Recommendations for Strengthening HUD's Family Self-Sufficiency Program

Background

HUD's Family Self-Sufficiency (FSS) program is a proven approach for helping families in public housing and the Housing Choice Voucher program build assets and make progress toward self-sufficiency and homeownership. FSS works by combining (a) stable, affordable housing with (b) service coordination to help families access services needed to overcome barriers to work and achieve other goals and (c) an escrow account that grows as families' earnings grow. The escrow account functions as both an asset-building vehicle and a tangible financial incentive for families to increase their earnings.

Established in 1990 based on a proposal by the first President Bush, FSS currently serves approximately 71,300 families: 63,000 Housing Choice Voucher participants and 8,300 public housing residents.[1] According to a recent HUD program evaluation, FSS program participants experience much greater income gains and much larger welfare declines than non-participants.[2] On average, FSS graduates also accumulate about $3,000 in savings. While the HUD evaluation does not provide data on homeownership outcomes, other data suggest that as many as one-third of the graduates of successful FSS programs go on to homeownership.[3]

Issue

Despite the great benefits of FSS in helping families achieve self-sufficiency and homeownership, enrollment in FSS has *declined sharply* over the past two years. According to HUD records, in the 20-month period ending in November 2005, the number of Housing Choice Voucher families enrolled in FSS declined by about 4,700. While the number of public housing residents enrolled in FSS experienced a modest increase of about 600 families, there was still a net decline in FSS participation over this period of some 4,000 families.

The decline in FSS participation appears to be related principally to the unintended consequences of changes in both the HUD Notice of Funding Availability (NOFA) for Housing Choice Voucher FSS Coordinators and the overall procedures for allocating Housing Choice Voucher funds. The sharp reduction in the FY 2006 funding level (and the even sharper reduction proposed for FY 2007) in the Resident Opportunities and Self-Sufficiency (ROSS) program, which HUD currently uses to fund public housing FSS coordinators, could lead to similar problems in the public housing FSS program.

Summary of Recommendations

To prevent further declines in FSS program participation, there is an urgent need to stabilize funding for FSS. As described more fully in the next section, this could be accomplished, within current HUD funding levels, by implementing the following recommendations:

1. HUD should revise the Housing Choice Voucher FSS Coordinator NOFA to distribute appropriated funds more equitably and efficiently.

2. Congress should adopt the "fix" included in the Administration's FY 2007 Budget Request to fund contributions to FSS escrow accounts *before* the balance of Housing Choice Voucher funds are distributed to housing agencies.

3. HUD should issue a PIH Notice authorizing Public Housing Agencies to request additional Public Housing Operating Funds to cover the costs of one public housing FSS coordinator, as specified in Section 23(h)(2) of the United States Housing Act of 1937. In addition, HUD should request, and Congress should provide, the funding needed to fully support public housing operating costs.

4. HUD and Congress should restore funding for the ROSS program to historic levels and increase its stability by funding it as an ongoing, dedicated program (rather than a set-aside within the public housing capital fund).

Once the immediate problems have been fixed, HUD should initiate discussions with Congress, practitioners, AASC, CFED, FSS Partnerships, NAHRO, the National Low Income Housing Coalition (NLIHC), New America Foundation and other stakeholders to discuss how to provide long-term stability and support for the FSS program so that it can help more families build assets and make progress toward self-sufficiency and homeownership. Several recommendations for long-term funding solutions are included below. We also recommend that:

5. HUD should reach out to federal and state agencies to encourage them to partner with HUD and public housing agencies to support an expansion in the number of families benefiting from FSS.

Detailed Recommendations

The following are additional details on our immediate and long-term recommendations for strengthening FSS.

1. HUD should revise the Housing Choice Voucher FSS Coordinator NOFA to distribute appropriated funds more equitably and efficiently.

Issues. In FY 2004, HUD made major changes in the procedures used to distribute Housing Choice Voucher FSS coordinator funding, which led to the total loss of coordinator funding by about one-third (256) of the 771 agencies that received this funding in FY 2003.[4] While these changes appear to have been motivated by a desire to encourage FSS programs to more actively promote homeownership, the effect was to *undermine* efforts to promote homeownership among FSS participants by depriving many housing agencies of the administrative funding needed to run their basic FSS programs. This major upheaval in FSS coordinator funding, combined with the additional complexity HUD introduced in FY 2005 in a largely unsuccessful attempt to partially fix the problem,[5] and the introduction of yet another set of funding criteria in the FY 2006 NOFA,[6] highlights the inherent instability and inefficiency of requiring agencies to apply for competitive funding each year to fund the administrative costs associated with an ongoing program like FSS.

Short-Term Solution. The best short-term solution would be to revise the Housing Choice Voucher FSS Coordinator NOFA to automatically provide *each* agency with a FSS program of at least 25 approved slots – regardless of whether they have received funding in the past – with funding for at least one FSS coordinator. HUD should then meet with program stakeholders to determine how best to allocate remaining funds.

Long-Term Solution. Over the long-run, it would be much more efficient and provide FSS with much more stability to fund the costs of administering ongoing FSS programs through a special add-on to housing agency administrative fees, rather than through a NOFA.

2. Congress should adopt the "fix" included in the Administration's FY 2007 Budget Request to fund contributions to FSS escrow accounts *before* the balance of Housing Choice Voucher funds are distributed to housing agencies.

Issue: Over the last several years, Congress and HUD have established firm limits on the amount of Housing Choice Voucher funding available to individual housing agencies. In response to the fiscal pressures created by these funding caps, some housing agencies have chosen to reduce the size of their FSS programs in order to free up funds to augment their basic housing voucher programs.[7] While this may well be a rational response by the housing agencies to the new funding system, it has the unfortunate impact of undermining the larger goals of self-sufficiency, asset-building and homeownership.

In its FY 2007 Budget Request, the Administration proposed a fix that would solve this problem by reimbursing housing agencies for contributions to FSS escrow accounts *before* the balance of Housing Choice Voucher funds are distributed to housing agencies.[8] If this provision were enacted, housing agencies would no longer be faced with the Hobson's choice of funding FSS or their regular Housing Choice Voucher program.

Solution: To eliminate the unintended incentives the new funding formula creates for housing agencies to reduce the size of their FSS programs, Congress should adopt the Administration's proposed fix. As the total amount of annual FSS escrow deposits (net of FSS escrow recoveries) appears to be small in budgetary terms (about $15 to 30 million, compared with some $14 billion for the voucher program overall), adding funds to the voucher budget to implement this change would not have a significant budgetary impact.

3. HUD should issue a PIH Notice authorizing Public Housing Agencies to request additional public housing operating funds to cover the costs of one public housing FSS coordinator.

Issue: Section 23(h)(2) of the United States Housing Act of 1937 specifies that HUD should provide agencies running public housing FSS programs with funds to cover the costs of one FSS coordinator through an add-on to the public housing operating fund.[9] Prior to FY 2004, HUD followed this congressionally-specified procedure and also allowed agencies to apply for multi-year grants for additional public housing FSS coordinators through the competitive Resident Opportunities and Self-Sufficiency (ROSS) program.

For reasons that are still unclear, HUD shifted the source of funding for public housing FSS coordinators in FY 2004 entirely to the ROSS program and limited grants to one year of funding.[10] These changes had three adverse consequences: (a) they created an administrative burden for both HUD and housing agencies by requiring agencies to go through a competitive funding process each year to fund the annual administrative costs of running an ongoing program; (b) they created substantial dislocation when many agencies with ongoing FSS programs were disqualified for the new funding for technical reasons that had nothing to do with the success of their program; and (c) they left FSS vulnerable to cuts in the ROSS program, such as those that have been made for FY 2006 and proposed for FY 2007.

The vulnerability caused by shifting FSS coordinator funding to ROSS is significant. Between FY 2001 and FY 2004, ROSS was funded annually at $55 million. After a slight drop in ROSS funding in FY 2005 to $53.5 million, HUD proposed a severe 55 percent cut in ROSS funding for FY 2006 to $24 million. In the final FY 2006 appropriations bill, Congress provided $38 million – significantly more than proposed by the Administration, but still 30 percent below historic levels. For FY 2007, the Administration has again proposed a sharply reduced funding level for ROSS of $23.8 million.

Short-Term Solution: As specified by the FSS statute, HUD should return to the system it utilized prior to FY 2004 of providing each agency running a FSS program with additional public housing operating funds to cover the costs of one FSS coordinator. As was HUD's previous practice, HUD should also allow agencies with larger FSS programs to apply for multi-year ROSS funding to cover the costs of additional public housing FSS coordinators. Finally, to ensure that sufficient public housing operating funds are available to cover the costs of both FSS coordinators and escrow accounts for public housing residents, HUD should request, and Congress should provide, the funding needed to fully support the public housing operating fund.

Long-Term Solution: Over the long-run, it would be much more efficient and provide FSS with much more stability to fund the costs of administering ongoing FSS programs – including funding for multiple FSS coordinators, where appropriate – entirely through a special add-on to the public housing operating fund, rather than through a NOFA.

4. HUD and Congress should take steps to augment funding for the ROSS program.

Issue: The ROSS program is designed to promote economic self-sufficiency among non-elderly, non-disabled public housing residents and an enhanced ability for independent living among public housing residents that are elderly or have a disability. For the last several years, HUD has also used the ROSS program to fund public housing FSS coordinators. Despite the importance of FSS and the broader objectives of ROSS, the Administration's FY 2007 Budget proposes to reduce funding for ROSS from the historic level of $55 million to $23.8 million. (The FY 2006 Budget also sought to reduce funding for ROSS to $24 million; Congress compromised and provided $38 million.)

Short-Term Solution: Augment funding for ROSS by restoring funding to historic levels and ensuring that any unexpended ROSS funds from prior years are retained within the program to help offset lower appropriated levels.[11]

Long-Term Solution: To increase stability for the ROSS program, begin funding it as an ongoing, dedicated program, rather than a set-aside within the public housing capital fund.

5. HUD should reach out to federal and state agencies to encourage them to partner with HUD and public housing agencies to support an expansion in the number of families benefiting from FSS

Issue: One way to expand the number of public housing residents and Housing Choice Voucher holders benefiting from FSS would be to encourage partnerships between housing agencies that administer FSS and other agencies that can provide the work-promoting case management and other services necessary to support the enrollment of additional families in FSS. TANF and workforce agencies, in particular, are promising candidates for such partnerships as they already provide work-promoting case management and other complementary services. Other potential partners include: community action agencies, agencies administering Individual Development Account programs, Head Start programs, Weed and Seed programs, and others. There is a small number of existing partnerships that provide models to build on, but progress has been hampered by an overall lack of awareness of FSS and the potential to expand FSS through inter-agency partnerships.

Solution: HUD should reach out to the Department of Health and Human Services, the Department of Labor, and other federal agencies to jointly promote the benefits of partnerships around FSS at the state and local levels. HUD should also consider reaching out directly to state TANF agencies.

Ongoing Collaboration

Finally, we invite HUD to meet regularly with AASC, CFED, FSS Partnerships, NAHRO, NLIHC, New America Foundation and other program stakeholders to discuss how we can work together to strengthen FSS, encourage replication of best practices, and help more families build assets and make progress toward self-sufficiency and homeownership.

About the Authors

American Association of Service Coordinators (AASC) (www.servicecoordinator.org). AASC is a national non-profit organization representing Service Coordinators serving families, the elderly, persons with disabilities and others who are involved in creating and maintaining service-enhanced housing environments. Its membership consists of individual Service Coordinators (SCs), Public Housing Authorities, State Housing Finance Agencies, Community Action Agencies, for profit and nonprofit service organizations, as well as housing providers, owners, developers, management companies and other housing staff who assist residents with obtaining services.

Contact: Janice C. Monks, Executive Director, 614-848-5958, jmonks@servicecoordinator.org

CFED (www.cfed.org). CFED is a nonprofit organization that expands economic opportunity. Established in 1979 as the Corporation for Enterprise Development, CFED works to ensure that every person can participate in, contribute to, and benefit from the economy by bringing together community practice, public policy, and private markets. CFED identifies promising ideas, tests and refines them in communities to find out what works, crafts policies and products to help good ideas reach scale, and fosters new markets to achieve greater economic impact.

Contact: Carol Wayman, Federal Policy Director, 202-207-0125, cwayman@cfed.org

FSS Partnerships (www.fsspartnerships.org). FSS Partnerships is a national initiative, launched by the Housing Authority Resource Center of Local Initiatives Support Corporation (LISC), designed to tap the resources of public housing agencies to help build assets among low-income families. In particular, FSS Partnerships seeks to promote awareness of HUD's Family Self-Sufficiency (FSS) program and to stimulate partnerships between housing agencies and other agencies and organizations around FSS, Section 8 homeownership, and Earned Income Tax Credit outreach.

Contact: Jeffrey Lubell, Project Director, 202-270-5251, jlubell@fsspartnerships.org

National Association of Housing and Redevelopment Officials (NAHRO). NAHRO is a professional membership organization comprised of 21,227 housing and community development agencies and officials throughout the United States who administer a variety of affordable housing and community development programs at the local level, including Public Housing, Section 8, CDBG and HOME. NAHRO's mission is to create affordable housing and safe, viable communities that enhance the quality of life for all Americans, especially those of low- and moderate-income.

Contact: Christine Siksa, Director, Legislative & Program Development Division, 202-580-7214, csiksa@nahro.org

National Low Income Housing Coalition (NLIHC). Established in 1974, the National Low Income Housing Coalition is dedicated solely to ending America's affordable housing crisis. NLIHC educates, organizes and advocates to ensure decent, affordable housing within healthy neighborhoods for everyone.

NLIHC provides up-to-date information, formulates policy, and educates the public on housing needs and the strategies for solutions.

Contact: Linda Couch, Deputy Director, 202-662-1530 x228, linda@nlihc.org

New America Foundation (www.newamerica.net). The New America foundation is an independent, nonpartisan, nonprofit public policy institute. One of its signature policy areas is asset building. The purpose of New America's Asset Building Program is to significantly broaden the ownership of assets in America, thereby providing all Americans both with the means to get ahead, and with a direct stake in the overall success of our economy.

Contact: Reid Cramer, Research Director, Asset Building Program, 202-986-2700, cramer@newamerica.net.

Endnotes

[1] Data on current FSS participants based on November 2005 data from HUD's PIC system. As of September 2000 (the most recent date for which data are available), there were 1,064 FSS programs serving Housing Choice Voucher holders and 354 serving public housing residents.

[2] Robert C. Ficke and Andrea Piesse. *Evaluation of the Family Self-Sufficiency Program, Retrospective Analysis, 1996 to 2000*. 2005. Prepared for HUD by WESTAT, in collaboration with Johnson, Bassin and Shaw. Available on the Internet at: http://www.huduser.org/publications/econdev/selfsufficiency.html. A two-page summary of HUD's FSS evaluation is available at: http://www.fsspartnerships.org/publications.htm.

[3] For a summary of available data on homeownership outcomes for FSS participants, as well as earnings and asset growth for individual housing agencies with particularly strong FSS programs, see Jeff Lubell (2004). "A Diamond in the Rough: the Remarkable Success of HUD's FSS Program." FSS Partnerships. Available on the Internet at: http://www.fsspartnerships.org/includes/fssresults.pdf.

[4] 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. Overall, the number of agencies receiving Housing Choice Voucher FSS coordinator grants has decreased dramatically in recent years, dropping from 778 in FY 2003 to 580 agencies in FY 2005. This decrease is principally due to changes in HUD's grant application point ranking system, rather than Congressional funding levels for the program, which have remained fairly stable. The decline is also not related to the performance of individual FSS programs as there are many well-regarded FSS programs among the agencies that have lost funding in recent years.

[5] In the FY 2005 NOFA, HUD allowed those agencies that had lost funding in FY 2004 to re-qualify for FSS coordinator funding if they could prove that a certain number of FSS participants had become homeowners. Unfortunately, HUD's PIC system did not always capture this information accurately, and it was unclear to many agencies how to remedy this problem.

[6] In the FY 2006 Housing Choice Voucher (HCV) FSS Coordinator NOFA, HUD has introduced still another priority for funding– this time for those agencies funded in FY 2005 that experienced a certain increase in the size of their FSS program. Regardless of one's views of the merits of this priority, the shifting priorities from year to year and the lack of any advance notice of the priorities in upcoming NOFAs makes it nearly impossible for public housing agencies to plan to meet them. This new priority is also problematic in light of the reductions in HCV funding that many agencies have experienced which (as explained more fully later in this analysis) have left many agencies with few choices but to reduce the size of their FSS programs.

[7] While FSS has many benefits for participants, it results in a modest yet significant loss of revenue to housing agencies (who no longer retain rent increases related to participants' earnings growth). While the previous voucher renewal policy made housing agencies whole for this lost revenue, the new voucher renewal policy does not. Because many agencies have not received enough voucher renewal funding to fund their basic voucher program and are thus forced to cut costs, the unfortunate outcome is a reduction in the number of participants in FSS.

[8] Specifically, the Administration has proposed that, in allocating Housing Choice Voucher renewal funds to individual housing agencies, it will "mak[e] any necessary adjustments for the costs associated with deposits to Family Self-Sufficiency Program escrow accounts." (Budget Appendix p.530, in the section titled "Tenant-Based Rental Assistance.") If adopted and properly implemented, this provision will ensure that housing agencies' funding levels are increased to account for any FSS escrow deposits they have made (net of any recoveries of FSS escrow from individuals that did not complete the program).

[9] 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). This provision directs HUD to include the costs of at least one public housing FSS coordinator as an add-on within the operating subsidy formula (formerly the performance funding system). An add-on means the costs are covered separately from the formula amount an agency receives for operating subsidy, and may or may not be subject to pro-ration if the amount appropriated is insufficient to cover all agencies' subsidy and program needs.

[10] At the same time, HUD shifted the funding for renewal of service coordinators serving (mostly) elderly and disabled public housing residents from ROSS to the public housing operating fund.

[11] The carry-over in the ROSS program appears to be due to technical problems with HUD's allocation of funds, rather than any reduction in demand for the funds. In FY 2004, HUD rejected large numbers of ROSS applications for what appear to be technical reasons that had nothing to do with the substance of the proposals. This led to carry-over in funds that can be used to help augment lower appropriations levels. (This is only a temporary solution, however, as these funds will eventually be used up, and funding will need to be restored to historic levels.)