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National Affordable Housing Management Association – 400 N. Columbus Street, Suite 203 - Alexandria, VA 22314
Phone 703-683-8630 - Fax 703-683-8634 - www.nahma.org

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Housing as a Platform: An Outlook for HUD's Economic Independence Initiatives

Background

On Dec. 15, 2017, HUD Secretary Dr. Ben Carson spoke at HUD's Family Self-Sufficiency 25th Anniversary and Awards. Secretary Carson stated, "The Family Self Sufficiency program has carried on that amazing national tradition for 25 years…Independence. Empowerment. Self-reliance. The tools to build a rewarding career, a fulfilling life, and a happy home….It is hard to think of a worthier cause, or a more necessary goal…I am sure that, in another 25 years, when another HUD Secretary celebrates another anniversary for this program, thousands more families who need our help today will be standing tall, as a living testimony to the work of FSS, and all the dedicated people in government and in the private sector who have contributed to its noble mission."

Dr. Carson has made self-sufficiency a key priority for HUD under his leadership and recently introduced his new initiative EnVision Centers, based on four pillars: Economic Empowerment, Educational Advancement, Health and Wellness, and Character and Leadership. This NAHMAnalysis examines recent developments with regard to HUD's primary economic independence initiatives targeting low-income families.

Economic Independence Efforts Gain Momentum

ENVISION CENTERS For the affordable housing industry, the recent budget cuts and policy focus could mean an emphasis on workforce participation and decreased dependence on federal assistance. Aided by its new Secretary, Dr. Ben Carson, who navigated his way out of childhood poverty, HUD in late 2017 launched the EnVision Center initiative: "The EnVision Center demonstration focuses on empowering people to leave HUD-assisted housing through self-sufficiency to become responsible homeowners and renters in the private market."

According to HUD's press release, the EnVision Center concept aims to implement a "holistic approach" to achieving long-lasting self-sufficiency. HUD intends the centers to leverage both public and private resources, co-locate services, and streamline administrative services into centralized "hubs" for support along four main pillars: Economic Empowerment; Educational Advancement; Health and Wellness; and

Character and Leadership. Each pillar proposes a set of three to four goals, such as increases in employment and educational enrollment levels, increased number of annual physicals and pre-natal wellness visits, and increased civic engagement and mentorship.

This momentum has spilled over into HUD's existing self-sufficiency initiatives; chief among these are the Family Self-Sufficiency (FSS) program – which was highlighted as a top-line goal under the EnVision Center "economic empowerment" pillar – and the Moving To Work (MTW) demonstration.

Source: US Department of Housing and Urban Development

MOVING TO WORK Established in the mid-1990s, the MTW demonstration is geared toward high-performing public housing authorities (PHAs). The popular demonstration provides regulatory and funding flexibility for PHAs "to design and test innovative, locally-designed strategies that use Federal dollars more efficiently, help residents find employment and become self-sufficient, and increase housing choices for low-income families…MTW PHAs are expected to use the opportunities presented to inform HUD about ways to better address local community needs."

With its emphasis on administrative deregulation and employment opportunities for residents receiving HUD assistance, MTW has enjoyed bipartisan political support. Currently, there are 39 MTW-participating PHAs, and Congress recently provided HUD with authority to expand the demonstration by an additional 100 PHAs over a seven-year period.

FAMILY SELF-SUFFICIENCY During the past year, Congress has also increased its support for the Family Self-Sufficiency (FSS) program, a voluntary and individualized program that helps HUD-assisted families transition out of housing and welfare subsidies. Originally designed for public housing and Housing Choice Voucher (HCV) residents, the FSS program was later expanded to Project-based Rental Assistance (PBRA) tenants, as well, and HUD recently released new and updated FSS program resources (including an FSS program workbook specifically tailored for the project-based space). NAHMA members have proudly installed this program – and other economic independence initiatives aimed at "healthy unit turn-over" – with success.

In detail: HUD's Family Self-Sufficiency Program

HUD's FSS program was established in 1990 to offer support to HUD-assisted residents in reaching personal financial goals and "graduating" out of both housing and welfare subsidies: Qualifying families enter into five- to seven-year contracts that set out customized goals and community services with the help of a case manager or program coordinator. Under the program, a household's rent remains stable as family earnings increase; the difference in rent resulting from higher income levels is instead diverted into an interest-bearing escrow account. Upon successful completion of the current FSS program, "graduates" can use the account funds to access workforce training or unsubsidized housing opportunities, such as a down payment for an apartment or a car to get to work.

The structure of the program draws on lessons learned from other HUD efforts to improve the economic independence of low-income renters, such as the key role of financial incentives and the efficiency factor of leveraging existing resources and services in the community. Specifically, FSS utilizes three main components:

- Stable, affordable housing as a platform for success in other areas of life, as a means of services distribution, and as a method for selecting needs-based participants
- Individualized case management to support participants in developing and achieving goals, and to leverage existing community resources through referrals
- Escrow accounts that grow throughout the program to allow for investments in housing, education, and workforce access

What sets FSS apart from other economic independence initiatives is the combination of two financial components: First, the removal of a perceived financial *disincentive* for tenants to increase income by capping rent levels even as earnings rise; second, the incorporation of a *deferred* financial incentive by diverting the increase in rent that accompanies the earnings increase to an interest-bearing escrow account accessible to the tenant upon program completion. The deferred incentive is key because it allows low-income families to build a personal safety net and investment assets while still accustoming the family to paying higher rents and building self-confidence and motivation – all seen as necessary steps for successful transition into market-rate housing.

Family Self-Sufficiency Legislation

Over the past year, a group of bi-partisan lawmakers from the House and Senate have moved legislation to expand HUD's FSS program. The original bill, introduced by Senators Roy Blunt (R-MO), Jack Reed (D-RI), Tim Scott (R-SC), and Bob Menendez (D-NJ), was timed to coincide with both the 25th anniversary of the FSS program and the release of new HUD resources for housing providers – including Multifamily Housing – running FSS programs in June of 2017.

Titled the "Family Self Sufficiency Act," the Senate legislation streamlines the FSS program while also clarifying PBRA tenant access. In addition, the bill broadens services available through FSS to help tenants earn various levels of education, training, and housing stability.

Introduction of the Senate "Family Self Sufficiency Act" (S. 1344) was followed by a hearing in a House Financial Services Subcommittee, during which witnesses discussed the potential of the FSS program in response to legislator questions about the logistics and scalability of the program. Soon thereafter, a near-identical version of the bill – missing a critical funding authorization component – was introduced by House Representatives Emanuel Cleaver (D-MO) and Sean Duffy (R-WI). The House bill was unanimously approved by the House Committee on Financial Services in November 2017, and was approved by a full floor vote in early 2018. NAHMA continues to monitor progress in the Senate closely.

Measuring Success

With legislators actively exploring potential for the program's future, methods for measuring success – and respecting limits – take on heightened priority. According to the FY18 congressional justifications for the HUD budget, more than 72,000 households are enrolled in FSS programs across the country. In terms of demand, the potential scalability of the program is undeniable: Despite being the largest such program in the U.S., current enrollment levels represent only a fraction of the approximately 4.8 million households assisted through public housing, HCV, or PBRA, of which 1.6 million are headed by non-disabled, non-elderly individuals.[i]

Source: Promoting Economic Mobility in Multifamily Housing: Initial Outcomes from Family Self Sufficiency Programs, POAH

Because the locally-administered FSS programs vary in detail, outcomes are also expected to vary, and comprehensive program "graduation" rates have proven difficult to measure. However, recent and ongoing studies commissioned by HUD have confirmed that FSS program iterations are effective in supporting participants to improve in several key financial categories: workforce participation; earnings and income level; credit score and debt delinquencies; and asset accumulation.

LYNN, MASSACHUSETTS In September 2017, a HUD-funded study of initial FSS sites launched by Compass Working Capital in Massachusetts showed promising results. According to a recent report by the Preservation of Affordable Housing (POAH)[ii], the study documented the following outcomes for Compass FSS program participants:

- Average increase of $6,305 in annual earnings;
- Average decrease of $496 in annual welfare income;
- Average increase in credit score of 23 points, compared to an average increase of 3.9 points in a comparison group;
- Average decrease in derogatory debt of $764, compared to average increase of $554 in a comparison group;
- Average decrease in credit card debt of $655, compared to no change in a comparison group; and
- An increased likelihood of establishing credit, if entering the program with no credit history.

In addition, the POAH report also highlighted the potential for a return on investment to owners, as well as the harder-to-measure outcomes of positive role models for underserved communities.

NATIONWIDE In 2011, a HUD national study tracking close to 200 HCV participants over a four-year period found that annual earnings increased significantly for the best-performing cohort of families (41 families increased their annual earnings from an average of $19,902 to $33,390 upon graduation from the program), while another quarter of the families were still enrolled in the program and making progress toward completion. Both cohorts also had positive balances in their escrow accounts at an average range of $5,300 and $3,500, respectively. Credit scores and derogatory debt levels also improved significantly within those same cohorts.[iii] Adding to these outcomes are interim results from a current study expected to be released this year.

Anticipating Limits and Needs

Because the FSS program utilizes individualized contracts, financial coaching and incentives, and services referrals to move families toward self-sufficiency, the program's successes rely heavily on the coordinators who conduct one-to-one case management with participants through regular contact. For Fiscal Year 2015, HUD's FSS program was appropriated approximately $75 million to fund program coordinator salaries on a competitive basis. In addition, housing authorities and managers rely on their own resources and on other local resources to operate the program, and a number of FSS programs are privately funded.

In addition to the crucial work of the program coordinators, the success of FSS is also associated with the voluntary nature of the program: Motivated (and qualifying) individuals can self-select for participation based on their own projected ability to commit to and fulfill an ambitious and intrusive five- to seven-year financial coaching program. In order to successfully graduate from the program, the participant must not only meet the financial goals (developed with the program coordinator at the time of program enrollment), but all members of the family must also have been welfare-free for the 12 consecutive months before the FSS contract is completed.

While the recent Congressional hearing probed the viability of both scaling up the FSS program and moving toward mandatory participation, the witness testimonies made clear the importance of retaining the voluntary nature of the program and/or increasing the funding ratio if the program is scaled up to accommodate heavier caseloads and more intensive coaching associated with more ambitious cases. However, the House version of the bill, which passed the chamber by a wide margin last month, *omits* the Senate bill's authorization of $100 million for the program per fiscal year from 2018 – 2022.

The need for appropriate funding formulas and agreement between the congressional authorizers and appropriators, as well as the role of the Family Self-Sufficiency program in project-based developments, are particularly worthwhile considerations for NAHMA and its membership as Washington's emphasis on self-sufficiency and welfare reform continues.

Conclusion

Following the House passage of the Family Self Sufficiency Act, NAHMA expects the Senate to move its legislation in 2018. We will continue to keep members updated on developments in Congress and in the Administration with regard to housing and economic independence initiatives.

In the meantime, NAHMA members are encouraged to a) consider necessary parameters for further expansion of FSS into the PBRA space, such as funding thresholds, agency resources, and regulatory exemptions, and b) contribute to NAHMA's ongoing discussion over how to best position ourselves as an industry able to navigate political shifts toward a self-sufficiency emphasis in affordable housing programs and beyond.

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[i] Age and/or disability status do not necessarily affect the enrollment eligibility for FSS programs

[ii] Source: Promoting Economic Mobility in Multifamily Housing: Initial Outcomes from Family Self Sufficiency Programs; Compass Working Capital and Preservation of Affordable Housing (POAH), January 2018

[iii] Source: Evaluation of the Family Self-Sufficiency Program: Prospective Study; HUD Office of Policy Development and Research, 2011