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General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-276781

June 16, 1997

The Honorable Rick Lazio
Chairman, Subcommittee on Housing
and Community Opportunity
Committee on Banking and Financial Services
House of Representatives

Subject: Welfare Reform: Issues and Possible Implications for HUD's
Programs and Tenants

Dear Mr. Chairman:

As requested, we are providing you with (1) a summary of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (the welfare reform law); (2) the views of the Department of Housing and Urban Development (HUD), researchers, and interest groups on the extent to which welfare reform will affect HUD's programs and tenants; and (3) a list and descriptions of the HUD programs that may be used to provide employment opportunities for low-income individuals.

In summary, the new welfare reform law takes a comprehensive approach to promoting self-sufficiency for families by making benefits time-limited and work-dependent. As a part of this comprehensive approach, the welfare reform law eliminates the federal entitlement program of Aid to Families With Dependent Children (AFDC) and replaces it with Temporary Assistance for Needy Families (TANF)—a block grant for the states to provide time-limited cash assistance to needy families. The states have a great deal of discretion in determining how to utilize their block grants. Among other things, the states can set eligibility limits and benefit levels, deny additional assistance for any recipient who has another child while receiving benefits, and spend funds for services to families rather than for cash benefits. The new law also abolishes the work and training program for welfare recipients, reduces the food stamp program, tightens Supplemental Security Income (SSI) eligibility criteria for children, eliminates SSI and food stamp benefits for most legal immigrants,

GAO/RCED-97-148R Welfare Reform and Housing

158908

expands child care funding, and strengthens child support enforcement. One area not addressed by the welfare reform law is housing. (Enc. I summarizes the new welfare reform law.)

While it is too early to determine the extent to which welfare reform will affect HUD's programs and tenants, the welfare reform law will have implications for HUD because many participants in its programs receive AFDC (now TANF) benefits and SSI. For example, HUD estimates that in 1995, public assistance was the primary source of income for almost half of the families with children assisted by HUD. HUD believes that in some cases, welfare reform will be an incentive for families to become self-sufficient but that in other cases families may encounter increased financial hardship. According to the agency, the incomes of families receiving assistance may decline because SSI payments will terminate for some, and benefits and eligibility may be reduced for others under TANF. Changes in food stamp benefits, limitations on assistance to legal immigrants, and the way that the states implement welfare reform are also expected to have additional impacts, according to HUD. (Enc. II discusses welfare reform's potential implications for HUD's programs and tenants.)

HUD stated that it has a strong commitment to providing employment opportunities, along with the necessary training and supportive services, for low-income persons. According to HUD, the Department's economic development programs—such as the Community Development Block Grant program—can play a vital role in bringing jobs to communities. (Enc. III provides a list of the HUD programs that the Department believes will assist low-income persons in finding employment opportunities.)

AGENCY COMMENTS AND OUR EVALUATION

We provided copies of a draft of this report to HUD for review and comment. HUD's written comments included a cover letter summarizing the agency's comments and two attachments that provided (1) a more detailed response (including technical corrections and editorial changes) and (2) a paper on the Community Development Block Grant program. HUD's cover letter summarizing its overall comments appears in enclosure IV. HUD neither agreed nor disagreed with the report but provided observations for us to consider in this or a future report.

In commenting on our report, HUD noted that it expects that welfare reform will significantly increase the demand for the employment opportunities, housing, and supportive services that the Department's programs provide.

HUD's primary area of concern was that the draft report did not directly address the efforts the Department is making to shape its programs to maximize their potential for ensuring that the residents of public and assisted housing, as well as other welfare recipients, will have a good chance of succeeding under welfare reform. For example, HUD noted that its core economic development programs, such as Empowerment Zones and Enterprise Communities and the Community Development Block Grant program, have the dual purpose of restoring communities and creating jobs. HUD noted that some of its other programs, such as Economic Development and Supportive Services, provide a comprehensive approach to promoting self-sufficiency. While our report briefly describes each of these programs and notes that HUD is undertaking efforts to promote partnerships at the state and local levels and to expand some of its economic development programs, an in-depth discussion of each of HUD's current efforts was beyond the scope of this review. In one of the attachments to its comments, HUD suggested that we include several references to its proposed 1997 Public Housing Management Reform Bill. Because we chose not to discuss other pending public housing reform initiatives in this report, we did not add references to HUD's proposal. Finally, we incorporated HUD's suggested editorial and technical changes where appropriate.

To summarize the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, we reviewed the law and summaries of the law produced by the departments of Agriculture, Health and Human Services, and HUD. We gathered views on the extent to which welfare reform will affect HUD's programs and tenants by collecting and analyzing studies, estimates, and position papers developed by HUD, researchers, and interest groups. We supplemented this information through interviews with HUD and interest group officials. However, we found that limited information currently exists on the potential impacts of welfare reform on HUD's programs and tenants. We obtained from HUD the list of its programs that can be used to provide training and employment opportunities. We performed this work from February through April 1997 in accordance with generally accepted government auditing standards.

B-276781

Please call me on (202) 512-7631 if you or your staff have any questions. Major contributors to this report include Susan Campbell, Vondalee Hunt, and Stephen Jones.

Sincerely yours,

A handwritten signature in cursive script that reads "Judy A. England-Joseph".

Judy A. England-Joseph
Director, Housing and Community
Development Issues

Enclosures - 4

A SUMMARY OF WELFARE REFORM

On August 22, 1996, President Clinton signed into law (P.L. 104-193) the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. The new law reshapes cash and food welfare programs and imposes a citizenship requirement for many benefits, among other things. The major components of the law will

- replace the 61-year-old Aid to Families With Dependent Children (AFDC) program with a block grant fund to states called Temporary Assistance for Needy Families (TANF),
- reduce food stamp benefits and expand the states' authority over food stamp operations,
- tighten Supplemental Security Income (SSI) eligibility criteria for disabled children,
- end benefits for most legal immigrants,
- reduce subsidies for some child nutrition programs,
- expand child care funding, and
- strengthen child support enforcement.

The welfare reform law did not address housing.

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

The law abolishes AFDC, the primary cash aid program for families with children, as well as the Job Opportunities and Basic Skills Training program (JOBS) (the work and training program for AFDC recipients) and Emergency Assistance to Families with Children (a program that provided emergency help to families with children for a maximum of 1 month per year). These programs are replaced by TANF, a block grant of federal funds given to the states. The states can use the block grant to provide vouchers or services rather than cash benefits because the law contains no explicit requirement that families get cash aid. While the states must operate a welfare program in all political subdivisions, the programs need not be uniform across the state (although families must get fair and equitable treatment).

Effective Date

Generally, the states must adopt their TANF plans by July 1, 1997. The states may choose to begin their program earlier by submitting a state plan to the Secretary of Health and Human Services (HHS). As of January 31, 1997, 40 states had filed their TANF plans with HHS, and 35 of those plans had been certified as complete. In addition, some states were granted waivers from the AFDC rules before the enactment of the new law. If the new law is inconsistent with these waivers, the states may continue administering their programs under the waivers if they choose to do so.

Funding

AFDC required the federal government to share the program's costs with the states; the federal share was at least 50 percent of the benefits provided to each family. Therefore, if the number of families receiving benefits increased during an economic slowdown, so did federal spending. Under TANF, the states will receive a "capped" block grant that is set at \$16.4 billion annually through fiscal year 2002. Each state will receive a fixed level of resources for income support and work programs on the basis of the state's past spending levels on these programs; if the number of families meeting eligibility standards changes, there will be no automatic adjustment in federal funds. However, the law establishes a \$2 billion "contingency fund" that the states can qualify for on the basis of high rates of unemployment or sharp increases in food stamp participation. In addition, the states can receive additional funding if they are among the highest performing states in achieving the objectives of the act or reducing illegitimacy. The law also includes (1) an \$800 million grant fund for states with above-average population growth or below-average benefits and (2) a \$1.7 billion loan fund.

State Discretion

The states have a great deal of discretion in determining how they plan to use the TANF block grant funds. The new legislation allows the states to set eligibility limits and benefit levels. The states implicitly have complete flexibility to deny assistance to recipients who have additional children while receiving assistance (i.e., the family cap) and to limit benefits for a recipient who moves into the state to the same level of benefits as the recipient would have received in his or her former state. The states can also spend funds on services to families or to operate employment placement programs. The funds do not have to be spent entirely on cash benefits.

Time Limits

Federal funds can be used to provide a total of no more than 5 years of aid in a lifetime to a family. The states may give hardship exemptions to up to 20 percent of their average caseload. The states may also adopt shorter time limits, at their option.

Work Requirements

The new law establishes increasing work participation goals for the states' welfare programs. Individuals must participate in work activities within 2 years of receiving aid. Those individuals who have received aid for more than 2 months, are not exempt from work requirements, and are not engaged in work must participate in community service, unless the state opts out of this requirement. Each year, the states must involve an increasing percentage of TANF families in work activities, beginning at one-fourth in 1997 and rising to one-half in 2002. The minimum amount of time for a single parent—except those with a child under the age of 6 years—to spend in work activities rises from 20 hours per week in 1997 to 30 hours per week in 2000. At least one adult in 75 percent of two-parent families must be working in 1997 and 1998, as under previous law, but the rate rises so that adults in at least 90 percent of two-parent families on welfare must be working in 1999 and thereafter. Those states not meeting these work participation rates for single-parent and two-parent families face a reduction in TANF block grant funds.

Adults cannot be penalized for a failure to meet work requirements if their failure is based on the inability to find or afford child care for a child under 6 years of age. If the adult recipient refuses to participate, the state is to reduce the family's assistance (the penalty can include terminating help to the entire family). Adults can lose Medicaid and food stamps as well as cash aid.

Maintenance of Effort

The law has a "maintenance of effort" requirement on state funding. The states that do not meet mandatory work requirements must spend 80 percent of the amount they previously allocated from their own revenues for AFDC and related programs as their "maintenance requirement." For states that meet the mandatory work requirements, the maintenance requirement is reduced to 75 percent. To qualify for contingency funds, the states must meet a 100-percent maintenance requirement.

Minor Parents

The new law requires the states to deny cash aid to unmarried mothers under age 18 and their children unless they live with an adult relative or in an adult-supervised arrangement (unless the state determines that they might suffer harm in the home). To

receive assistance, the mother must attend high school or an alternative training program as soon as her child is at least 12 weeks old.

FOOD STAMP PROGRAM

The new law imposes a special time limit on benefits for nondisabled, childless persons aged 18 to 50. These individuals can receive a maximum of 3 months of benefits in each 36-month period without working or engaging in a work-training program (individuals can regain eligibility for an additional 3 months of assistance during this period under certain conditions). The law also reduces the basic food stamp benefits; limits the degree to which households with very high shelter expenses are given extra food stamp benefits; and makes other changes in deductions from income.

The states' flexibility in implementing the food stamp program is increased through the provisions for a "simplified" food stamp program for the recipients of TANF; the removal of a number of federal directives as to how the states implement the program; allowing the states to reduce benefits by up to 25 percent for those recipients who fail to perform an activity required under the TANF program.; and easing limits on the extent to which waivers from the federal rules can be granted. In addition, the states' simplified programs may not increase federal food stamp costs.

The definition of a food stamp "household" is also changed under the law. Persons less than 21 years old who are parents or are married but are living with their parents no longer qualify as an independent household. Their parents' incomes will count against their benefits.

SUPPLEMENTAL SECURITY INCOME

Under the previous legislation, children were eligible for disability payments if they suffered from an impairment comparable to one that would keep an adult from working. The Social Security Administration, in regulations, defined this as an impairment which substantially limited a child's ability to perform activities that are considered normal for his or her age. The new law establishes a more stringent standard for eligibility. Under the law, a child is found disabled only if his or her impairment results in marked and severe limitations in his or her ability to function. Children already on the rolls who do not meet this new criterion will have their benefits terminated.

LEGAL IMMIGRANTS' ELIGIBILITY FOR BENEFITS

Under the new law, most legal immigrants will lose their eligibility for SSI and food stamp benefits between April and August 1997. The law ends SSI benefits for legal immigrants, including children, unless they are veterans or active-duty members of the

U.S. military, and their families, or have worked 40 qualifying quarters under Social Security. The work-related exception may take into account qualifying quarters of work performed by (1) the immigrant; (2) the immigrant's spouse (but only if the immigrant remains married to the spouse or the spouse is deceased); or (3) the immigrant's parent before the immigrant reached age 18. Also exempt, but only for 5 years, are refugees and people seeking asylum. The states have the option to make legal immigrants ineligible for TANF and Medicaid.

CHILD NUTRITION PROGRAMS

The law reduces federal subsidies for meals and snacks served in family day care homes by creating two tiers of income-based reimbursement rates. In addition, the law reduces reimbursement rates for the Summer Food Service Program. It also makes the individuals who are eligible to receive public education in a state eligible for school meal benefits regardless of their citizenship or immigration status. Finally, the law eliminates school breakfast start-up and expansion programs and makes nutrition education and training discretionary.

CHILD CARE

The new welfare law adds mandatory funding for states and provides additional discretionary funds under an amended Child Care and Development Block Grant for child care for low-income families. Under the amended block grant, individual states are entitled to receive the amount they received for AFDC programs for work-related child care, transitional child care, and at-risk child care in 1994, 1995, or the average of the amounts for 1992-94, whichever is highest. The states that maintain the higher of their 1994 or 1995 spending on those programs also will be able to draw down an additional amount at a matching rate from Medicaid.

The law provides the states with budget authority of \$2.0 billion in 1997 and \$13.9 billion for 1997 through 2002. In addition, the law provides another \$7 billion in discretionary funding under the block grant.

The previous law guaranteed child care help to families on welfare that needed child care to participate in work or training and up to 1 year of transitional child care help if they left welfare as a result of their earnings. The new law eliminates these guarantees. The new law does require the states to use at least 70 percent of the funds made available for child care on families who are either receiving TANF, transitioning off TANF, or at risk of becoming dependent on TANF.

CHILD SUPPORT ENFORCEMENT

The law makes a number of child support changes that require the states to adopt new enforcement tools and processes that facilitate new national efforts to enforce the collection of child support payments from delinquent parents. The federal government and the states are required to establish automated registries of child support orders and a directory of new employees throughout the state so as to quickly track and locate absent parents. These efforts also include the expedited seizure of assets and the denial of certain licenses.

WELFARE REFORM'S POTENTIAL IMPACT ON
HUD'S PROGRAMS AND TENANTS

Many of the participants in HUD's programs will be affected by the welfare reform law. For example, HUD estimates that there are 1.5 million recipients of AFDC and SSI assistance among the 4.5 million tenants receiving HUD rental assistance from the Department.¹ Of the HUD-assisted families with children, almost half relied on public assistance as their primary source of income in 1995. At least in the short run, HUD believes that these families will lose income, since SSI payments to many children and most legal immigrants will end, and benefits and eligibility under TANF may be reduced by the states. HUD expects additional impacts because of the changes in food stamp benefits, limitations on assistance to legal immigrants, and TANF implementation decisions made by the states. In addition to the expected impact on those served by HUD's rental assistance programs, other programs in the areas of self-sufficiency, assistance to the homeless, and community development will also be affected as HUD attempts to meet the multiple needs of its clients. For example, HUD is encouraging public housing authorities (PHA) to determine how many residents obtain welfare and what types of social services they have. Plus, HUD is promoting partnerships with private and community service providers who can aid residents and has proposed an expansion of economic development initiatives, such as empowerment zones, to help communities create more job opportunities.

While housing providers and researchers agree that there is little information to determine the impact of welfare reform on assisted housing, the states' welfare reform efforts raise many questions worthy of exploration. The following is a discussion of how welfare reform may affect HUD, its programs, and the people whom it assists.

The Effect on HUD's Budget

The Congressional Budget Office (CBO) estimates that the new law will reduce federal outlays by a total of about \$54 billion over the 6 fiscal years 1997 through 2002. Most of these estimated savings come from reductions in the food stamp program, SSI, and assistance to legal immigrants. However, CBO's estimate did not take into account the law's implications for the budget. In HUD's draft report, the preliminary estimate by HUD's Office of Policy Development is that in 1997 through 2002, the new reform will raise HUD's budget requirements by \$2.3 billion. The draft report noted that the reductions in cash benefit payments to families with children are responsible for most of the projected increase in HUD's funding. HUD cautioned, in the draft report, that any

¹The Impacts of Federal Welfare Reform on HUD Public and Assisted Housing: An Initial Assessment (Draft), HUD, Office of Policy Development (Jan. 21, 1997).

specific outlay estimates of the impacts of welfare reform are extremely speculative at this time because the states will have a great deal of flexibility in implementing the new law, and variations are impossible to model in advance. HUD's estimate is based on the analyses of the law by the Urban Institute and CBO. However, the draft states that the administration believes that the Urban Institute's analysis may be too pessimistic in estimating the likely response of those welfare recipients moving from welfare to work. Therefore, the administration believes that the Institute's cost estimates may be overstated.

All Who Need Housing Assistance Do Not Receive It

Because of the high cost of housing in many areas, housing assistance may be a necessary component in helping families work toward self-sufficiency. In addition, shelter and supportive service needs will have to be met for the homeless before that group's employment expectations can be realized. Currently, HUD's housing assistance programs are limited by budgetary constraints to only about 4.5 million units; of these, about 29 percent are public housing, 31 percent are units obtained with tenant-based section 8 certificates or vouchers, and 40 percent are project-based units. The ceiling income for housing assistance is 80 percent of an area's median income. However, since 1981, mandatory quotas have directed assistance to households with incomes below 50 percent of the median; preferences were given to those who were involuntarily displaced, living in substandard housing, or paying more than half their income for rent.² According to a HUD study in 1993,³ 5.35 million households—representing 12.8 million individuals—that did not receive housing assistance had incomes of less than 50 percent of their areas' median incomes and paid more than half of their income for housing or lived in poor-quality housing, meaning that they had "worst-case" housing needs. Almost 2 million of the households with worst-case housing needs were already working at least half time. Furthermore, a majority of the households with worst-case needs also had incomes below 30 percent of their areas' medians. According to HUD, from 1978 through 1993, the number of households with worst-case needs increased by 1.5 million.

²The preferences were suspended by the January 1996 continuing resolution and again by the fiscal year 1997 VA/HUD and Independent Agencies Appropriations Act.

³Rental Housing Assistance at a Crossroads: A Report to Congress on Worst-Case Housing Needs, HUD, Office of Policy Development and Research (Mar. 1996).

Attaining Self-Sufficiency From Housing Assistance Will Be Difficult for Many Recipients

In our 1993 report,⁴ we found that families may achieve economic independence from AFDC and food stamps through increased earnings; however, economic independence from rental assistance is beyond the means of many housing assistance recipients. Thus, it appears unlikely that many families will be able to move "up and out" of assisted housing, freeing up units for other eligible families. According to HUD, the diminishing supply of public housing and other affordable housing stock and the necessity of higher rents in public housing to cover costs may make movements out of assisted housing even more difficult in the future. Using 1992 data, we found that the recipients of HUD's Section 8 rental assistance in fiscal year 1992 would have needed annual incomes between about \$18,000 and \$36,000 (depending on the location) to become economically independent of the program (i.e., to be no longer eligible for the program on the basis of income). These amounts are much higher than the median income of \$7,320 reported for all HUD-assisted households in 1989, even when adjusted for inflation.⁵ However, HUD believes that for a number of reasons the incomes may be understated and that these results should be used with caution.

The source of these incomes also provides an indicator of the assisted households' potential for moving toward or achieving self-sufficiency. Only 40 percent of the HUD-assisted households reported income from wages or salaries, compared with 53 percent of renter households that were eligible but did not receive housing assistance. In addition, the bulk of the income reported came from social security/pensions, welfare/SSI, and food stamps. The lack of income from wages and salaries and the reliance on other forms of income is partially explained by the number of the HUD-assisted households headed by elderly or disabled individuals. Table II.1 shows the monthly earnings that a three-member family renting a two-bedroom apartment would need to be independent of the Section 8 program in the states with the highest and the lowest break-even levels, as well as for the median state in each quintile when the states are ranked in the order of their average fair market rent (FMR). HUD establishes FMRs for each metropolitan and nonmetropolitan area in a state, which currently reflect rents at the 40th percentile for a given number of bedrooms.

⁴Self-Sufficiency: Opportunities and Disincentives on the Road to Economic Independence (GAO/HRD-93-23, Aug. 6 1993).

⁵HUD-Assisted Renters (GAO/RCED-95-167R, May 18, 1995).

Table II.1: Section 8 Certificate Housing Break-Even Amounts for Families Renting Two-Bedroom Units (Fiscal Year 1992)

State category	State	Average fair market rent ^a	Monthly break-even amounts per family	
			Earnings per month	Hourly wage rate ^b
Lowest	Alabama	\$384	\$1,533	\$10.22
1st quintile	Oklahoma	\$421	\$1,658	\$11.06
2nd quintile	Indiana	\$458	\$1,780	\$11.87
3rd quintile	Michigan	\$510	\$1,955	\$13.03
4th quintile	Illinois	\$577	\$2,178	\$14.52
5th quintile	New Hampshire	\$712	\$2,627	\$17.51
Highest	District of Columbia	\$830	\$3,022	\$20.14

^aThe average FMR is the average of the highest and lowest FMRs in the metropolitan areas of a state.

^bFull-time employment of 150 hours of work a month.

Source: Self-Sufficiency: Opportunities and Disincentives on the Road to Economic Independence (GAO/HRD-93-23, Aug. 6, 1993).

The Effect on the Residents of Public and Assisted Housing

In general, the rent obligation of assisted tenants is 30 percent of adjusted income.⁶ As tenants' incomes rise or fall, their rent also rises or falls. Rental assistance recipients who are unsuccessful at finding employment and lose their TANF or SSI assistance may

⁶Certain allowances, such as those for dependents under the age of 18 and medical expenses for the handicapped or elderly, can be excluded from annual income.

not lose their housing assistance since usually, as income decreases, their share of the rent decreases as well. Rental assistance recipients who are successful at finding employment would continue to pay 30 percent of their adjusted income for rent. Usually, as their incomes increase, one-third of each dollar would be spent on rent. As discussed below, welfare reform may have positive or negative effects on the tenants of public and assisted housing.

Minimum and ceiling rents for public housing. Minimum and ceiling rents were authorized for fiscal year 1997 by the fiscal year 1997 VA/HUD and Independent Agencies Appropriations Act (P.L. 104-204) and remain in effect until the end of fiscal year 1997 unless additional legislation is enacted. Under the act, if residents lose their income from welfare and have no other income, the residents could be charged a minimum rent of up to \$50 per month that would be established by the housing authority. If a resident is charged a minimum rent and cannot pay, the resident could be evicted. The ceiling rent language allows the public housing authority (PHA) to cap rents at a level reflective of the unit's market value, but not below the operating costs of the unit. This way, as residents' incomes increase, rent would not increase above the ceiling so that families could keep more of their income. Yet if the family stayed, there would be one fewer unit available for a family with a need for affordable housing.

Housing voucher payments. In the Section 8 tenant-based rental voucher program, families may pay more or less than 30 percent of their income for rent, depending on whether the units they select rent for more or less than a "payment standard" that is set by the housing authority. If a resident is paying more than 30 percent of his or her income for rent, and the income falls, HUD may not assume the difference since the maximum rental assistance that a resident can receive is the difference between the payment standard and 30 percent of income. Thus, tenants may be forced to move to less expensive units.

Food stamp reductions. Although HUD does not count food stamps as part of residents' income in the calculation of residents' rent, a change in the amount of food stamps that a resident receives may affect the amount of rent they can afford. HUD has no authority to allow rents to fall in response to food stamp cuts. If a resident loses food stamps, he or she will be likely to have to use other income to pay for food, which will result in less money available for other items, such as rent. As a consequence, HUD believes that rent defaults and evictions could increase.

The Effect on the Funding Provided to PHAs and Other Rental Assistance Providers

Since HUD pays funds to housing providers (PHAs and project-based assistance providers) to cover the costs in excess of rental payments made by the recipients of

HUD's housing subsidies, the changes in residents' incomes and thus rental payments that result from welfare reform will affect the amount of money that housing providers need to cover costs. However, the direction of that change is uncertain. If residents' incomes and rent payments increase, housing providers will need less federal funds to cover costs, but if residents' incomes and rent payments decrease, housing providers will need more funds to cover their costs. As mentioned previously, HUD's preliminary estimate is that from 1997 through 2002, welfare reform will raise HUD's budget requirements by \$2.3 billion.

In the public housing program, the federal government pays PHAs an operating subsidy to cover a percentage of the difference between the PHAs' expenses and their sources of income, including residents' rent payments. The more money that residents pay for rent, the less operating subsidy the PHAs may need. Conversely, if rent payments decrease, the PHAs may need more operating subsidy. However, for several years in a row now, budgetary pressures and reduced appropriations have meant that HUD could not fully fund the difference between the tenants' rents and the PHAs' operating costs. The Council of Large Public Housing Authorities (CLPHA) estimates that after the 5-year time limits expire, if PHAs are funded at 85 percent of HUD's estimated need for operating subsidy, the portion of lost rental revenues not covered by operating subsidies will be about \$74 million annually. According to HUD, the prorations for fiscal years 1996 and 1997 were 89 percent and 95 percent, respectively.

Under Section 8 tenant-based and project-based programs, HUD or the PHAs, on behalf of HUD, pay the difference between the contract rent agreed to and the residents' rental payments—which fluctuate with changes in incomes. Thus, if the residents' incomes increase, they will pay a larger portion of the contract rent, and HUD or the PHAs will pay less. Conversely, if the residents' incomes decrease, HUD or PHAs will pay a larger portion of the contract rent to the Section 8 housing provider. Thus, the annual federal cost of Section 8 programs will vary inversely with residents' incomes.

The Effect on Legal Immigrants Who Live in HUD-Assisted Housing or Who Apply for Housing Assistance

According to HUD, about 98,500 adult noncitizens receive both SSI benefits and HUD's housing assistance. HUD reported that the Social Security Administration estimates that roughly three-fourths of the noncitizens currently receiving SSI benefits are ineligible under the new law.⁷ Generally, according to HUD, current HUD-assisted legal immigrants will not lose their housing assistance, and legal immigrants who entered the

⁷See footnote 1.

United States before August 1996 will remain eligible for housing aid in the future, even if they do not receive it now.

However, HUD believes the law is unclear on whether it limits HUD housing assistance for legal immigrants who entered the United States after August 22, 1996, because the law's description of the types of programs affected is unclear. According to HUD, the law prohibits most legal immigrants from receiving assistance from "federal means-tested" programs for 5 years if they enter the United States after August 22, 1996, but it does not define which programs are "federal means-tested." The administration will make an initial determination as to whether the law applies to HUD-assisted housing, according to HUD.

The PHAs' Role in Helping Residents Find Employment

Programs such as the Family Self Sufficiency (FSS) Program promote coordinated housing assistance with supportive services to promote self-sufficiency. Through section 3 of the Housing and Urban Development Act of 1968 (amended in 1992), which requires PHAs to ensure that residents can benefit from employment through the expenditure of federal housing assistance, PHAs obtain services, jobs, or training for residents. Yet these and other programs geared toward self-sufficiency or employment serve only a fraction of the total number of residents. HUD believes that FSS has been expanding over time but that less than 2 percent of public housing and certificate/voucher households combined participate in FSS. The program places new duties on housing providers, such as arranging for services that will be supplied by others and monitoring residents' progress. The act creating FSS did not authorize additional funds for these services. Thus, PHAs would need to create close working relationships with state and local agencies and private supportive service providers to best ensure that services are available. Some PHAs and housing interest groups are concerned that housing agencies may be unable to operate effective Section 8 programs without adequate funding to cover the costs of FSS duties.

According to a November 1996 HUD-funded study,⁸ the use of the section 3 jobs program (see description in enc. III) is an inherently limited mechanism for employing large numbers of residents. The jobs that residents receive through section 3 are mainly related to construction and therefore provide periodic and short-term employment. Also, the number of jobs resulting from federal funding to any single PHA is small compared to the need for jobs among residents. However, HUD believes the section 3

⁸Lessons From the Field on the Implementation of Section 3, Prepared for the HUD Office of Policy Development and Research by the Manpower Demonstration Research Corporation (Nov. 1996).

requirements can be useful in finding work for residents in instances where housing authorities are undertaking considerable rehabilitation.

The success of welfare reform depends, in part, on the availability of employment training and job development opportunities for low-income people. HUD believes that it is committed to providing employment opportunities, training, and supportive services for low-income persons. According to HUD, many of its economic development programs, such as the Community Development Block Grant program, generate large numbers of new job opportunities that should not be lost for low-income residents. (Enc. III provides a list of HUD programs that may be used to provide employment opportunities for low-income persons.)

The Effect on Homelessness

Homelessness is expected to remain a serious problem in the future because affordable housing is still scarce, some local economies are stagnant, and the current resources available to address homelessness are deemed insufficient, according to homelessness advocates, local officials, and program administrators. HUD and the National Coalition for the Homeless believe that welfare reform may increase homelessness. As we determined in 1995, most experts agree that the mainstream public social programs, such as Section 8 and AFDC (now TANF), are the key to reducing the number of homeless persons on any large scale and ensuring that those once homeless do not return to the streets. Some of the mainstream programs deemed necessary to reduce homelessness have been eliminated or severely restricted. While providers for the homeless are serving some of the homeless, prevention programs are needed to keep those who have been assisted from returning to homelessness and those with homes from falling into homelessness.⁹

Advocates for the homeless fear that the new welfare legislation will destroy the federal safety net and dramatically contribute to homelessness. The National Coalition for the Homeless asserts that without increased resources for jobs (that pay livable wages), affordable housing, health care, education, and child care, welfare reform will move people from welfare into deeper poverty and homelessness. The homeless population's access to jobs and training is often hampered by the lack of a fixed address. As a result, the work requirements will be especially difficult for this population. The new work requirements will also eliminate many homeless persons' eligibility to obtain foodstamps—which are often one of the last resources that homeless individuals can count on. The Coalition also believes that changes to SSI disability provisions for children and

⁹Toward Another Decade of Homelessness? An Issue Paper (GAO, Sept. 15, 1995).

to eligibility for most programs for poor and disabled immigrants will eliminate scarce resources that often stand between families and homelessness.¹⁰

HUD agrees that the new legislation may result in increased homelessness. According to HUD, because more than 5 million families are paying more than 50 percent of their incomes for rent, reductions in cash benefits and in food stamps are likely to make it impossible for some families to continue to make monthly rent payments. The families that are most at risk will be those who reach the 5-year limit for receiving assistance under TANF. As a result, some families could be evicted from their apartments and become part of the homeless population. In some states, families may feel the impact of time limits under TANF in less than 5 years and the impact of sanctions immediately.¹¹

The Effect on Economic Activity in High-Poverty Areas

According to HUD,¹² public benefits, such as AFDC (now TANF), SSI, and food stamps, together represent a large component of the total purchasing power in many high-poverty central-city neighborhoods and in some high-poverty rural areas. In 1990, the percentage of households receiving public assistance ranged from 26 percent in Detroit, Michigan, to 10 percent in San Francisco, California. Because many families who receive assistance are concentrated in distressed neighborhoods, businesses in these neighborhoods could see reduced sales as families lose their welfare assistance or have their food stamps reduced. Businesses will reduce their payrolls and may be forced to close, leaving communities with even fewer jobs and services, according to HUD. The effect could also have an impact on the owners of rental housing, who may have difficulty collecting enough rent to sustain their buildings, thus further contributing to the deterioration of the housing and the neighborhood.

On the other hand, the welfare reform changes may stimulate residents to move to areas where employment is available. According to one background paper, families who receive Section 8 certificates or vouchers will be advantaged under welfare reform because they will be able to use their assistance in a new location.¹³ The net result may

¹⁰Welfare Repeal: Moving Americans Off Welfare Into Homelessness. The Impact of H.R. 3734 on Homelessness in America, National Coalition for the Homeless.

¹¹See footnote 1.

¹²See footnote 1.

¹³Michael Wiseman, Welfare Reform in the United States: A Background Paper, Housing Policy Debate, vol. 7, issue 4. (Date?)

be a further diminished demand for inner-city housing, according to this paper. However, HUD believes it is premature to predict that these moves would happen in numbers great enough to have a significant impact on the overall demand for housing in the inner city.

HUD'S EMPLOYMENT AND TRAINING PROGRAMS

HUD currently operates employment training programs, job development programs, and demonstration programs that it believes will be involved in implementing the states' welfare reform initiatives. Following are HUD's description of these programs.

EMPLOYMENT TRAINING PROGRAMS

The Family Self-Sufficiency Program helps the residents of public housing and the recipients of tenant-based Section 8 assistance to become self-sufficient through education, training, and the provision of supportive services, including case management. The PHAs receiving public housing or Section 8 funding commitments for incremental units have a legal responsibility to operate a family self-sufficiency program. Although family participation is voluntary, participating families sign a contract with the PHA specifying (1) what steps both the family and the PHA will take to help them to financial independence and (2) the penalties for failure to comply with the contract.

Funding: No funds are provided for services. However, \$9.3 million was available in fiscal year (FY) 1996 and, according to HUD, \$15 million in FY 1997 for Section 8 FSS Service Coordinators.

The Economic Development and Supportive Services Grant Program provides grants to PHAs, Indian housing authorities, and cooperating nonprofit organizations for social services designed to enhance the self-sufficiency of residents of public and assisted housing. Economic development activities include entrepreneurship training and development, micro-loan funds, and credit union development activities. Supportive services may include child care, employment training and counseling, computer training, education, and transportation.

Funding: \$30.8 million of the \$53 million available in FY 1996 will be used for these grants. The balance has been used for other related efforts. In FY 1997, \$42.25 is available.

The Campus of Learners Program provides public housing residents with an opportunity to live in a college campus-like setting that is focused on learning. As a condition of living on campus, residents agree to enroll in an education program involving computer technology, job training, and comprehensive education and support services. A significant component will be the physical reconfiguration of public housing developments to foster a campus/learning environment and the establishment of community-based partnerships.

Funding: No additional funds are provided for Campus of Learners, but HOPE VI (see description below) and public housing comprehensive grant funds may be used for this purpose.

The Neighborhood Networks Program is a community-based, voluntary, and comprehensive approach to establishing computer learning centers in FHA-insured and assisted multifamily developments. The Neighborhood Networks computer learning centers will give residents access to job skills training, formal education, and community services leading to opportunities for employment, telecommuting, and micro-enterprise development.

Funding: Because this is not a grant program, no specific funding is provided. Owners, however, are permitted to use project resources and get third-party resources, loans, or donations to pay for the costs of setting up a Computer Learning Center.

The YouthBuild Program provides opportunities to economically disadvantaged young adults (aged 16 to 24) by providing education and employment training and skills to achieve self-sufficiency.

Funding: FY 1996 funding was \$20 million; FY 1997 funding is \$30 million.

The Tenant Opportunity Program provides grants to public housing Resident Councils and Resident Management Corporations to fund training and other tenant opportunities, such as business development, education, job training and development, and social services.

Funding: FY 1996 funding was \$15 million; FY 1997 funding is \$5 million. HUD said these funds would be combined for a total of \$20 million.

The HOPE VI Program provides grants to PHAs for revitalizing severely distressed properties. The funds may also be used for community service programs and for supportive services, including, but not limited to, literacy training, job training, and day care.

Funding: For FY 1996, up to 20 percent of a grantee's amount was available for self-sufficiency programs. For FY 1997, grantees may spend the higher of up to \$5,000 per replacement unit or the number of originally occupied units for self-sufficiency programs.

JOB DEVELOPMENT PROGRAMS

Under section 3 of the Housing and Urban Development Act of 1968, priority for training and employment is provided to low-income persons who are residents of public and assisted housing, residents of the neighborhood where the programs are being operated,

participants in YouthBuild, and homeless persons. Priority in contracting is also given to businesses that offer opportunities to these classes of low-income persons.

Funding: There is no funding for section 3.

The Step-Up Program provides career-oriented jobs and training through use of registered apprenticeships and comprehensive support services for participants. Most programs focus on construction and modernization work, but other occupations, including child care, are being developed as well.

Funding: There is no funding for Step-Up.

The Empowerment Zones/Enterprise Communities Program encourages comprehensive planning and investment aimed at job creation and the economic, physical, and social development of needy urban and rural regions of the country.

Funding: Each Empowerment Zone received \$100 million in Social Services Block Grants, and each Enterprise Community received \$3 million for the life of the 10-year program. The program received a total of \$1 billion in grants and over \$2.5 billion in tax incentives. Several sites also received support from HUD's Economic Development Initiative.

The Economic Development Initiative (EDI) supports job creation projects through its financing of community and economic development initiatives. EDI supplements the section 108 Loan Guarantee and Community Development Block Grant program by putting additional equity into community and economic development programs.

Funding: FY 1996 funding was \$50 million. There is no funding for FY 1997.

The Community Development Block Grants (CDBG) help cities and counties develop viable communities by providing decent housing and by expanding economic opportunities. In addition to generating jobs through projects such as housing rehabilitation and the construction of public facilities, CDBG funds are used for job training and supportive services to allow low-income persons to seek and retain employment.

Funding: Generally, up to 15 percent of an annual CDBG grant may be used for public services, and much of that is spent on job training and related services. In FY 1997, a total of \$4.6 billion was provided.

DEMONSTRATIONS

The Moving-to-Work Program will give up to 30 public housing authorities the flexibility to provide housing assistance that gives incentives to families with children in which the head of the household is working, is seeking work, or is preparing for work by participating in job training, educational programs, or programs that assist people to obtain employment and become economically self-sufficient.

Funding: \$5 million for technical assistance in FY 1997.

Jobs Plus, an element of the Moving-to-Work Demonstration, focuses Moving-to-Work's flexibility on one targeted public housing site in each of 6 to 10 communities in order to saturate that site with services, dramatically increase the share of residents who are employed, and retain them as community residents once they are employed.

Funding: \$5 million was provided for technical assistance and evaluation in FY 1996. Additional support is being provided by the Rockefeller Foundation.

Bridges to Work is a five-site demonstration to connect inner-city residents with suburban employment opportunities by providing job placement, transportation, and support services, including child care and counseling.

Funding: \$17 million over 4 years, including \$8 million from HUD, \$3 million from local public and private contributions, and \$6 million from HUD and from the Ford, Rockefeller, and MacArthur Foundations for monitoring, research, and evaluation.

COMMENTS FROM THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY
WASHINGTON, D.C. 20410-0001

June 11, 1997

Ms. Judy A. England-Joseph
Director, Housing and Community
Development Issues
Resources, Community, and
Economic Development Division
U.S. General Accounting Office
Washington, DC 20548

Dear Ms. England-Joseph:

Thank you for the opportunity to review and comment on the draft response to Congressman Lazio's request for information on welfare reform and its potential implications for HUD. Representatives from the Offices of Community Planning and Development, Housing, Policy Development and Research, and Public and Indian Housing have all reviewed the document, and their detailed responses are enclosed for your consideration. It was a pleasure to hear from you.

In addition, I would like to take the opportunity to offer more general comments. In offering these comments, I do understand that it may be premature for you to describe in great detail the impact that welfare reform is likely to have on HUD and its programs. We experienced some of this same difficulty in the preparation of our own paper, which you cite extensively.

It is also important to note that we expect welfare reform will significantly increase the demand for employment opportunities, housing, and supportive services that HUD programs provide. The Department is making great efforts to shape its programs to maximize their potential for assuring that residents of public and assisted housing, as well as other welfare recipients, will have a good chance of succeeding in this new welfare environment. Your draft report does not address this issue directly, and I believe that it should.

In order to be successful, States, local governments, and the private sector will need to work together to provide work activities and employment opportunities for participants in the Temporary Assistance for Needy Families (TANF) program. HUD will play its part by pursuing several strategies to make welfare

reform work: (1) creating jobs for welfare recipients; (2) using housing assistance and community facilities strategically to link welfare recipients to jobs and to help assure that work will pay; and (3) providing and leveraging services to link welfare recipients to jobs and to help them stay employed.

HUD's core economic development programs, such as Empowerment Zones/Enterprise Communities (EZ/EC), Economic Development Initiative (EDI), Section 108, and the Community Development Block Grant (CDBG) program, have the dual purpose of restoring communities and creating jobs. Targeted to neighborhoods with high concentrations of poor families, including families on welfare, these programs generate jobs that are available to welfare recipients entering the work force. For example, between 1993 and 1996, we estimate Section 108 and EDI funded projects to create 300,000 jobs. HUD's Bridges to Work Demonstration also provides transportation and other supportive services to help link central city residents to suburban jobs.

While some welfare recipients may move directly into paying jobs in the private sector, others will need job training and public service or workfare jobs. Programs like Economic Development and Supportive Services (EDSS) or Family Self-Sufficiency (FSS) provide a comprehensive approach to promoting self-sufficiency. Section 3 offers another vehicle for assuring that low-income persons can benefit from employment opportunities created by HUD funds. The Community Development Block Grant program supports many of these programs by funding the training and services necessary to help people succeed at the jobs that become available. In fact, all of the HUD programs described in your Enclosure III can contribute to this effort.

I hope that these observations combined with the more detailed comments in the enclosure will be of help to you. I understand that the current report is the precursor to a longer assignment on this issue and I assume that these issues will be considered in that follow-up effort. My staff and I stand ready to work with you to assure that your second effort will be as accurate and comprehensive. Please call on Paul Leonard, Deputy Assistant Secretary for Policy Development, to serve as my representative in this matter.

Sincerely,



Andrew Cuomo

Enclosures

(385674)

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