity to recover some or all of these increased rent payments. Under FSS, an amount approximately equal to the increased rent due to increased earnings is deposited into an escrow account that participants receive if they successfully graduate from FSS. To graduate successfully, FSS participants must become independent of welfare assistance and achieve employment as well as any other goals set out in their individual plans. This creates an opportunity for savings, as well as an incentive for participants to make progress toward self-sufficiency.

Illustrative of the great promise of FSS is the Portland, Oregon FSS program, where the average annual earnings of 120 FSS graduates jumped from $4,000 when they entered the program to $17,500 at graduation, with all graduates transitioning off of welfare cash assistance. Graduates of the Portland program also amassed an average of $6,000 in savings through FSS, and about 40 percent of them went on to purchase

[2] Cramer and Lubell (2005).

homes. When one considers Portland's high housing costs and the extremely low incomes of families when they entered the program, this homeownership rate is exceptional as well. Only a third of program graduates were still in subsidized housing at the time of a follow-up survey.[3]

Similarly strong results were found in a survey of 19 FSS programs around the country.[4] Although more extensive evaluation would be welcome, the evidence to date indicates that participation in the FSS program is linked to increased earnings, self-sufficiency, asset-building and homeownership. As these outcomes are primary and bi-partisan policy objectives, there is a strong case to be made for stabilizing and expanding FSS.

FUNDING ISSUES AFFECTING FSS

The greatest challenge facing FSS today is the instability of its funding. Recent changes by HUD to its procedures for allocating administrative funding for FSS have led to the loss of funding for many successful programs. In addition, problems and uncertainties have been created for the FSS program when broad changes and reforms have been adopted or proposed for the larger housing programs – public housing and the Section 8 housing voucher program – through which FSS operates. Yet most of these problems could be fixed for the FSS program within current or requested funding levels without significantly impacting other HUD programs.

Because FSS combines escrow accounts with case management support to help families access needed services and operates as an add-on to both the public housing and housing voucher programs, funding is provided through four separate HUD accounts.

Specifically, funding is provided separately by Congress to cover each of the following:

- FSS program staff serving public housing residents (funded through the ROSS program);
- FSS program staff serving Section 8 voucher holders (funded as a set-aside within the tenant-based rental assistance account);
- FSS escrow costs for public housing residents (funded through the public housing operating fund); and
- FSS escrow costs for Section 8 voucher-holders (funded as part of the housing assistance payments under the tenant-based rental assistance account).

To reverse declines in FSS participation and ensure the ongoing success of FSS, it is vital that these funding streams be made more predictable and reliable.

A. Funding for FSS Program Staff

Program staff that offer case management services to help participants access existing work-promoting services in the community is an essential component of the FSS program design. These services are necessary to ensure that each participant develops a self-sufficiency plan that includes specific, achievable goals and is able to access appropriate support services, such as child care, job training, and G.E.D. and post-secondary education.

1. Public Housing FSS Coordinators

Up until FY 2004, the FSS coordinator costs for programs serving public housing residents were funded as an eligible expense under the public housing operating fund. In FY 2004, HUD changed the funding source to a

[3] Gibson (2003). It is important to note that this evaluation covers a period ('97-'01) of strong economic growth. Earnings growth among FSS participants has apparently slowed during the more difficult economic conditions of recent years.

[4] Data on the outcomes of FSS programs are summarized in Lubell (2004).

competitive funding process through the Resident Opportunity and Self Sufficiency (ROSS) program, which provides flexible funds to pay for support services. ROSS was used again as the funding source in FY 2005 and in the FY 2006 request.

This change has had three adverse ramifications. First, because of the way HUD drafted the FY 2004 ROSS Notice of Funding Availability for public housing FSS coordinators, numerous public housing FSS programs lost coordinator funding in 2004 as a result of procedural application mistakes unrelated to the substance of their proposals.

Second, this change has increased the administrative burden for housing agencies and HUD alike. In contrast to the previous funding process that delivered administrative FSS resources through the operating fund, housing agencies now must compete annually simply to renew the grants of their existing FSS coordinators. This process consumes considerable time and energy and undermines program stability.

Third, this change has made the public housing FSS program vulnerable to proposed cuts in the ROSS program. For 2006, the Administration has proposed reducing ROSS funding from $53.5 million to $24 million. While HUD has not indicated how it will divide this funding between the traditional ROSS program and the FSS program, it appears likely that the reduced funding level, if accepted by Congress, would devastate either FSS or the ROSS program, or potentially both of them.

ROSS is an important program for housing authorities because it is one of the only sources of flexible funding available to help them address gaps in the social service infrastructure needed to help public housing residents make progress toward self-sufficiency. But cuts in the funding level for FSS coordinators would lead directly to reductions in the number of families participating in the public housing FSS program.

At this point, funding levels for 2006 are unclear. The House Appropriations Committee report includes $24 million for the ROSS program, while the Senate Committee report provides $45 million. Both proposed levels are well below the $53.5 million provided by Congress in FY 2005.

The Senate's proposed funding level for ROSS would clearly provide more funds than the House proposal for both the traditional ROSS program and the public housing FSS coordinators funded through the ROSS account. But even under the funding level proposed by the Senate, there would be a deficit of $8 to $10 million relative to recent funding levels for these programs. One strategy for increasing stability of funding for public housing FSS coordinators, while relieving pressure on the shortchanged ROSS account, would be to shift how HUD funds public housing FSS coordinators. This could be accomplished with the following two changes:

> 1. Through the public housing operating fund, reimburse each public housing agency with an approved public housing FSS program size of 25 slots or more for the costs of one FSS coordinator. (This policy – essentially a return to HUD's pre-2004 policy – in any event appears to be required by Section 23(h)(2) of the United States Housing Act of 1937.[5])
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> The final public housing operating fund rule, published on Sept. 19, 2005, authorizes PHAs to request additional operating funding to cover "program coordinator(s) and associated costs in accordance with HUD's self-sufficiency program regulations and notices." 24 CFR 990.190. Under this authority, HUD could (and should) issue a PIH Notice specifying that, in addition to an overall coordinator of a PHA's self-sufficiency activities, each PHA with a FSS program of at least 25 slots may obtain reimbursement through the operating fund for the costs of its first public housing FSS coordinator.

[5] This provision of the FSS authorizing statute states: "Notwithstanding any provision of section 1437g of this title, the Secretary shall provide for inclusion under the performance funding system under section 1437g of this title of reasonable and eligible administrative costs (including the costs of employing a full-time service coordinator) incurred by public housing agencies carrying out local programs under this section." 42 USC 1437u(h)(2).

2. Provide a modest amount of additional funding on a competitive basis through the ROSS program to allow housing agencies to grow their public housing FSS programs beyond the minimal size that could be supported with a single FSS coordinator. To ensure program continuity and minimize the burden of annual applications, this funding should ideally be multi-year, as is the case with other ROSS funding.

Recommendation*: The $45 million Senate funding level for ROSS provides far greater protection for the FSS program than the $24 million House level. Nevertheless, it appears the Senate level would still lead to a reduction in funding either for the traditional ROSS program or for public housing FSS coordinators. One solution would be combine the Senate's $45 million funding level for ROSS with a return to the prior policy of using the public housing operating fund to provide core funding for public housing FSS coordinators. This approach would provide greater stability for public housing FSS coordinator funding, while minimizing the need for cuts in public housing FSS coordinators or services funded through ROSS.*

2. ***Section 8 FSS Coordinators***.

Funding for FSS coordinators in the Section 8 housing voucher program are provided by a set-aside within the tenant based rental assistance funding that is awarded competitively through an annual Notice of Funding Availability.

Due to changes in the way HUD awarded FY 2004 Section 8 FSS coordinator funds, about one-third (256) of the 771 agencies that received FY 2003 FSS coordinator funding lost all FSS coordinator funding from HUD.[6] Many of the agencies that lost coordinator funding have frozen FSS enrollment, leading to caseload reductions through attrition. Due variously to the loss of FSS coordinator funding, reductions in housing voucher funding caused by the new Section 8 funding caps (see below), and the general uncertainty surrounding future funding for FSS, some programs have decided to shut down their FSS programs altogether.

While HUD has not yet awarded FY 2005 FSS coordinator funds, it appears likely that only some of the agencies that lost funding in FY 2004 will have their funding restored. The problem lies in a combination of HUD's procedures for allocating available funding and the fact that the funding level for this activity ($45.6 million in 2005) has declined somewhat from the $48 million Congress provided in FY 2004.

Proposed 2006 Funding Levels. Reflecting HUD's support for the FSS program and a favorable OMB review, the Administration has requested an increase in Section 8 FSS coordinator funding for FY 2006 to $55 million. The increased funding would allow HUD to restore funding to many of the FSS programs that lost it, as well as continue to support efforts to help FSS participants become homeowners.

The House Appropriations Committee report includes $45 million for Section 8 FSS Coordinators, while the Senate Committee report includes $48 million.

Allocation Issues. Adopting the Administration's proposed funding level for Section 8 FSS Coordinators, rather than the levels proposed by the Senate or the House, would go a long way to helping to restore funding for programs that lost it. But changes are also needed in the way that HUD awards appropriated funds to ensure that they are distributed efficiently and equitably. The best short-term fix would be to direct HUD to distribute FSS coordinator funding in such a way that every Section 8 FSS program in the country with at least 25 approved slots would be automatically eligible to receive funding for at least one FSS coordinator. This solution would ensure at least minimal support for all FSS programs, while preserving HUD discretion to allocate any remaining funding. In the long-term, Congress should consider creating a new administrative fee for the Section 8 voucher program which could fund a staff position for every program with at least 25 slots. This would create stability by avoiding the burden of reapplying for staff support each year. Funding for additional FSS coordinators to allow housing agencies to grow their FSS programs beyond the minimal size could then be allocated competitively, ideally in multi-year grants.

[6] While some 75 housing agencies that did not get funded in the prior year received FY 2004 funding, the net number of agencies receiving FY 2004 funding declined by 181 from the prior year – a drop of nearly one-fourth.

Recommendation: *The $48 million Senate level for Section 8 FSS coordinators provides more support for FSS than the $45 million House level, but the Administration's request of $55 million would allow FSS to provide asset-building opportunities to the greatest number of low-income families. By combining the Administration's requested level with a direction to HUD to distribute funding in such a way that every housing agency with a Section 8 FSS program of at least 25 slots is automatically eligible to receive funding for at least one full-time FSS coordinator, Congress could restore funding to all or nearly all FSS programs, while preserving HUD discretion to award remaining coordinator funding.*

B. Funding for FSS Escrow Accounts

As noted above, a key feature of FSS is the ability of program participants to build savings through FSS escrow accounts. While the new public housing operating fund rule provides welcome clarification that HUD plans to continue funding public housing escrow accounts through the operating fund, escrow account funding for FSS participants with Section 8 vouchers is far less stable and in need of congressional attention.

1. Public Housing FSS Escrow Accounts

Under current HUD policy, housing agencies are reimbursed for the escrow costs associated with FSS participants in public housing through the public housing operating fund. In general, this funding mechanism appears to work reasonably well.

In the preamble to HUD's September 19, 2005 final rule on changes to the public housing operating fund, HUD clarifies that it plans to continue this policy

Recommendation: *HUD should be commended for clarifying the continued availability of funding for public housing FSS escrow accounts in the final public housing operating fund rule.*

2. Section 8 FSS Escrow Accounts

The escrow accounts that help FSS participants with Section 8 housing vouchers build assets are funded as one component of the housing assistance payments (HAP) funding provided by HUD to state and local housing voucher programs. Unfortunately, the new procedures that went into effect in FY 2004 to allocate HAP funds have had unintended negative consequences for local FSS programs.

Instead of receiving reimbursement for their actual program costs, housing agencies now receive a flat dollar amount based on the prior year's spending plus an inflationary factor. Under the new funding mechanism, many voucher programs have received insufficient funds to cover their current program costs. In an effort to avoid or minimize reductions in the number of families receiving housing assistance, a growing number of agencies have responded by adopting the alternative cost-cutting measure of suspending new admissions to the FSS program, leading to reductions in FSS program size through attrition.

Both the House and Senate committee reports include revisions to the Section 8 allocation process that should help address some of the adverse consequences caused by the Section 8 funding caps. The Senate goes further than the House by basing renewal funding on the most recent 12 months of leasing and cost data available, increasing the likelihood of realistic caps. Under both bills, however, many agencies will still feel compelled to reduce their FSS programs to ensure they have adequate funding for their core Section 8 voucher programs.

Recommendation: *In addition to fully funding the housing voucher program and addressing general problems with the voucher funding caps, Congress and HUD should address the adverse consequences of the new voucher funding mechanism on FSS. Housing agencies should not be forced to reduce the number of families provided housing assistance in order to participate actively in FSS.*[7]

[7] If the Administration's proposal for a Flexible Voucher Program (FVP) were to pass, it appears that HUD would no longer provide dedicated funding for FSS coordinators or escrow. Rather, agencies would receive a block grant that they could choose to spend on any number of different housing-related activities. While FSS would be an eligible expense for FVP

Recommendations for Congressional Action

A. Funding for FSS Program Staff	
Public Housing *(Currently funded as a component of the Resident Opportunity and Self-Sufficiency (ROSS) program.)*	• Adopt the $45 million funding level for the ROSS program that HUD currently uses to fund public housing FSS coordinators, rather than the $24 million proposed by the House. • Because the Senate's proposal is still $8.5 - $10 million below historical ROSS funding levels, additional steps will be needed to ensure full functioning of both the FSS and ROSS programs. • Congress should direct HUD to specify, in a PIH Notice implementing the final public housing operating fund rule, that, in addition to an overall coordinator of a PHA's self-sufficiency activities, each PHA with a FSS program of at least 25 slots may obtain reimbursement through the operating fund for the costs of its first public housing FSS coordinator.. • Additional FSS coordinators should be funded through competitive grants under the ROSS program. This will enable FSS programs to serve more than a minimal number of families. To ensure program stability, these grants should be for multi-year periods.
Section 8 Housing Vouchers *(Funded as a set-aside within the Tenant-Based Rental Assistance account.)*	• Support Administration's request of $55 million for Section 8 FSS coordinators, rather than the lower levels proposed by Congress. • Direct HUD to distribute appropriated funds for FSS coordinators so every FSS program with at least 25 slots automatically receives funding for at least one FSS coordinator. • Provide HUD with discretion over distribution of balance of funds.
B. Funding for FSS Escrow Accounts	
Public Housing *(Funded through the Public Housing Operating Fund.)*	• None. HUD recently clarified the continued availability of operating funds for public housing FSS escrow accounts.
Section 8 Housing Vouchers *(A component of the Housing Assistance Payments funded through the Tenant-Based Rental Assistance account.)*	• Investigate and address the adverse consequences of the new voucher funding mechanism on housing authority participation in the FSS program.

funds, past experience suggests that most housing agencies will choose to spend the funds on housing assistance, rather than asset-building programs like FSS. If the Administration wants to preserve FSS as an asset-building tool for low-income families in a FVP world, it will need to ensure that dedicated funds are made available for FSS that cannot be spent on other programs or services.

CONCLUSION

The FSS Program has quietly grown into one of the nation's most promising programs for helping the working poor build assets and gain entry to an Ownership Society. Unfortunately, its low profile has left it vulnerable to the unintended consequences of policy changes that have been enacted or proposed for the much larger public housing and Section 8 voucher programs. By adopting the recommendations proposed in this paper, Congress can help to stabilize funding for FSS and reaffirm the nation's commitment to this successful program.

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