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PUBLIC AND ASSISTED HOUSING

Linking Housing and Supportive Services to Promote Self-Sufficiency

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The Honorable Donald W. Riegle, Jr.
Chairman
The Honorable Jake Garn
Ranking Minority Member
Committee on Banking,
Housing and Urban Affairs
United States Senate

The Honorable Henry B. Gonzalez
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The Honorable Chalmers P. Wylie
Ranking Minority Member
Committee on Banking,
Finance and Urban Affairs
House of Representatives

As required by section 554(b) of the National Affordable Housing Act, we are reporting on the implications of linking federal housing assistance to supportive services to promote economic self-sufficiency for lower-income families. Section 554 of the act establishes the Family Self-Sufficiency Program (FSS) within the Department of Housing and Urban Development (HUD) to promote the development of local strategies for coordinating federal public housing and section 8 rental housing assistance with public and private resources to help lower-income families achieve self-sufficiency.

We recently briefed members of your offices on our work to fulfill the statutory requirement that we report on the implications of linking federal housing assistance to supportive services to promote economic self-sufficiency for lower-income families. As agreed, this report summarizes and updates the information presented at that briefing. In addition, it contains three recommendations to HUD, which are aimed at improving HUD's evaluation and administration of the FSS program.

BACKGROUND

The act requires that, starting in fiscal year 1993, each public housing agency (PHA) receiving funds for new public housing units or for additional section 8 certificates or vouchers must, unless exempted by HUD, operate an FSS program for at least the number of families that is equal to the cumulative number of new public housing units, certificates, or vouchers that the PHA makes available annually.

Aside from providing that families' participation in the FSS program is voluntary, the act does not specify how participants are to be selected. HUD's proposed FSS guidelines require PHAs to select participants impartially and allow PHAs to select participants from among households already receiving housing assistance, from those on the waiting list to receive assistance, or both. FSS program participants and the PHA enter into a contract that spells out the supportive services, such as education and job training, that the participants are to receive and the responsibilities that the participants are expected to meet. The PHA relies on local public and private entities to provide these supportive services. PHAs are required to report annually to HUD on the operation of their programs.

The FSS program requires that PHAs establish escrow savings accounts for participating families. As a participating family's income increases, the PHA credits the escrow account with a part of the increase in rent that the participating family would otherwise have had to pay to the PHA. Contributions to the family's escrow account are based on the family's earnings and on the area's median income. The family may withdraw funds from its escrow account only when it no longer receives any federal, state, or other public assistance for housing. The family may use the withdrawn escrow funds for any purpose.

HUD expects to announce its first award of FSS funds to PHAs in April 1992. To help PHAs implement the program, HUD issued proposed program guidelines for comment on September 30, 1991, and is required to issue final guidelines by May 31, 1992. (See sec. 1.)

Many PHAs and organizations representing housing, public welfare, and lower-income family constituencies endorse the

idea of linking housing assistance with supportive services to promote self-sufficiency. However, PHAs are concerned that the proposed program structure and funding levels will hamper the program's implementation.

RESULTS IN BRIEF

We found that:

- Neither the act nor HUD's proposed guidelines explicitly define "self-sufficiency" and "economic independence." However, because the act makes escrow savings (a program incentive) available to participants when they no longer receive federal, state, or local housing assistance, the act implies that self-sufficiency and economic independence have been attained when a family achieves independence from housing assistance. The Secretary of HUD has said that the FSS program will help lower-income families achieve home ownership. Other organizations, such as the Department of Health and Human Services (HHS), define self-sufficiency differently--as freedom from all government assistance, partial independence from government assistance, and intermittent freedom from government assistance. Although the act requires PHAs to assess the effectiveness of their FSS programs, HUD's proposed guidelines do not specifically require PHAs to report how many participants have relinquished housing assistance or to indicate what alternatives to assisted housing FSS participants have found. Requiring PHAs to report on these two conditions will enable PHAs, HUD, and the Congress to measure the FSS program's progress in achieving the implied statutory goal. (See sec. 2.)

- PHAs and legal service organizations differ in their views as to whether, in selecting participants, PHAs should consider an individual's motivation to participate in the FSS program. HUD's proposed guidelines do not allow PHAs to include assessments of motivation among their selection criteria because this practice may lead to selecting primarily those most likely to succeed (called "creaming"). According to some PHAs, prohibitions on screening applicants for motivation will increase the time needed to administer the FSS program and may limit a PHA's ability to obtain supportive services for program participants. (See sec. 3.)

- PHAs are expected to obtain the supportive services that their FSS program participants need--such as job training and child care--from local service providers. However, the PHAs do not receive any additional funds to pay for

these services; they must instead rely on local public and private entities. But if the budget constraints facing local service providers continue to grow, PHAs may find it increasingly difficult to obtain services for an expanding number of FSS program participants. (See sec. 4.)

- Local job and housing markets may prevent some participants from achieving self-sufficiency. Some PHAs, in commenting on HUD's proposed program guidelines, said that jobs available to FSS participants do not pay enough to allow a family to live independently in their area. Also, participants may not be able to afford unsubsidized housing, particularly in some highly populated metropolitan areas. Furthermore, available jobs may not offer health insurance and child care. Such factors, which may be beyond the control of the PHA and the FSS program participant, may prevent many participants from achieving self-sufficiency, despite the best efforts of the PHAs and the participants. (See secs. 5 and 6.)

- Administration of the FSS program imposes many new duties on PHAs. Some PHAs are concerned that the reimbursement of costs associated with administering the FSS program--for both section 8 and public housing--will not cover the costs of running an effective program. If HUD's reimbursement does not cover these expenses, PHAs may absorb the additional costs or run less effective programs. For example, PHAs may not be able to devote much time to monitoring participants' performance. However, two 1988 studies have suggested that PHAs are overcompensated for the costs they incur in running the overall section 8 program. HUD's proposed guidelines do not require PHAs to report the costs of administering the FSS program. (See sec. 7.)

CONCLUSIONS

Several factors will affect the evaluation and administration of the FSS program. First, requiring PHAs to report how many FSS participants have relinquished housing assistance and what alternatives to assisted housing they have found will permit meaningful and consistent assessments of the program's progress in meeting the implied statutory goal. Second, it is too early to determine whether HUD's proposed prohibition against the use of motivation as a factor in selecting FSS participants, if carried forward into final rulemaking, will affect PHAs' administration of their programs--including their ability to obtain needed supportive services. Finally, limited data are available to

determine the extent to which HUD's reimbursement of PHAs' administrative costs will cover the reasonable expenses that PHAs incur in running effective programs. Without these data, any revision of the administrative fees would be premature. In addition, any revision of the administrative fees that did not include consideration of HUD's reimbursement of PHAs' expenses in administering the overall section 8 housing program would be incomplete.

RECOMMENDATIONS

This briefing report contains three recommendations to the Secretary of HUD. First, we recommend that the Secretary of HUD, in the final FSS program guidelines, require PHAs, as part of their annual reporting on program results, to indicate how many FSS participants have relinquished housing assistance and what alternatives to assisted housing they have found, such as home ownership.

Second, we recommend that the Secretary of HUD, in the final FSS program guidelines, require PHAs, in their annual reports, to provide information that would allow HUD to ascertain the effect of its prohibition against the use of motivation in selecting FSS participants. This information should include, among other things, data indicating how the selection process affected PHAs' ability to obtain supportive services.

Third, we recommend that the Secretary of HUD, in the final FSS program guidelines, require PHAs to report the costs of administering the FSS program and to provide detailed estimates of the costs required to operate a more effective program. These costs could be used as a basis for HUD's revision of the reimbursement for FSS administrative costs for both the public housing and section 8 programs.

VIEWS OF AGENCY OFFICIALS AND OUR RESPONSE

We discussed the contents of this briefing report with public housing and assisted housing officials in HUD's central office. Generally, the officials saw merit in our recommendations but said that implementing them might present some difficulty. Regarding our first recommendation, the officials said that measures of the extent to which FSS participants achieve self-sufficiency by relinquishing housing assistance must take into account uncontrollable factors, such as high unsubsidized housing costs and poor job markets. For example, because local conditions vary, families in one area that make good faith efforts may be more or less successful in moving toward

self-sufficiency than families that make comparable efforts in another area. We believe that the HUD officials' views reinforce the need for more explicit reporting of program results, as we have recommended, to provide a mechanism for measuring the extent to which the program is meeting the implied statutory goal.

With respect to our recommendation concerning the use of motivation as a selection factor, HUD officials told us that HUD's final guidelines would provide examples of appropriate and inappropriate screening mechanisms for prospective FSS participants. They also told us that these examples had not yet been determined. Consequently, we cannot now determine whether HUD's contemplated action will coincide with our recommendation.

Finally, in response to our recommendation that HUD require PHAs to report the cost of administering their programs, HUD officials told us that the costs of administering FSS programs may be difficult to determine. For example, some PHAs may be able to draw on local volunteer services and thereby contain their costs, whereas other PHAs may have to pay for such services. We recognize that accounting for FSS program costs may be difficult and conditions will vary across the country. Nevertheless, empirical data are necessary to develop reasonable estimates of administrative costs and appropriate payments to PHAs for operating FSS programs in public and section 8 housing.

HUD officials also offered several technical and clarifying suggestions, which we incorporated where appropriate.

SCOPE AND METHODOLOGY

In conducting our study, we reviewed the legislative authority for, and legislative reports on, the FSS program and studied HUD's proposed guidelines, including public comments on the guidelines. We examined records and interviewed officials at HUD, HHS, and the Department of Labor. We visited three communities--Charlotte, North Carolina; Clearwater, Florida; and Philadelphia, Pennsylvania--to evaluate their experience in administering earlier HUD self-sufficiency demonstrations. We also contacted 19 of the 107 PHAs that commented on HUD's proposed FSS guidelines to obtain their perspectives on the FSS program and their experiences with other HUD self-sufficiency demonstrations. We interviewed members of national organizations representing PHAs and the public welfare constituency--such as the National Association of Housing and Redevelopment Officials, American Public Welfare

Association, and National Low Income Housing Coalition--to determine their views on linking housing and supportive services to promote self-sufficiency. Finally, we analyzed studies and documents from previous self-sufficiency demonstration projects sponsored by HUD and others, such as the Center for Urban Affairs and Policy Research.

As agreed with your staff, we did not obtain written agency comments. We performed our review from October 1991 to February 1992 in accordance with generally accepted government auditing standards.

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Copies of this briefing report are being sent to congressional committees and subcommittees interested in housing matters; the Secretary of Housing and Urban Development; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others upon request.

This briefing report was prepared under the direction of Judy England-Joseph, Director, Housing and Community Development Issues, who can be reached at (202) 275-5525. Major contributors to this briefing report are listed in appendix I.

J. Dexter Peach
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ABBREVIATIONS

AFDC	Aid to Families with Dependent Children
DOL	Department of Labor
FSS	Family Self-Sufficiency
GAO	U.S. General Accounting Office
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
JOBS	Job Opportunities and Basic Skills Training Program
JTPA	Job Training Partnership Act
PHA	public housing agency

BACKGROUND

- Key Program Provisions
- Earlier HUD Self-Sufficiency Demonstrations
- PHAs Support the Self-Sufficiency Program Concept
- Objectives, Scope, and Methodology

In November 1990, the Congress passed the National Affordable Housing Act (P.L. 101-625). Section 554 of the act established a Family Self-Sufficiency (FSS) program within the Department of Housing and Urban Development (HUD). The program's purpose is to promote the development of local strategies to coordinate federal public housing and section 8 rental housing assistance with public and private resources to enable families to achieve economic independence and self-sufficiency. HUD's public housing and section 8 certificate and voucher programs are administered by over 4,000 public housing agencies (PHAs) under contracts with HUD.[1] Together the two programs provide housing to over 3 million lower-income families.

During fiscal years 1991 and 1992, PHAs that want to establish an FSS program can compete for additional public housing development funds and section 8 housing assistance. HUD will make available up to $934 million in budget authority for the section 8 competition. Also, according to a HUD official, about $100 million in budget authority for public housing development will be made available. These amounts represent the combined amounts for fiscal years 1991 and 1992. As these amounts indicate, the majority of FSS units will be in the section 8 program.

HUD expects to announce the additional housing assistance awarded to these PHAs by April 1992. This additional assistance will become a permanent part of the FSS program. HUD is also encouraging PHAs that do not receive additional funds through the competition to establish FSS programs on their own.

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[1]PHAs own and operate public housing. The section 8 certificate and voucher programs, which PHAs administer, provide housing assistance payments on behalf of tenants living in privately owned housing.

Starting in fiscal year 1993, each PHA receiving funds for new public housing units, or for additional section 8 certificates or vouchers, must, unless exempted by HUD, operate an FSS program. Each year, the PHA's FSS program must serve at least as many families as the increase in the number of public housing units, certificates, or vouchers that it makes available, as compared to the previous year. Program size is cumulative: if a PHA makes available 100 additional certificates in the first year and 75 certificates in the next year, it must operate a program for 175 families by the end of the second year. Under certain conditions--when, for example, supportive services are not available in an area--HUD may allow PHAs to operate smaller programs or no program at all.

The rate of the FSS program's growth will depend on the size of future, annual appropriations. According to HUD officials, in recent years HUD has received about 50,000 to 60,000 new section 8 units annually. But regardless of the growth rate, as long as PHAs continue to make available new public housing units, certificates and vouchers, the number of units in the FSS program will continue to increase, since the new units reserved for the FSS program each year will be added to the FSS units already established.

KEY PROGRAM PROVISIONS

Major provisions of the FSS program are as follows:

Coordinating committee: Each PHA is required to establish a program coordinating committee to help secure commitments from public and private resource providers to deliver the supportive services that program participants will need.

Action plan: Each participating PHA is required to develop an action plan, which HUD must approve. Among other things, the plan should describe the (1) characteristics and needs of the families expected to participate; (2) services, activities, and resources to be provided; and (3) timetable for implementation.

Services envisioned: The supportive services to be made available to the family may include remedial education and education to complete high school, job training and preparation, child care, transportation to receive services, training in household and money management and parenting skills, and other services.

Participation and selection process: Families' participation is voluntary. The act does not specify how participants are to be selected. HUD's proposed program guidelines require PHAs to select participants on an impartial basis from among (1) current public housing tenants or section 8 participants, (2) persons on the waiting list to receive assistance, or (3) both.

Contract of participation: The PHA and the families participating in the FSS program enter into a contract that sets out (1) the resources and supportive services to be made available to the participating family and (2) the family's responsibilities. The contract can last as long as 5 years and may be extended for good cause. The head of each family is required to seek suitable employment during the term of the contract.

Escrow account: An escrow savings account is established for each participating family. For families earning less than 50 percent of the area's median income, any increase in income that the family would normally pay as rent (generally, assisted families pay 30 percent of their income for rent) is to go into an escrow account. The contribution to the escrow account is phased out as the family's income reaches 80 percent of the area's median income. The family may withdraw the funds in the escrow account only after it no longer receives any federal, state, or other public assistance for housing.

Termination from the program: PHAs may terminate section 8 assistance if the family does not fulfill the terms of the contract. However, no similar provision applies to families in public housing.

PHA administrative fees: PHAs receive a one-time preliminary administrative fee of $25 for each section 8 FSS program unit, subject to appropriations. This fee is in addition to the $275 preliminary administrative fee for the regular section 8 program. The act also allows HUD to adjust its operating assistance to PHAs to cover their costs in administering the FSS program in public housing. As of March 1992, HUD had not made that adjustment.

Flexibility: The act requires HUD to give PHAs as much discretion and flexibility as possible to develop and carry out their FSS programs.

Reporting requirements: PHAs are expected to report annually to HUD on the FSS program's (1) activities carried out; (2) effectiveness in helping families achieve economic independence and self-sufficiency; and (3) effectiveness in coordinating the community's resources to assist families. In addition, PHAs may recommend changes that would improve their FSS programs.

HUD issued its proposed FSS program guidelines on September 30, 1991. Public comments on these rules were due by November 29, 1991. Over 100 PHAs submitted comments. The act requires HUD to issue its final rules by May 31, 1992.

To help PHAs implement the program, HUD has held workshops explaining the program. HUD officials told us that they plan to issue additional guidance, such as FSS "questions and answers," in the spring of 1992.

EARLIER HUD SELF-SUFFICIENCY DEMONSTRATIONS

In principle, the FSS program is similar to two earlier HUD self-sufficiency demonstrations.[2] From 1984 to 1985, under the Project Self-Sufficiency demonstration, HUD gave 155 communities about 10,000 section 8 certificates to encourage communities to coordinate local resources to provide a comprehensive package of services to assist families in becoming self-sufficient. In its 1989 and 1990 Operation Bootstrap self-sufficiency demonstration, HUD awarded almost 12,000 certificates and vouchers to 322 communities for the same purpose. FSS differs from these two demonstrations in that it provides for the establishment of escrow accounts and authorizes reimbursement of administrative costs, among other things.

In 1988, HUD reported that 42 percent of 9,928 Project Self-Sufficiency participants from 134 communities had "completed" the program. "Completed" was defined as either having obtained full-time employment or having enrolled in a 2- or 4-year college degree program. A study of Operation Bootstrap has yet to be done. In September 1991, HUD contracted with Abt Associates, Inc., to study how Operation Bootstrap was carried out in 61 communities. The final report of this study should be completed in the fall of 1993.

PHAS SUPPORT THE SELF-SUFFICIENCY PROGRAM CONCEPT

Many PHAs endorse the principle of linking housing and social services to promote self-sufficiency. More than 400 communities voluntarily participated in either Project Self-Sufficiency or Operation Bootstrap, or both. In addition, the majority of the 107 PHAs responding to HUD's proposed guidelines supported the program's goal of assisting families to achieve self-sufficiency. However, as the following sections indicate, many of these PHAs are concerned that the proposed FSS program structure, together with what they perceive as inadequate HUD funding, will hamper the program's implementation.

OBJECTIVES, SCOPE, AND METHODOLOGY

The National Affordable Housing Act requires us to report to the Congress on seven issues, two of which will be addressed in a

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[2]Another HUD self-sufficiency demonstration, the Public Housing Comprehensive Transition Demonstration, is currently being conducted by the Charlotte, North Carolina, PHA for its public housing program.

separate report that we expect to issue this summer.[3] This report addresses the remaining five issues:

- Evaluate the policy and administrative implications of requiring state and local governments to participate in an economic self-sufficiency program as a condition for receiving housing assistance.

- Determine the additional costs of such programs to PHAs and recommend a change to the section 8 administrative fee.

- Evaluate earlier federal programs that link housing and supportive services to promote economic self-sufficiency.

- Assess whether PHAs can reasonably and effectively obtain supportive services for the FSS program and other programs that link supportive services to federal housing assistance.

- Weigh the policy and administrative implications of allocating public housing and section 8 assistance only to localities that have a plan to provide housing assistance in conjunction with economic self-sufficiency programs.

The above issues are interrelated. To avoid duplication, our report does not address each issue separately but addresses each as it is relevant throughout the report.

We reviewed the legislative authority for the FSS program and the legislative reports on it. We also reviewed HUD's proposed program guidelines and public comments on these guidelines. We examined records and interviewed officials at the federal level, including officials at HUD, the Department of Health and Human Services (HHS), and the Department of Labor (DOL).

We visited three communities that had participated in earlier self-sufficiency demonstrations: Charlotte, North Carolina; Clearwater, Florida; and Philadelphia, Pennsylvania. Charlotte had participated in Project Self-Sufficiency and Operation Bootstrap, and is participating in the Public Housing Comprehensive Transition Demonstration. Clearwater had participated in both Project Self-Sufficiency and Operation Bootstrap. HUD had identified Clearwater as one of 23 communities that had managed a noteworthy Project Self-Sufficiency demonstration. The city of Philadelphia had participated in Project Self-Sufficiency and continues to operate a local self-sufficiency program. At these communities, we discussed

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[3]These two issues require us to (1) examine how housing and social service policies affect participants who get a job and earn more money and (2) determine whether laws regarding housing and other programs create disincentives to earning more money.

the programs' operations with officials from the PHAs and with supportive service providers.

We also contacted 19 of the 107 PHAs that commented on HUD's proposed FSS program guidelines to obtain their perspectives on FSS and other HUD-sponsored self-sufficiency demonstration programs. We limited our work to public housing agencies and did not contact Indian housing authorities, which are also required to establish FSS programs under the same terms as PHAs.

We also interviewed members of national organizations representing PHAs and lower-income constituencies--such as the National Association of Housing and Redevelopment Officials, American Public Welfare Association, and National Low Income Housing Coalition--to determine their views on the likely FSS results. Finally, we obtained studies and documents of self-sufficiency demonstration projects sponsored by HUD and others, such as the Center for Urban Affairs and Policy Research, to determine outcomes and lessons learned.

We discussed the contents of this briefing report with public housing and assisted housing officials in HUD's central office, who offered several technical and clarifying suggestions. We made changes on the basis of these suggestions as appropriate. We performed our review from October 1991 to February 1992 in accordance with generally accepted government auditing standards.

CLEARER REPORTING GUIDANCE FOR EVALUATING PROGRAM EFFECTIVENESS IS NEEDED	• Implicit Goal of Act Is Independence From Housing Assistance • Independence From Housing Assistance Differs From Other Measurements of Self-Sufficiency • Current Reporting Requirements May Lead to Inconsistent Evaluations • Conclusion • Recommendation to the Secretary of HUD

The purpose of the FSS program is to promote the development of local strategies that coordinate federal housing assistance with public and private resources to enable families to achieve "self-sufficiency" and "economic independence." The National Affordable Housing Act implies that these conditions have been attained when an FSS family no longer receives federal, state, or local assistance for housing. HUD's proposed guidelines require PHAs to report on the effectiveness of their programs. However, the guidelines do not clearly require PHAs to report how many FSS participants have relinquished housing assistance and what alternatives they have found to it. Requiring PHAs to report this information will enable PHAs, HUD, and the Congress to evaluate the FSS program's progress in achieving its implied statutory goal.

IMPLICIT GOAL OF ACT IS INDEPENDENCE FROM HOUSING ASSISTANCE

The act does not explicitly define the terms self-sufficiency and economic independence. We found that both the act and HUD's proposed guidelines imply that these conditions have been attained when a participating family is independent of all housing assistance. Specifically, the act and the proposed guidelines state that the escrow savings account--a program incentive--is to be paid to the participating family only after the family no longer receives any federal, state, or other public assistance for housing. The FSS contract of participation prepared by HUD provides that families may receive the escrowed funds when members of the family

"...no longer receive any Federal, State, local or other public assistance for housing (e.g., no assistance under Section 8, no rental assistance under a state or local program and no family member receiving AFDC, General Assistance, SSI or similar programs which are intended to meet general living expenses including housing)."

A HUD official told us that HUD is currently redrafting this provision of the contract to clarify its meaning.

Being independent of housing assistance can be defined as being either a renter in the unsubsidized private rental market or becoming a home owner. HUD's Philadelphia Regional Office, in a December 1989 description of regional program initiatives, stated that it saw home ownership as the ultimate objective/incentive for self-sufficiency. This view was also shared by the PHA in Charlotte, North Carolina, one of the three communities we visited. The HUD Secretary has also advocated home ownership, stating in a message to FSS program workshop attendees,

"... the Family Self-Sufficiency program will encourage public and Indian housing authorities to coordinate needed services such as child care, education, and job training to enable the poor to achieve economic independence and homeownership."

INDEPENDENCE FROM HOUSING ASSISTANCE DIFFERS FROM OTHER MEASUREMENTS OF SELF-SUFFICIENCY

The National Affordable Housing Act measures self-sufficiency in terms of independence from housing assistance. Other measurements used by HHS, HUD, PHAs, and providers of supportive services range from achieving complete independence from all public assistance to making significant economic and social gains while still receiving some form of assistance. For example, the following quotation from an April 1988 HHS program announcement defined self-sufficiency at three different levels:

"In the ideal sense, a condition where an individual or family, by reason of employment, does not need or is not eligible for, public assistance. Individuals and families may be more or less self-sufficient, or intermittently self-sufficient, with some income from employment but not enough over the long term to become totally independent of public assistance."

According to this definition, even though family members are employed, they may still need to rely on some type of public assistance, such as Aid to Families with Dependent Children (AFDC), food stamps, or housing assistance. Nevertheless, the family may be considered "self-sufficient." In contrast, HUD defined self-

sufficiency during its 1984-85 Project Self-Sufficiency demonstration as independence from welfare assistance.

CURRENT REPORTING REQUIREMENTS MAY LEAD TO INCONSISTENT EVALUATIONS

The act and HUD's proposed program guidelines require that each PHA operating a local FSS program report annually to HUD on a number of issues, including the effectiveness of the program. HUD is then to report to the Congress on the same issue. However, the guidelines do not clearly indicate whether PHAs must report the number of families that no longer receive housing assistance. Reporting such information is necessary to ensure that PHAs provide the information that HUD and the Congress need to measure program results against the implied statutory goal.

HUD's proposed guidelines require that PHAs describe "...the effectiveness of the program in assisting families to achieve economic independence and self-sufficiency." The guidelines also require PHAs to report on the racial and ethnic composition of the FSS participants who (1) voluntarily left the program, (2) were asked to leave the program, (3) completed the program, and (4) remain in the program, among other things. However, the proposed guidelines do not clearly indicate whether PHAs must report how many FSS participants no longer receive housing assistance. The guidelines also do not require enough information to determine what housing alternatives have been obtained by FSS families that relinquish housing assistance, including the HUD Secretary's goal of home ownership.

HUD officials told us that measures of program effectiveness need to take into account certain uncontrollable factors, such as high unsubsidized housing costs and poor job markets. For example, because local conditions vary, families in one geographical area that make good faith efforts may be more or less successful in moving toward self-sufficiency than families that make comparable efforts in another area. We believe that the HUD officials' views reinforce the need for requiring more explicit reporting of program results. A requirement that PHAs report the housing alternatives obtained by families that have relinquished assisted housing will ensure the availability of information for evaluating the program's progress in meeting the implied statutory goal. This information will also assist HUD in its planned long-term evaluation of the program.

CONCLUSION

Without more explicit reporting requirements, HUD and the Congress may not receive useful information that is needed to evaluate the program's effectiveness in enabling families to leave assisted housing. In requiring PHAs to report on their programs' effectiveness, HUD's proposed guidelines do not ensure that PHAs'

reports will meaningfully disclose how many participating families no longer receive housing assistance and what alternatives these families have found to assisted housing.

RECOMMENDATION TO THE SECRETARY OF HUD

We recommend that the Secretary of HUD, in the final FSS program guidelines, require PHAs, as part of their annual reporting on program results, to indicate how many FSS participants have relinquished housing assistance and what alternatives to assisted housing they have found, such as home ownership.

OPINIONS DIFFER ON THE USE OF MOTIVATION AS A SELECTION FACTOR

- HUD'S Proposed Guidelines Do Not Include Motivation As a Selection Factor
- PHAs Urge HUD to Allow Motivation As a Selection Factor
- No Consensus on the Effect That Motivation May Have on Participants' Success
- Conclusion
- Recommendation to the Secretary of HUD

Opinions differ over HUD's proposed exclusion of applicants' motivation as a criterion for selection. HUD's proposed guidelines do not allow PHAs to consider families' motivation to become self-sufficient when they choose program participants. Although some see the prohibition as fair, numerous PHAs have said that HUD's guidelines, if made final, may make the program more difficult to administer. Until PHAs gain experience with the proposed selection process, it will not be possible to assess the effect of the prohibition on FSS program outcomes.

HUD's PROPOSED GUIDELINES DO NOT INCLUDE MOTIVATION AS A SELECTION FACTOR

HUD's proposed guidelines provide PHAs with options for recruiting volunteers. PHAs can recruit from (1) current public housing tenants and section 8 participants; (2) persons listed on the public housing and section 8 waiting lists; or (3) a combination of the two.[4] PHAs are not allowed to use any subjective selection factors, such as an evaluation of the participant's motivation to work.

The Director of HUD's Rental Assistance Division suggested three reasons for HUD's proposed prohibition against the use of

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[4]If PHAs select participants from their waiting lists, they must offer the first slot to the family at the top of the waiting list. If PHAs select participants from current residents, they must do so on an objective basis, such as (1) a lottery, (2) the length of that time the family has been receiving housing assistance, or (3) the date that the family expressed interest in the program.

motivation as a selection factor. First, everyone, regardless of background or motivation, should have a chance to participate in the FSS program. Second, HUD is concerned that some communities that participated in earlier HUD self-sufficiency demonstrations may have been "creaming" in selecting participants--that is, selecting the participants most likely to succeed. Third, HUD's proposed selection process encourages PHAs to make the FSS program a part of their normal operations, rather than a separate component that requires a special selection process.

Two national law organizations, the Center for Law and Social Policy and the National Housing Law Project, provide support for HUD's interim position.[5] In an analysis of welfare reform, the Center for Law and Social Policy indicates that "creaming" is inconsistent with the principle that people with greater needs should have equal or greater access to helpful services. The Center also indicates that "creaming" has been criticized as a waste of employment and training resources, since many persons selected through such a process would have found jobs without the government's help. The National Housing Law Project, in commenting on the proposed FSS program guidelines, also states that

> "We support the Department's prohibition against tenant selection systems that screen for motivation. Too often in past self-sufficiency programs administrators favored those they thought would succeed to the disadvantage of those who need this assistance most."

PHAs URGE HUD TO ALLOW MOTIVATION AS A SELECTION FACTOR

About 40 percent of the 107 PHAs responding to HUD's proposed program guidelines criticized HUD's position on the use of motivation.[6] PHAs viewed this position as making it more difficult for them to administer the program. As a Charleston, South Carolina, housing agency official stated, HUD, by restricting the use of motivation in selecting FSS participants, has discarded "the most important quality to success."

PHAs are concerned that service providers may not accept FSS participants into their programs if the participants are not

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[5]The Center for Law and Social Policy is a public interest law firm. The National Housing Law Project is a legal service resource center that provides legal research and help in preparing cases involving housing.

[6]In total, over 60 percent of the 107 PHAs were concerned about HUD's procedures for selecting FSS program participants. The main cause of concern was HUD's prohibition against the use of motivation.

screened for motivation. PHAs say that they will be more successful in leveraging services--the PHA will provide housing assistance if service providers provide the other FSS program components--if they can show that FSS participants are likely to complete an education or job training program. In March 1992, HUD officials told us that HUD plans to allow up to 50 percent of FSS participants to be selected from among certain groups, such as persons participating in the JOBS program. (See sec. 4 for a description of the JOBS program.)

PHAs also expressed concern that HUD's restriction will increase the time they will need to spend recruiting, monitoring, and sanctioning unmotivated participants. For example, the Southern Iowa Regional Housing Authority stated that if the participants' only motivation is getting rental assistance, then managing the program will be an "enormous burden" on the PHA. The authority added that requiring participants to meet certain criteria that indicate motivation and commitment is necessary for the FSS program to be manageable. Also, Clearwater's self-sufficiency program director stated that participants who are not strongly committed to attaining self-sufficiency may be more likely to skip intake appointments and be absent from education or job training classes. Therefore, PHA staff will have to contact these participants frequently in order to encourage and monitor their attendance.

As HUD reported in an August 1988 summary of Project Self-Sufficiency, for many communities, selecting and keeping motivated participants were key elements in the programs' success.[7] HUD further reported that communities that did not carefully screen participants enrolled a higher percentage of participants who were more interested in obtaining a section 8 housing certificate than in receiving training that might lead to a job.

NO CONSENSUS ON THE EFFECT THAT MOTIVATION MAY HAVE ON PARTICIPANTS' SUCCESS

The impact of HUD's proposed prohibition against the use of motivation as a selection factor is unknown. Viewpoints for and against using motivation as a factor have merit. However, without more rigorous evaluation, including the possible use of control groups, differences of opinion over the use of motivation will not be resolved.

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[7]In its Project Self-Sufficiency Guidebook, HUD pointed out that PHAs could screen for motivation by assessing a participant's (1) previous employment history, (2) educational attainment, (3) job skills, and (4) participation in job training programs.

HUD's prohibition against the use of motivation may ensure that housing assistance is offered to the families that have waited the longest for it. Conversely, screening for motivation might permit some families to obtain housing assistance before other families that have waited for assisted housing for years.

Organizations that commented on HUD's proposed guidelines were not of one mind in their views on the impact of HUD's proposed prohibition. Some organizations believed that the lack of demonstrated motivation would cause PHAs to spend more time keeping families motivated as they started what might be a long transition to self-sufficiency, while others wondered whether serving unmotivated persons would displace families that were more likely to become self-sufficient. However, to run effective programs, PHAs may have to spend time motivating participants, no matter how motivated the participants seem to be at the time they are selected. All three of the PHAs we visited cited the importance of continuous monitoring--referred to as case management--to keep participants motivated. However, as noted earlier, two national law organizations supported HUD's interim position because it would result in the program's serving needier families.

PHAs' concerns that families on the waiting list may express interest in the FSS program to obtain housing assistance but not the other supportive services are difficult to quantify. As previously stated, HUD's Project Self-Sufficiency experienced this problem. However, the FSS program has two features that may mitigate this concern. First, unlike Project Self-Sufficiency, the PHA has the option to select families from among existing public housing tenants or section 8 participants. This option would eliminate the possibility that families would volunteer for the program just to receive housing assistance. Second, the PHA has the authority to sanction FSS program families receiving section 8 assistance that fail to carry out their agreed-upon education or training commitments, including removing section 8 assistance from a participating family that has failed to comply with the terms of its contract.[8] However, this action might render the FSS program family homeless and deter future program volunteers.

Although HUD's reasons for prohibiting the use of motivation as a selection factor have some validity, PHAs may be in a better position than HUD to determine what selection process will ensure commitments of supportive services from local service providers. By refusing to allow PHAs to screen for motivation, HUD may make it more difficult for PHAs to administer the program successfully.

In March 1992, HUD officials told us that HUD's final guidelines will provide examples of appropriate and inappropriate

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[8]PHAs, however, do not have statutory authority to take away the housing assistance for FSS participants who live in public housing.

screening mechanisms for prospective FSS participants. They also told us that these examples had not yet been determined.

CONCLUSION

Opinions differ over the role that a family's motivation to participate in an FSS program should play in the selection of participants for the program. Arguments for and against the use of motivation have merit. HUD's decision to provide PHAs with examples of appropriate and inappropriate screening mechanisms suggests that its position on this issue may be shifting. However, the extent of the shift in position is not yet known. Lack of experience with the FSS program makes it difficult to determine which argument should prevail. The act's requirement that PHAs report annually on their programs provides an opportunity for PHAs to gather the information needed to assess the effect of HUD's selection process on their programs. Useful data could include the extent to which families have complied with their contracts, the reasons for their compliance or lack thereof, and the effects of the selection process on PHAs' ability to obtain supportive services.

RECOMMENDATION TO THE SECRETARY OF HUD

We recommend that the Secretary of HUD, in the final FSS program guidelines, require PHAs, in their annual reports, to provide information that would allow HUD to ascertain the effect of its prohibition against the use of motivation in selecting FSS participants. The information should indicate (1) the extent to which families have complied with the terms of their contracts and the reasons for compliance or noncompliance and (2) include data indicating how the selection process has affected PHAs' ability to obtain supportive services.

SUPPORTIVE SERVICES MAY BE DIFFICULT TO OBTAIN	• PHAs Must Identify Needed Supportive Services • Two Federal Programs Provide Many Needed Services • Budgetary Constraints May Limit Available Services • Service Providers' Cooperation and Commitment Are Essential

PHAs must rely on local resources to provide the supportive services that FSS program participants need. PHAs will not receive additional funds from HUD to pay for these services. The type and level of services required and provided will vary by participant and community. However, the availability of services is being affected by reductions in spending at state and local levels. In addition, the effectiveness of PHAs' coordination with local supportive service providers will affect the availability of services for FSS program participants.

PHAS MUST IDENTIFY NEEDED SUPPORTIVE SERVICES

The National Affordable Housing Act requires each PHA to develop an action plan that lists the services and activities to be provided to FSS participants. In developing this plan, the PHA must consult with local government officials and with public and private service providers.[9]

A PHA's action plan, as approved by HUD, must include descriptions of the following:

- the supportive services needed by the families expected to participate in the FSS program;
- the number of families that can reasonably be expected to receive supportive services, given the available and anticipated federal, state, local, and private resources;
- the supportive services to be provided by both public and private resources; and

[9]The plan is similar to the program documentation required for earlier HUD self-sufficiency demonstrations.

- the means by which the services will be delivered.

The supportive services that the PHA will make available to the participating family and the responsibilities that the family is expected to meet are listed in a HUD document known as a contract of participation.

The supportive services that FSS program participants need may be extensive, depending in large part on the characteristics of the participants. For example, Project Match, a self-sufficiency demonstration, served residents of the Cabrini-Green public housing development, located in Chicago, Illinois, as well as residents of the surrounding area. Of the 180 participants in the study group, about 60 percent were single parents, 61 percent were 25 years old or younger, 40 percent had not finished high school, and most had limited work experience. The demographic characteristics of participants in the Project Self-Sufficiency demonstration were similar. This experience suggests that participants will need at least classroom and job training, as well as day care services.

TWO FEDERAL PROGRAMS PROVIDE MANY NEEDED SERVICES

The two major sources of supportive services are the Job Opportunities and Basic Skills Training Program (JOBS) and the Job Training Partnership Act (JTPA). Together, these two programs pay for, or provide, many of the supportive services that PHAs will need to make available to FSS program participants.

The Family Support Act of 1988 (P.L. 100-485) requires all states to establish a JOBS program to help needy families with children obtain the assistance that they need to become self-sufficient. JOBS provides AFDC recipients with education, training, work experience, and other services, such as child care. JOBS is designed to develop an effective nationwide welfare-to-work system while providing states with enough flexibility to operate programs that reflect local needs. Funds authorized for JOBS total $1 billion annually for fiscal years 1991 through 1993; $1.1 and $1.3 billion, respectively, for fiscal years 1994 and 1995; and $1 billion for fiscal year 1996 and beyond. HHS is responsible for the JOBS program at the federal level. At the local level, the JOBS program is administered by the state agency responsible for the local AFDC program.

Title IIA of JTPA provides job training and related assistance to individuals who are economically disadvantaged or who have faced significant employment barriers. The program's goal is to help participants obtain productive employment. JTPA title IIA funds for fiscal years 1991 and 1992 total $1.69 billion and $1.77 billion, respectively. DOL administers the JTPA program at the federal level. At the local level, JTPA is highly decentralized; over 600 local programs provide employment and training services to eligible program participants.

BUDGETARY CONSTRAINTS MAY LIMIT AVAILABLE SERVICES

States' budgetary crises have adversely affected their welfare programs. Some states are unable to provide the level of funds needed to receive their share of federal JOBS funds. If these distressed fiscal conditions worsen in states already affected or spread to other states, supportive services needed for a community's FSS program may be further reduced.

In its October 1991 Fiscal Survey of the States, the National Governors' Association and the National Association of State Budget Officers reported that 29 states have had budget cuts enacted for their fiscal year 1991 budgets. In addition, the survey indicated that several states have made cuts to their fiscal year 1992 budgets.

To receive its entire allotment of federal funds for JOBS, a state is required to spend a certain level of its own funds. However, as table 4.1 shows, during fiscal year 1991, 21 states received less than 50 percent of their allocated JOBS funds and 40 states received less than 75 percent of their allocated JOBS funds.

Table 4.1: Percentage of Federal JOBS Funds That States Received During Fiscal Year 1991

Percentage of JOBS funds	100	75-99	50-74	49 and less
Number of states	4	6	19	21

Source: Department of Health and Human Services.

As the number of participants in the FSS program grows and as AFDC caseloads increase, JOBS and JTPA may not be able to serve all FSS program participants. As the American Public Welfare Association reported, the nationwide AFDC caseload increased by 24 percent from July 1989 to November 1991. For two of the three communities that we visited, JOBS officials stated that their AFDC caseloads have also increased. For example, JOBS officials in the Charlotte, North Carolina, area have seen their AFDC caseload almost double, from 5,165 in October 1989 to 9,498 in October 1991. In the same 2-year period, Philadelphia JOBS officials have seen their AFDC caseload grow from 61,478 active cases to 71,201 cases.

A HUD section 8 official expressed concern that annual increases in the FSS program may eventually exceed a community's ability to provide needed supportive services. For example, a PHA that annually receives an incremental increase of 25 section 8 certificates will, at the end of 5 years, require supportive services for 125 participants. Without additional funding, this increase in the caseload may exceed a small community's resources.

In rural areas, FSS program participants may find it even harder to receive the necessary supportive services. For example, the president of the Idaho Housing Agency said that most of the state's rural areas lack the array of supportive services described in the act. In addition, in rural areas where services are provided, FSS program participants may not have access to the services because no public transportation is available.

SERVICE PROVIDERS' COOPERATION AND COMMITMENT ARE ESSENTIAL

The FSS program recognizes the importance of coordinating its activities with those of major providers such as JOBS and JTPA to avoid duplication and to facilitate the provision of services. This coordination is needed at all levels--federal, state, and local.

As previously noted, PHAs must have a plan that identifies the supportive services to be provided by both public and private providers to program participants. HUD also requires that PHAs certify that the development of the services provided under the FSS program has been coordinated with JOBS and JTPA and any other relevant employment, child care, transportation, and training programs.

Nevertheless, coordination does not ensure the delivery of services to FSS program participants. Service providers, such as JOBS, may, depending on waiting lists or selection processes, give priority to non-FSS participants. As a case in point, although JTPA officials in Charlotte stated that they give, and will continue to give, priority to Charlotte housing agency self-sufficiency clients, JOBS officials stated that they will not. Instead, FSS program clients will have to compete with other potential JOBS candidates for available slots.

In January 1990, 10 months before the enactment of the FSS program, the Secretaries of HUD and HHS signed a memorandum of understanding to coordinate programs and initiatives at the federal, state, and local levels. The ultimate goal of this memorandum was to more effectively help poor families move toward economic independence. The Secretary of HUD signed similar memorandums with the Secretary of Labor and the Secretary of Transportation. Working groups have been established to implement these memorandums.

These working groups' agendas, which are in the early stages of implementation, include (1) initiating economic development demonstration projects, such as the 1991 HUD and HHS Economic Empowerment Demonstration Program; (2) reviewing statutory and regulatory requirements and making or proposing changes to those requirements in order to make programs work together more effectively; and (3) promoting state and local self-sufficiency initiatives.

A HUD official told us that under the HUD/HHS memorandum of understanding, HUD has (1) transferred funds to HHS so that Head Start programs can provide full-day child care services for children residing in public and Indian housing and (2) funded 13 economic empowerment partnership demonstrations to encourage economic self-sufficiency in public housing communities. The official also told us that HUD has been working with the Departments of Agriculture, Justice, and Education and the Small Business Administration to coordinate programs and departmental initiatives that focus on economic self-sufficiency for public housing residents.

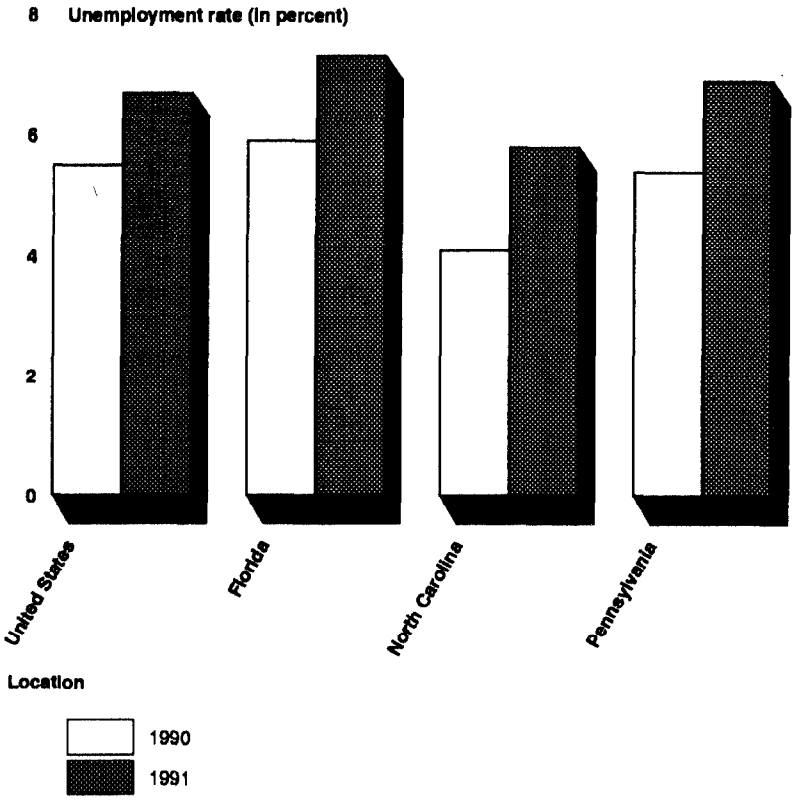
JOB MARKET AFFECTS PARTICIPANTS' ABILITY TO RELINQUISH PUBLIC ASSISTANCE	• Job Market Conditions Vary • Participants' Interests and Skills Determine Employment

The ability to obtain a stable, adequately paying job with benefits--such as health insurance--will significantly affect an FSS program participant's ability to become independent of public assistance. Both overall job market conditions (including the availability of jobs that provide affordable health benefits) and the participant's job interests and skills will influence the type of job an FSS program participant is able to obtain and keep.

JOB MARKET CONDITIONS VARY

The overall job market significantly influences whether an FSS program participant can get and keep a job. As a Philadelphia JOBS official observed, the JOBS program can train participants for work, but it cannot manufacture jobs for them. Figure 5.1 shows that the current economic downturn has increased unemployment nationwide, as well as in the three states we visited.

Figure 5.1: Unemployment Rates for the Nation and Selected States for Calendar Years 1990-91



Source: Bureau of Labor Statistics, DOL.

Economic conditions in the three states we visited have significantly affected key employers. For example, a Florida banking industry official said that the Florida banking industry permanently lost over 20,000 jobs last year. Moreover, according to a representative of a major aerospace manufacturer, the company has not had any open hires for the past 2 years. A HUD official in Greensboro, North Carolina, also expressed his growing concern about the area's job market in light of the continuing decline in the textile industry. Philadelphia JOBS officials indicated that in prior years local employers would aggressively recruit their AFDC clients. However, these employers no longer pursue these clients because more experienced labor is now widely available.

Although recessions are temporary, some parts of the country may still face continued, limited employment opportunities. For example, the executive director of the PHA in Flagstaff, Arizona,

said that the area has no major industry that pays high wages. According to this official, Flagstaff is largely a tourist town, and most jobs pay minimum wages. A Decatur, Illinois, PHA official said that one local factory had laid off 1,700 workers within 1 year. Some of these workers had up to 20 years' work experience and will be competing with FSS program participants in the future.

In addition, a study of Project Match (a demonstration that helps participants return to school, obtain vocational training, and find and keep jobs) performed by the Center for Urban Affairs and Policy Research has shown that keeping a job may be as difficult as initially obtaining employment. By 3 months, 40 percent of 180 participants had lost their first jobs; at 6 months, 57 percent; and at 12 months, 70 percent.

Another factor affecting a participant's ability to obtain and keep a job is the availability of affordable health insurance. According to an April 1991 Employee Benefit Research Institute report, 18.8 million workers were without health insurance. Thus, persons offered jobs that do not include health insurance must decide whether they are better off with the offered employment or with public assistance, which includes Medicaid.[10]

An October 1988 HUD roundtable on self-sufficiency indicated that the loss of Medicaid is "an incredible disincentive" for program participants. As one public welfare advocate observed, if a mother has to choose between working or receiving adequate health care for her child, she will choose to receive health care.

To address the need for health care during the progress towards self-sufficiency, the Family Support Act of 1988, which established the JOBS program, provides for transitional medical services for former AFDC recipients who are now employed. The act requires that states extend Medicaid coverage for 6 months and offer optional coverage for an additional 6 months.

Once a participant obtains a job, the availability of affordable child care may also influence his or her efforts to achieve self-sufficiency. However, under certain circumstances former AFDC recipients may qualify for and obtain transitional child care for up to 12 months. Given that more than 90 percent of AFDC families are headed by single parents, the availability of child care may be a significant issue.

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[10]Medicaid is a federally aided, state-administered medical assistance program for certain low-income people.

PARTICIPANTS' INTERESTS AND SKILLS DETERMINE EMPLOYMENT

The types of jobs that FSS program participants obtain will be influenced by the participants' interests, skills, and abilities. For example, many jobs, such as child care provider (median hourly wage of $5) or file clerk (median hourly wage of $7), may not pay enough to allow participants to become self-sufficient. However, some program participants may be more interested in these occupations than in higher-paying jobs, such as construction work. A county JOBS official in Charlotte, North Carolina, stated that possible reasons for the lack of interest in certain jobs--such as construction work--include the lack of public transportation to remote construction sites early in the morning and the difficulty of obtaining child care at an early hour.

In addition, expressing an interest in a particular occupation does not guarantee the availability of a training program to meet that goal. For example, certain training programs for relatively higher-paying jobs, such as nursing, may be offered via a competitive process, which may delay or preclude a participant's obtaining the requisite knowledge and skills. At two of the three locations we visited, training officials stated that many clients are interested in becoming licensed practical nurses. However, because competition for slots in training courses for licensed practical nurses is keen, entry into these programs is not guaranteed.

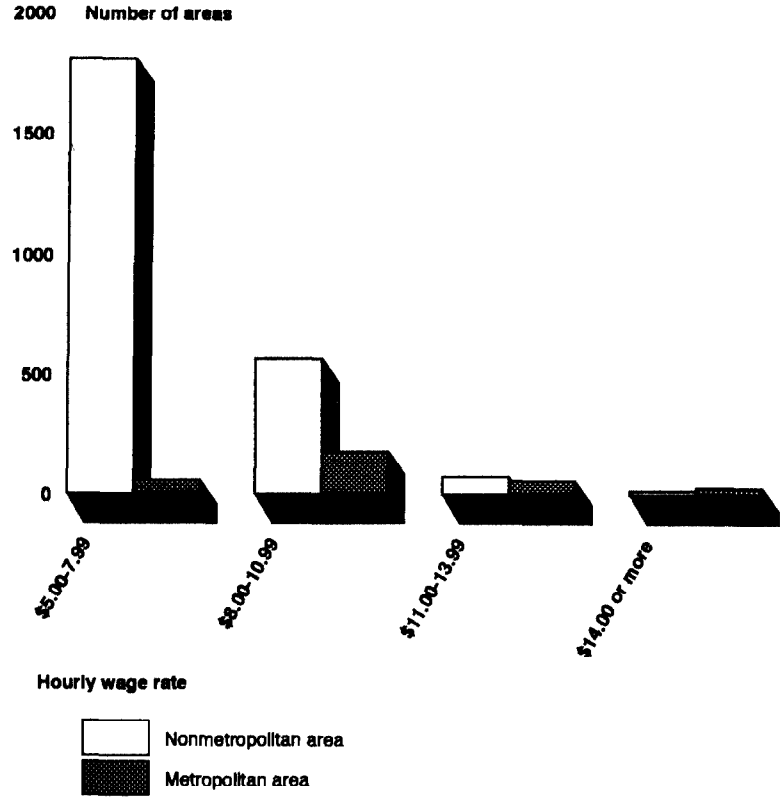
VARIOUS FACTORS AFFECT PARTICIPANTS' ABILITY TO GIVE UP ASSISTED HOUSING	• Housing Is Sometimes Unaffordable Without Assistance • Lengthy Waiting Lists May Deter Families From Giving up Assistance • The Incentive Value of Escrow Savings Will Vary

An implied goal of the FSS program is to enable a participating family to relinquish housing assistance. However, various factors--such as local housing costs, the difficulty of regaining housing assistance, and the incentive value of the FSS program's escrow savings account--may influence a participant's ability and willingness to give up assisted housing.

HOUSING IS SOMETIMES UNAFFORDABLE WITHOUT ASSISTANCE

A participant's ability to relinquish housing assistance depends on the cost of housing. Our analysis of HUD's fair market rents (the average market-rate rents paid in a particular area) indicated that, for many nonmetropolitan and some metropolitan areas, the goal may be attainable. However, for certain highly populated metropolitan areas, where large numbers of program participants would be located, the goal appears ambitious.

Figure 6.1: Hourly Wage Needed to Afford a Two-Bedroom Apartment at HUD's Fair Market Rent in Nonmetropolitan and Metropolitan Areas



Source: Federal Register (Sept. 25, 1991), pp. 49026-49079.

As figure 6.1 shows, an hourly wage rate of $5.00 to $7.99 would allow participants in many areas to pay fair market rents. However, most of these areas are nonmetropolitan. The figure also shows that, in 86 highly populated metropolitan areas, participants need to earn at least $11.00 per hour to afford the fair market rent. For 30 of these metropolitan areas--with over 37 million residents--the hourly wage needed to afford the fair market rent is $14.00 or more. An additional 51 million people live in the 56 metropolitan areas where an hourly wage between $11.00 and $13.99 is needed. As noted in the previous section, some occupations' median hourly wage is substantially lower than $11.00.

Some PHA officials commenting on HUD's proposed guidelines emphasized that some program participants may not be able to attain the goal of relinquishing public housing. For example, the manager of the Garden Grove, California, housing authority stated that local JTPA graduates earn between $6.50 and $7.00 per hour. These amounts are less than 50 percent of the area's median income. A family would need to earn $14.90 per hour in order to afford--i.e., to pay 30 percent of its income for rent--the area's fair market rents. According to the executive director of the Merced County, California, housing agency, a participant would have to earn between $10.00 and $10.50 an hour in order to afford the county's fair market rents. However, the executive director stated that no jobs paying such wages are available in the county.

LENGTHY WAITING LISTS MAY DETER FAMILIES FROM GIVING UP ASSISTANCE

Federal housing assistance is not an entitlement program; that is, although a family's income may meet eligibility criteria, housing assistance is not guaranteed. Instead, an eligible family may have to wait for assistance because (1) other families may have greater housing needs or (2) the family's name appears on a waiting list after other families' names. The nonentitlement feature of housing assistance and some communities' long waiting lists may deter families from giving up their housing assistance.

Families that need housing assistance must apply to their local PHA. If no units are available, eligible families are placed on the PHA's waiting list. If the PHA has a lengthy waiting list and the family's need for housing is judged less acute than that of other families, the family may have to wait for years until either a public housing unit or section 8 assistance becomes available. According to a 1988 survey by the National Association of Housing and Redevelopment Officials, more than 1 million households were listed as waiting for public housing and about 800,000 households were listed as waiting for subsidized privately owned housing.

Families in the FSS program may be aware that if they give up their housing assistance, they may not get it back either automatically or quickly. For example, an FSS family may leave assisted housing and then find, because of a personal setback--such as unemployment--that it can no longer afford the private rental market. However, the family may have to wait before it can again obtain housing assistance. Furthermore, the PHA may impose a waiting period for obtaining future housing assistance on FSS program families that relinquish housing assistance and take their escrow account funds with them. According to the proposed FSS guidelines, PHAs may require an FSS family to wait for up to 2 years to reapply for assisted housing unless the former participating family reimburses the PHA for the funds it withdrew.

THE INCENTIVE VALUE OF ESCROW SAVINGS WILL VARY

The escrow savings account established by the FSS program may serve as an incentive for participating families to relinquish housing assistance. Contributions to the family's escrow account are based on the income earned by the family and on the area's median income.[11] According to the act, a family may not withdraw funds from its escrow account until it no longer receives any federal, state, or other public assistance for housing. There is no restriction on how the family may use the escrow; for example, there is no requirement that the escrow savings be used as a down payment on the purchase of a house.

We believe that the presence of a sizable escrow savings account may induce some participating families to relinquish housing assistance, particularly in areas where housing costs are moderate. However, it is too early to assess the incentive value of using the escrow account in the private market. Because high housing costs could lessen or eliminate the incentive value of the escrow account, some PHA officials suggest that an FSS family that complies with the contract of participation but cannot give up its housing assistance should be allowed to receive some of its escrow savings. This program revision would increase the escrow provision's incentive value for certain FSS participants who, because of circumstances beyond their control, may not be able to give up their housing assistance. Such a program change would require the Congress to amend the authorizing statute.

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[11]For families earning less than 50 percent of the area's median income, any increase in income that would normally be paid as rent would go into an escrow account. (Generally, assisted families pay 30 percent of their income for rent.) The family's contribution to the escrow account is phased out as its income reaches 80 percent of the area's median income.

CONCERNS ABOUT HUD's REIMBURSEMENT OF FSS PROGRAM COSTS	• PHAs Must Carry out Many New Duties • PHAs Consider Reimbursement of Costs Inadequate • HUD Is Required to Revise the Administrative Fees • Conclusion • Recommendation to the Secretary of HUD

The FSS program places numerous new duties on the PHA. Many PHAs are concerned that HUD's reimbursement for the costs of administering the program will not be adequate to allow PHAs to operate an effective program. We could not find data that would allow us to determine the cost of operating programs like FSS. Furthermore, under HUD's proposed program guidelines, PHAs are not required to collect these cost data.

PHAS MUST CARRY OUT MANY NEW DUTIES

Each PHA operating an FSS program must perform the following duties:

- Establish a program coordinating committee.
- Prepare an action plan.
- Obtain commitments from the organizations providing supportive services to the participating families.
- Inform potential participants about the program.
- Select the program participants.
- Develop each family's contract of participation.
- Ensure the provision of supportive services specified in the contract.
- Monitor the family's compliance with the contract.
- Take appropriate action, which may include withdrawing housing assistance and supportive services, if a family does not comply with the contract.

- Invest the escrow funds and account for contributions to the family's escrow savings accounts.
- Disburse the funds from the family's escrow savings account.
- Report annually to HUD on the program's status and effectiveness.

These new duties required of PHAs are in addition to those for which they are normally responsible in administering their housing assistance programs, including determining applicants' eligibility, maintaining waiting lists, computing families' contributions to their rent, and approving leases.

PHAs CONSIDER REIMBURSEMENT OF COSTS INADEQUATE

About two-thirds of the 107 PHAs that commented on HUD's proposed program guidelines complained that HUD's reimbursement of the additional costs of administering the program will be inadequate. In the section 8 program--in which most of the FSS program participants would be placed--the additional preliminary administrative fee authorized by the National Affordable Housing Act amounts to a one-time reimbursement of $25 per unit. The act adds the $25 fee to the $275 preliminary fee that the PHA already receives for each new section 8 participant, subject to appropriations.

In addition, the PHA receives an ongoing fee for administering the section 8 program. This ongoing fee per unit is currently set at 8.2 percent of the fair market rent for a two-bedroom apartment within the PHA's jurisdiction.[12] The National Affordable Housing Act also allows HUD to adjust PHAs' operating subsidies to include reasonable and eligible costs in administering the FSS program for tenants of public housing (including the costs of employing a full-time service coordinator). As of March 1992, HUD had not made this adjustment. HUD officials told us that the Department did not request funds to cover the additional costs of the public housing or section 8 FSS program and that the Congress did not appropriate any funds.

Several PHAs commented on the adequacy of the administrative fees; the comments ranged from derisive criticisms ("pay for it or forget it") to suggestions that the government allow PHAs to keep some of the escrow funds to help cover the costs of operating the FSS program. According to one Oregon housing agency official, housing agencies are already having financial problems without being mandated to operate new, labor-intensive programs with no additional funding. Other PHA officials proposed that the PHAs be

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[12]In addition, the PHA is eligible for a $45 hard-to-house fee for families with three or more children.

allowed to cover their costs by keeping a percentage of the monthly escrow contribution or the interest earned on the escrow. These proposals would require a change to the legislation authorizing the FSS program.

HUD IS REQUIRED TO REVISE THE ADMINISTRATIVE FEES

The act requires us to determine the additional costs to PHAs of administering a self-sufficiency program and to recommend a change to the section 8 administrative fees to cover these costs. HUD is then to revise the administrative fees, taking our recommendation into consideration.

We have not been able to determine the additional costs of operating an FSS program for two major reasons. First, we have found from a limited survey that earlier HUD self-sufficiency demonstrations did not maintain documentation for us to calculate the costs incurred in administering similar self-sufficiency programs. HUD did not gather such data because it did not provide an additional administrative fee for these earlier demonstrations.

Second, PHAs have not yet had enough experience with the FSS program for us to gather more than rough costs estimates. PHAs are not expected to start administering FSS programs until May 1992. In addition, PHAs' efforts to monitor FSS program participants may vary. For example, PHA officials from Charlotte, North Carolina, indicated that the PHA's monitoring of participants was essential. PHAs in other communities also stressed the importance of this monitoring, and the experience of Project Self-Sufficiency further confirms its value. However, monitoring may not occur if the PHAs do not receive adequate reimbursement.

But even without the data to estimate probable FSS program costs, we can observe that the section 8 preliminary fee adjustment of $25 per unit appears to be inadequate to cover the PHAs' additional costs for administering an FSS program. For example, if a PHA were to receive an additional $625 to administer an FSS program for 25 participating families, the PHA would be able to pay a $9-an-hour employee for 69 hours of work. If the 25 families participated in the program for an average of 5 years, the PHA employee would be paid to spend less than 1 hour per year per participant.

The apparently insufficient reimbursement of PHAs' expenses in administering their section 8 FSS programs may, to some extent, be offset by what two studies have found to be an overreimbursement of the administrative fee for the regular section 8 program. Separate 1988 studies by GAO and Abt Associates, Inc., concluded that HUD payments to PHAs actually exceeded the program's administrative

expenses.[13] In revising the administrative fees for the FSS program, HUD can take these earlier findings into account.

HUD officials told us that is difficult to determine the costs of the FSS program with any precision and that costs are likely to vary across the country. For example, some PHAs may be able to draw on local volunteer services, and hence their costs would be lower than those of other PHAs that had to pay for such services.

CONCLUSION

We are not recommending a revision to HUD of the section 8 administrative fees for the costs of operating an FSS program because earlier HUD self-sufficiency demonstrations did not document the costs of operating these programs and PHAs have not had experience in operating FSS programs. Without an adequate accounting of the FSS program costs incurred by PHAs, any revision of the administrative fee would be premature. In addition, any fee revision that did not address what some have concluded is an overreimbursement of the regular section 8 administrative fee would be incomplete. We recognize that accounting for FSS program costs may be difficult and that conditions will vary across the country. Nevertheless, empirical data are necessary to develop reasonable estimates of administrative costs and resulting payments to PHAs for operating FSS programs in public and section 8 housing.

RECOMMENDATION TO THE SECRETARY OF HUD

We recommend that the Secretary of HUD, in the final FSS program guidelines, require PHAs to report the costs of administering the FSS program and to provide detailed estimates of the costs required to operate a more effective program. These costs could be used as a basis for HUD's revision of the reimbursement for FSS administrative costs for both the public housing and section 8 programs.

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[13] Housing Programs: Funding Approach for HUD's Section 8 Certificate Program Needs Changing, (GAO/RCED-88-136, Apr. 1988) and Administrative Costs of the Housing Voucher and Certificate Programs, Abt Associates, Inc. (June 1988).

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