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WELFARE REFORM

Effect on HUD's Housing Subsidies Is Difficult to Estimate

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The Honorable Jerry Lewis
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Committee on Appropriations
House of Representatives

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 replaced an entitlement program for poor families with a program that establishes work requirements for recipients and limits the time they can receive federal cash assistance. Because about one-fourth of the residents of public and assisted housing rely on cash assistance for some or all of their income, welfare reform could have a financial impact on the Department of Housing and Urban Development (HUD), which subsidizes housing agencies' operations and tenants' rents, as well as on the housing agencies and private landlords that depend on HUD subsidies. As a result of changing welfare and housing policies and the complexity of these programs, this financial impact has not yet been estimated with any certainty.

Because of your concern about welfare reform's financial impact on HUD's budget, you asked us to determine (1) what studies have been done on welfare reform's financial impact on public and/or assisted housing and (2) what methodological and data issues, if any, arise when researchers estimate welfare reform's financial impact on low-income housing.

Results in Brief

Officials at housing agencies and researchers at government agencies, universities, trade associations, and a consulting firm have estimated welfare reform's financial impact on some components of HUD's housing subsidy programs.[1] We identified 13 studies that estimated this impact. These studies of welfare reform's financial impact on HUD's housing subsidy programs varied in their geographic scope, focus and assumptions, methods, and findings. For example, while several studies indicate that welfare reform would result in modest changes in the amounts of the HUD subsidies needed, the findings of one national study

[1]Throughout this report, we use the term "studies" to describe the analyses we found of the impact of welfare reform on HUD and housing agencies. While some of these analyses were formal studies, others were informal estimates.

indicate that HUD would need to increase its annual subsidies to housing agencies by almost 42 percent to offset expected decreases in public housing rents, and another study's findings indicate that HUD could decrease its annual subsidies to a particular housing agency by almost 20 percent when welfare reform fully takes effect.[2] Some studies also estimated welfare reform's impact under alternative scenarios and therefore developed a range of estimates of welfare reform's cost for HUD and housing agencies. The estimates in the studies we reviewed generally varied with the issues on which they focused and the assumptions on which they were based. Some of the authors of the studies we reviewed told us that their estimates might not hold up over time because some federal and state welfare laws have changed since the estimates were first developed and the economy has been more robust than anticipated. In addition, the authors of some studies expressed uncertainty about their findings because the studies rely heavily on factors that are difficult to predict, such as the degree to which welfare recipients will change their behavior when faced with new welfare policies.

Experts with whom we spoke generally agree that several issues complicate efforts to forecast welfare reform's financial impact on HUD's housing subsidy programs. These issues include not only those encountered in predicting welfare reform's impact on the recipients and providers of public assistance, but also those specific to estimating welfare reform's financial impact on the residents of assisted housing, providers of subsidized housing, and HUD. In general, wide variations in state welfare plans and their implementation complicate the estimation of welfare reform's impact. Additionally, the employment and wage prospects for welfare recipients—key factors affecting their incomes—depend, in part, on future local and national economic health and on recipients' behavior, both of which are difficult to predict. Housing experts generally agree that estimating welfare reform's impact on housing programs is more complex than estimating welfare reform's impact overall because of possible differences in the behavior of welfare recipients with and without housing assistance, as well as variations in the policies adopted by housing agencies and landlords. Finally, a lack of consistent

[2]The results of the studies we reviewed were typically presented in dollar amounts—that is, how much less (or more) rental revenue would be collected or how much more (or less) in subsidies HUD would need to provide in thousands or millions of dollars. Because some studies have a national focus while others examine the impact of welfare reform on housing agencies of various sizes, dollar estimates were not readily comparable across studies. To provide more comparability for the purpose of this review, we converted all dollar estimates to percentages reflecting the change that would occur in HUD subsidies compared with the total relevant program subsidies in 1997. Our methodology for these conversions is discussed later in this report.

and reliable data further hampers researchers' efforts to predict welfare reform's financial impact on HUD's housing programs.

Background

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193) replaced the entitlement program, Aid to Families with Dependent Children (AFDC), with Temporary Assistance for Needy Families (TANF). TANF provides $16.5 billion annually to the states in the form of block grants through 2002. Under TANF, recipients are required to work and can receive federal cash assistance for only a limited period of time. TANF's requirements vary from state to state because the 1996 act gave the states more control over the design of their own programs. While TANF is generally administered at the state level, the Department of Health and Human Services (HHS) is the primary federal agency providing oversight of states' welfare programs.

Through its public housing and Section 8 programs, HUD provides housing assistance to about 4.3 million low-income households. In fiscal year 1997, HUD's outlays for Section 8 subsidies and for public housing modernization, development, and operating subsidies amounted to about $22.6 billion. About $7.5 billion of this amount was allocated through the tenant-based Section 8 certificate and voucher programs, under which housing agencies provide rent subsidies to private landlords. About $7.9 billion went directly to private landlords as part of the project-based Section 8 program, and about $7.2 billion went for the modernization, development, and operation of Public and Indian Housing. Included in this latter amount is $2.6 billion in appropriations that was distributed through HUD's formula-based performance funding system to state, county, and local housing agencies for the operation of public housing.

In 1996, approximately a quarter of the households receiving HUD subsidies also received cash assistance.[3] In general, families receiving housing assistance are required to pay 30 percent of their cash income (adjusted for certain items, such as child care and medical expenses) in rent, while HUD provides subsidies to housing agencies and private landlords to make up the difference between tenants' rental payments and the cost of operating public housing units or the rents charged by the landlords. Because rental payments are linked to household income, rental revenues will fall if families receiving assistance are unable to replace lost welfare benefits with wage income, and additional HUD subsidies will then be

[3]In addition, about half of the families with children residing in public and assisted housing also received cash assistance in 1996.

needed. But if assisted families' employment and earnings increase under welfare reform, then the amount of the required rental payments may rise, reducing the need for subsidies. For subsidy needs to decline, residents would have to earn more than they formerly received in cash assistance, and working residents would need to either remain in public and assisted housing after gaining employment or be replaced with employed residents. These conditions are less likely to hold in areas where cash benefit levels are high and nonsubsidized housing is available and affordable.

HUD has established policies that can influence the impact of welfare reform on housing programs. For example, housing agencies and HUD can set minimum rents of up to $50 for tenants who live in public housing or have Section 8 certificates or vouchers, while owners of project-based Section 8 properties are required to charge minimum rents of $25.[4] In addition, recent legislation has expanded housing agencies' authority to exclude some wage earnings from rental payment calculations in an effort to retain working families in public housing units. Similarly, while housing agencies and subsidized private landlords were formerly required to give preference in admission to very poor families, they are now allowed to give some preference to working families with wage income. In addition to these rent and admission policies, HUD provides programs, some of which originated in the mid-1980s, to deliver employment-related services to the tenants of public and assisted housing. These programs have provided job training, counseling, and placement services; child care; and transportation.

Studies of Welfare Reform's Financial Impact on HUD's Housing Subsidy Programs Varied Widely

We identified five studies estimating welfare reform's financial impact on housing programs nationally, one estimating the impact for eight housing agencies, and another seven estimating the impact for a single housing agency. While some of the studies suggest that welfare reform will likely cause only modest changes in the amounts of the HUD subsidies needed, some of the studies indicate more substantial effects. For example, one national study indicated that HUD would need to increase its annual subsidies to housing agencies by almost 42 percent to offset expected decreases in public housing rents, while another study indicated that HUD

[4]Until recently, housing agencies were encouraged to grant exceptions to the minimum rent requirements for public housing residents and recipients of certificates and vouchers because of hardship. However, the Quality Housing and Work Responsibility Act of 1998 (P.L. 105-276), enacted in Oct. 1998, now requires housing agencies to grant hardship exceptions for, among other things, the loss of federal cash assistance. Exceptions to the project-based minimum rents are provided for the elderly, the handicapped or disabled, and working families with an adjusted monthly income below $75. These exceptions to the minimum rent requirements limit the ability of housing authorities to use minimum rents to offset the impact of welfare reform.

could decrease its annual subsidies to a particular housing agency by almost 20 percent. Differences in the studies' focus and assumptions help explain the widely varying estimates. While some researchers focused on a single feature of a state's welfare reform plan, others examined the national impact of a broad range of state plans; while some studies used "worst-case" assumptions about the employment and earnings prospects of welfare recipients, others used "best-guess" assumptions. Moreover, because certain welfare and housing policies have changed since the estimates were developed, the economy has been stronger than anticipated, and the effects of welfare reform on welfare recipients' behavior are difficult to predict, some of the authors of the studies we reviewed expressed uncertainty about their estimates.

Estimates Varied Widely Across and Within Studies

Five studies we identified estimated the financial impact of welfare reform nationally (see table 1). Three of these five studies suggest that welfare reform will have a relatively modest effect on the need for HUD subsidies, ranging from a 0.4-percent annual decrease to a 3.3-percent increase in the amount needed. The two remaining studies anticipate a greater effect. For example, the Council of Large Public Housing Authorities indicated, in the fall of 1996, that the annual amount needed for HUD subsidies could increase by 19 percent.

Table 1: National Estimates of Welfare Reform's Financial Impact on HUD's Housing Subsidy Programs

Estimate by/for	Scope	Scenario	Estimate of percentage change in HUD subsidy
HUD	Public housing and Section 8 programs	Impact of welfare reform, best-guess scenario	0.7% increase in 1997 3.3% increase in 2002
The Johns Hopkins University	All assisted housing programs[a]	Impact of welfare reform on AFDC recipients under alternative welfare plans	Results ranged from a 2.4% increase to a 0.4% decrease
Congressional Budget Office	Section 8 programs	Impact of welfare reform, best-guess scenario	0.1% increase in 1998 0.7% increase in 2008
Council of Large Public Housing Authorities	Public housing	Impact of time limits, worst-case scenario	19% increase
David M. Griffiths & Associates, Ltd.[b]/Public Housing Authorities Directors Association	Public housing	Impact of welfare reform with and without proactive housing agency management[c]	Results ranged from a 41.8% increase to a 2.8% increase

[a]As reported in the AFDC-Quality Control database.

[b]Since this study was completed, David M. Griffiths & Associates, Ltd., was purchased by Maximus, Inc., to become DMG-Maximus, Inc.

[c]The author of this study defined proactive housing agency management as taking an active role in mitigating the impact of welfare reform on the housing agency's residents and the housing agency.

Source: GAO's analysis of the national studies listed in app. I.

Of the other eight studies we reviewed, seven estimated welfare reform's impact on individual housing agencies in different parts of the country, and one, by HUD's Office of Policy Development and Research, covered eight individual housing agencies.[5] The estimates for these eight studies, which are summarized in table 2, varied widely, both from one housing agency to another and from one scenario to another for a single housing agency. In particular, under assumptions that the authors characterize as unlikely—that the state would adopt a harsh welfare reform plan and the housing authority would not provide employment assistance to affected residents—the Seattle housing authority's findings indicate that the agency could need an annual increase of as much as 37 percent of its fiscal year 1997 HUD subsidy to offset welfare reform's impact. Conversely, using optimistic assumptions, HUD predicted that rental revenues at the Dallas housing authority could rise by enough to warrant as much as a 20-percent reduction in the amount of the HUD subsidy needed.

[5]Welfare Reform Impacts on the Public Housing Program: A Preliminary Forecast, HUD, Office of Policy Development and Research, Division of Policy Studies (Mar. 1998).

Table 2: State and Local Housing Agencies' Estimates of Welfare Reform's Financial Impact on HUD's Housing Subsidy Programs

Estimate by/for	Scope	Scenario	Estimate of percentage change in HUD subsidy
Los Angeles	Public housing and Section 8 certificates and vouchers	Impact of welfare reform, different labor market scenarios with and without exclusions of earned income from rental payment calculations	Results ranged from a 0.8% increase to a 0.9% decrease
Seattle	Public housing	Impact of welfare reform with focus on reductions in benefits for unqualified legal immigrants[a]	Results ranged from a 36.5% increase to a 1.9% increase
Miami-Dade	Public housing	Impact of welfare reform assuming a $50 to $100 loss in each recipient's rental payment	18.5% increase
David M. Griffiths & Associates, Ltd./District of Columbia	Public housing	Impact of welfare reform with and without proactive agency management[b]	Results ranged from a 7.2% increase to a 8.2% decrease
Minneapolis	Public housing and Section 8 certificates and vouchers	Impact of local provision reducing each recipient's TANF benefits by $100, worst-case scenario	2.8% increase
St. Paul	Public housing and Section 8 certificates and vouchers	Impact of local provision reducing each recipient's TANF benefits by $100, worst-case scenario	4% increase
New Jersey	Section 8 certificates	Impact of losing TANF income for those whose sole source of income is TANF, worst-case scenario	1.8% increase
HUD/Eight housing agencies[c]	Public housing	Impact of welfare reform; optimistic and conservative scenarios and a worst-case scenario with and without minimum rents	Results ranged from a 21.8%[d] increase to a 19.6% decrease

[a]The original provisions of welfare reform that affected immigrants have been significantly modified, and this study was completed shortly after the passage of the original reforms.

[b]The author of this study defined proactive housing agency management as taking an active role in mitigating the impact of welfare reform on the housing agency's residents and the housing agency.

[c]The eight housing agencies are in Dallas, Texas; Richmond and Norfolk, Virginia; Los Angeles and San Francisco, California; and Cleveland, Columbus, and Toledo, Ohio.

[d]Based on a preliminary California welfare plan introduced by the governor in Jan. 1997. This plan is more restrictive than the one adopted in Aug. 1997.

Source: GAO's analysis of the state and local studies listed in app. I.

Differing Focus Leads to Use of Different Key Assumptions

In addition to differences in geographic scope, the studies we reviewed differed in other key aspects of their focus, and these differences often dictated the assumptions used in the studies. Some of these studies took a worst-case approach to welfare reform, imposing very conservative assumptions about the employment and earnings prospects of welfare recipients with housing assistance. Generally, these analyses were designed to heighten the awareness of the welfare and housing assistance communities to the worst possible implications of some aspects of welfare reform and to prompt these communities to take appropriate action. For example, at the national level, the Council of Large Public Housing Authorities used a worst-case approach in the summer and early fall of 1996 to look at what would happen if all residents receiving cash assistance lost that assistance 5 years after the implementation of welfare reform (the federally mandated time limit) and if none of the affected families were able to replace any of these benefits with wage earnings. This analysis, which was designed to motivate the public housing community to take action, estimated that required rental payments could fall by 30 percent (the percentage of income that residents generally pay in rent) of the total amount of cash assistance lost. At the local level, the Minneapolis and St. Paul housing authorities designed studies to show the maximum potential effect of Minnesota's decision to reduce by $100 the monthly cash benefits for TANF recipients with housing assistance. To estimate the maximum impact of the $100 reduction on the housing agency and HUD, these studies ignored any possibility that residents receiving TANF benefits might have additional earnings to offset some of the $100 loss in benefits. Thus, the monthly rental payments of subsidized households would be $30 ($100 times 30 percent) less than they otherwise would have been. Under this scenario, the rental payments of public housing residents and Section 8 certificate and voucher holders would decline annually by $817,000 for Minneapolis and over $1 million for St. Paul.[6]

Other studies, designed to forecast HUD's actual budget needs, attempted to make best-guess estimates of the financial impact of welfare reform on HUD and housing agencies. HUD's national study and one by the Congressional Budget Office (CBO) used more elaborate methods to predict the employment and earnings prospects of welfare recipients. For example, relying on various studies of the earnings of former welfare

[6]The Minnesota legislature has postponed the imposition of the $100 reduction in benefits until July 1999.

recipients,[7] CBO assumed that households with Section 8 assistance would be able to replace two-thirds of their lost welfare benefits with earnings when time limits take effect. These studies generally found that welfare reform would have a more modest impact than studies designed to look at the worst-case outcomes of imposing time limits. Still other studies, including the Johns Hopkins study, HUD's multisite study, and the Los Angeles study, were designed to determine a range of likely effects of welfare reform on HUD and housing agencies and to identify the factors that might influence the extent of these effects. Most of these studies focused on the potential impact of a broad range of factors—including welfare policies (e.g., time limits and employment sanctions), housing policies (e.g., minimum rents and exclusions of earned income from rental payment calculations), and local and national economic conditions—to determine which factors would have the largest impact on the subsidies needed. The studies used varying assumptions and models to estimate welfare reform's impact under different scenarios. For example, HUD's multisite study and the Los Angeles study estimated the impact of welfare reform under both optimistic and conservative assumptions about the employment and earnings prospects of welfare recipients with housing assistance. Additionally, both HUD's multisite study and the Johns Hopkins study varied their assumptions about welfare reform's rules by examining the potential effects of different state welfare programs.

Some of the studies discussed above focused on the impact of certain housing policies. For example, HUD's multisite study found that because rental payments do not fall to zero when tenants lose their cash income but are required to pay minimum rents, the imposition of such minimum rents could offset much of the potential decline in rental revenues resulting from welfare reform.[8] The Los Angeles study attempted to measure how much of the potential increases in rental payments the housing agencies would forgo because of policies excluding new income

[7]See, for example, Alberto Martini, "Potential Effects of Congressional Welfare Reform Legislation on Family Income," The Urban Institute (July 26, 1996); Sandra K. Danziger and Sherrie A. Kossoudji, "When Welfare Ends: Subsistence Strategies of Former GA Recipients: Final Report of the General Assistance Project," University of Michigan (Feb. 1995); and Thomas M. Fraker et al., "Iowa's Limited Benefit Plan," Mathematica Policy Research, Inc., and the Institute of Social and Economic Development (May 1997).

[8]See footnote 4 for information on recent legislative changes establishing exceptions to the minimum rent requirements.

from rental payment calculations.[9] Finally, studies designed by David Griffiths & Associates, Ltd. (DMG), focused on the impact of significant involvement by housing agency managers in helping tenants move into the labor market. DMG assumed, in its studies for both the District of Columbia and the Public Housing Authorities Directors Association, that a high level of involvement by housing agency managers would significantly improve the income prospects of welfare recipients.

Studies' Authors Expressed Uncertainty

The varied assumptions underlying the studies we reviewed reflect researchers' uncertainties about changes in welfare and housing policies over time, the future of the economy, and the behavioral responses of welfare recipients. The authors of several of the studies described their estimates as outdated because events (such as the final version of a state's welfare reform law or the condition of the national economy) had not played out as the authors had anticipated when they conducted their studies. For example, the representative of DMG who developed the estimates for the Public Housing Authorities Directors Association and the District of Columbia told us that if he were developing the estimates today, he would revise the results of his pessimistic scenario significantly to take account of (1) modifications to the welfare reform law that have reduced the cuts in Supplemental Security Income he initially anticipated, (2) the significant emphasis HUD has placed on programs to help move people from welfare to work, and (3) the surprisingly strong economy. Similarly, the authors of HUD's multisite study told us that their estimates for Los Angeles are probably too pessimistic because they assumed a more restrictive welfare program than the one California actually adopted in August 1997.[10] Other authors were also concerned about the general difficulty of predicting the future behavior of TANF recipients. For example, officials at CBO stated that because of uncertainties about how welfare reform would be implemented and how recipients would respond, they recognized that their estimates could be substantially different from actual outcomes. And, as we reported in January 1998, HUD is no longer standing behind its initial assessment of welfare reform's nationwide impact, in

[9]A study by the Atlanta housing authority also examined the effects of excluding former welfare households' income from rent calculations. This study found that such exclusions could wipe out the potential for significant reductions in the Atlanta housing agency's need for HUD subsidies. Without exclusions, the need for subsidies would decline if the earnings of former welfare households exceeded the welfare payments they once received.

[10]HUD researchers said that they used the provisions of an early version of California's welfare reform plan (Jan. 1997), proposed by the governor, which would have reduced benefits for whole families when time limits were met or sanctions were imposed. However, the California welfare reform law that was adopted in Aug. 1997 continues to pay benefits to children out of state funds regardless of time limits or sanctions.

part, because of difficulties it identified in predicting how states will implement welfare reform plans and how welfare recipients will respond to welfare reform.

Multiple Issues Complicate Efforts to Forecast Welfare Reform's Financial Impact on HUD's Housing Subsidy Programs

The experts with whom we spoke generally agree that several methodological and data issues complicate efforts to forecast welfare reform's financial impact on HUD's housing subsidy programs. Some issues, such as differences in state welfare policies and plans for implementing welfare reform and uncertainty about the strength of the economy and the behavior of welfare recipients, make it difficult to predict the impact of welfare reform itself. Housing researchers generally agree, however, that estimating welfare reform's financial impact on housing programs is more complex than estimating welfare reform's impact overall because the characteristics of welfare recipients with housing assistance may be different from those of other welfare recipients, and housing agencies and landlords may adopt a broad range of housing philosophies and policies. Finally, the lack of consistent and reliable data further hampers researchers' efforts to predict welfare reform's financial impact on HUD's housing programs with any certainty.

State Welfare Reform Plans and Implementation Differ Considerably

Differences in state welfare policies have always been important in evaluating the federal welfare program. Under AFDC, states paid different levels of benefits to entitled recipients, and HHS researchers reported that recipients were more likely to leave the welfare rolls in states with lower benefits than in states with higher benefits. Because welfare reform gave the states greater discretion in setting welfare policy, state policies now differ across a multitude of dimensions. For example, the states can now determine who is eligible for cash assistance and for how long. In addition, they can set specific work requirements and establish sanctions for recipients who violate their state welfare policies.

Differences in the implementation of welfare plans at the state and local levels may exacerbate interstate differences in the impact of welfare reform. In particular, the manner in which caseworkers relay information to and interact with recipients affects outcomes under welfare reform. For example, in evaluating welfare reform in several states, the Manpower Demonstration Research Corporation (MDRC) found that differences in what caseworkers told clients in Florida and Minnesota help to explain differences in the timing of caseload reductions in those states. MDRC found that in Florida, where recipients could receive cash benefits for a maximum of 2 years, recipients tended to exhaust their benefits before getting jobs and therefore caseloads did not decline quickly, while in Minnesota, where recipients could receive federal cash benefits for 5 years, caseloads dropped quickly. MDRC told us that this difference in behavior seemed to occur, at least in part, because Florida caseworkers encouraged recipients to remain on TANF and spend their 2 years investing in job skills, while Minnesota caseworkers advised their clients to become employed as soon as possible and save their limited benefits for possible future needs.

Assumptions About Economic Health and Recipients' Responses Are Key

The studies we identified varied widely in the assumptions they used to predict welfare recipients' potential employment prospects and earnings. Experts with whom we spoke generally agree that welfare recipients' employment prospects and earnings depend on the market for low-skilled workers. The demand for these workers generally depends on the overall health of the national and local economy, while the supply depends on recipients' responses to the level of wages they could earn and the level of welfare benefits they could receive.

In general, some issues make it difficult to predict the demand for low-skilled workers. First, because welfare reform has thus far occurred during a period of strong national job growth, researchers have little sense of how the demand for low-skilled labor will hold up during an economic slowdown. For example, experts have been unable to agree on how much of the recent decline in the number of families receiving cash assistance is the result of the very robust economy in recent years and how much is the result of welfare reform.[11] In order to shed light on the degree to which economic conditions affect the impact of welfare reform, HUD researchers, in their multisite analysis, studied at least two cities with different economic conditions in each of three states. Welfare recipients in the same state were generally subject to the same welfare laws. While HUD found that welfare recipients in all three states had more success in entering

[11]Two recent national studies of the period from 1993 through 1996 point to economic expansion as a key factor in explaining the decline in the number of families receiving cash assistance. However, both studies also conclude that in states such as Oregon and Wisconsin, which implemented stringent welfare reform provisions during this period, these provisions also contributed significantly to declines in the number of families receiving cash assistance. See Council of Economic Advisers, Explaining the Decline in Welfare Receipt, 1993-1996 (Washington, D.C.: Council of Economic Advisers, May 9, 1997) and James Ziliak et al., Accounting for the Decline in AFDC Caseloads: Welfare Reform or Economic Growth? (Ann Arbor, Mich.: University of Michigan, Sept. 1997). A critique of the Council of Economic Advisers' study disputes the Council's claim to have explained the decline in the number of people receiving cash assistance. See Alberto Martini and Michael Wiseman, Explaining the Recent Decline in Welfare Caseloads: Is the Council of Economic Advisers Right? (Washington, D.C.: Income and Benefits Policy Center, The Urban Institute, July 1997).

labor markets in cities with more robust local economies, the difference was not consistent across the states. Second, some researchers have noted that while it may be possible to measure the number of low-skilled jobs available at a given point in time, this type of analysis will not necessarily reveal how many people can find employment over a period of time because of constant turnover in employment and other changes in labor market conditions over time.

The supply of low-skilled workers will depend, in part, on how welfare recipients respond to changes in their state's welfare program. While some researchers believe that past studies of the impact of changing wages and benefit levels on welfare recipients' desire to work could help answer this question, other researchers believe that the 1996 welfare reforms constitute such a dramatic shift from earlier welfare policies that past behavior may not be a good predictor of future behavior. Thus, there is little consensus among experts about the future behavior of welfare recipients.

Tenants' Characteristics and Housing Policies Further Complicate Estimation

Housing experts with whom we spoke generally agree that estimates of the effect of welfare reform on the general welfare population may not apply to the subset of welfare recipients in public and assisted housing. As we reported in June 1998, welfare recipients living in public housing are more likely to have been on welfare longer than those without housing assistance, and longer spells on welfare have been associated with less success in obtaining employment.[12] In addition, experts suggest that welfare recipients with housing assistance may be less likely to go to work for several reasons:

- Welfare recipients with housing assistance will be able to retain a smaller portion of their new earnings because they will generally be required to pay 30 percent of those earnings in rent.
- Because housing assistance provides a "cushion," welfare recipients with public or assisted housing may have less incentive to work than other welfare recipients with the same job prospects but no housing assistance.
- Recent evidence suggests that job growth is occurring in the suburbs while welfare recipients are likely to live in urban centers or rural areas. In particular, welfare recipients with project-based housing assistance (including both public housing and project-based Section 8 assistance) may face higher relocation costs than other welfare recipients because

[12] Welfare Reform: Changes Will Further Shape the Roles of Housing Agencies and HUD, (GAO/RCED-98-148, June 25, 1998).

they may have to give up their housing assistance to move to locations with better job prospects.

The combination of longer periods on welfare and less incentive to work may help explain why some researchers have found that welfare recipients with housing assistance are less successful in moving from government-sponsored job training programs into long-term private sector employment. A recent study by MDRC researchers in Atlanta showed that of the participants in certain federal job training programs, those with no housing assistance were most likely, those with certificates and vouchers slightly less likely, and those in public housing least likely, to find employment after completing their training.[13]

Because of recent housing policy changes and uncertainty about the degree to which housing agencies will adopt these changes, researchers will have difficulty separating the effects of welfare reform from those of changes in housing policy, just as they have had difficulty separating the effects of welfare reform from those of overall economic conditions. Many of the studies we reviewed, as well as experts we consulted, recognized the importance of recent changes in rent and admission policies and programs to move welfare recipients to work. For example, the director of the housing authority in Athens, Georgia, told us that the types of admission preferences, the effect of management's involvement in helping tenants obtain employment, and the level of minimum rents could determine whether his agency's rental revenues rise or fall with welfare reform. However, recent legislation may limit the degree to which housing agencies will be able to use minimum rents to offset potential declines in rental payments under welfare reform.

Data Availability and Reliability Pose Additional Obstacles

Welfare and housing researchers have used a combination of government administrative data—data collected by federal, state, or local officials on a host of factors associated with the recipients of welfare and housing assistance—and survey data to study the behavior of those who receive welfare and housing assistance. Administrative databases generally provide information over time on the participants in a program, while survey data generally conform more closely to research objectives but

[13]Alternatively, one expert argues on the basis of preliminary data from Minnesota that welfare recipients with housing assistance are more likely than other welfare recipients to find and retain jobs because, with housing assistance, they are more stable and less likely to be forced to move. The Minnesota data also suggest that those with housing assistance are receiving higher earnings. In addition, a study in Los Angeles has shown that welfare recipients with Section 8 certificates and vouchers are more likely to be employed than those in public housing or those without housing assistance.

cover a smaller number of households. Because the states have more flexibility to design their own systems under welfare reform, data elements in administrative and survey databases may be less consistently defined than in the past. Although state welfare agencies have reported administrative data under HHS' emergency rules, which were phased in over a period of 9 months beginning in July 1997, some states have submitted data that are not fully consistent with HHS' specifications. HHS will be issuing final TANF reporting rules that better define terms, but according to an HHS official, the states will continue to have significant flexibility in how they define their programs, making data assessment more difficult. Similarly, according to an official in the Census Bureau's Housing and Household Economic Statistics Division, the increased interstate variation promoted by the 1996 welfare reforms has placed a significant burden on national organizations that collect survey data. For example, obtaining consistent data across states about the level of cash benefits may be difficult because the states have given their TANF benefits a variety of names. For example, Minnesota calls TANF the Minnesota Family Investment Plan, while California refers to TANF as CalWORKS. In addition, questioners and respondents may not know how to classify the increasingly common "one-time diversion" payments, which states use to provide one-time assistance to families in lieu of placing them on the welfare rolls.

We and others have questioned the reliability of the existing national administrative and survey data on the residents of public and assisted housing. HUD collects administrative data on the residents of public and tenant-based assisted housing in its Multifamily Tenant Characteristics System database. Housing agencies are supposed to provide information for this database to HUD electronically in a specified format, but some agencies, especially the larger ones, do not report data for all of their residents, and the data contain errors as well. A HUD official told us that in recent years, HUD has concentrated on improving the response rate for these data, but the greater response has been accompanied by an increase in the number of data entry errors. HUD collects similar data on the residents of properties with project-based Section 8 assistance in the Tenant Rental Assistance Certification System database. According to HUD officials, this database suffers, on a smaller scale, from reporting problems and data errors such as those affecting the multifamily database. The reliability of survey data on housing assistance is also questionable because respondents to surveys with questions about this assistance often misreport their status. HUD has documented probable misreporting in the Current Population Survey and the American Housing Survey. For example, in a paper presented in May 1996, HUD economists reported that the majority of those receiving housing assistance who said they lived in public housing actually do not.[14] Furthermore, they reported that the majority of the families receiving other housing assistance do not accurately identify the way they are assisted, and perhaps one-fifth of those who report receiving a housing subsidy do not actually receive one. In addition, the interim director of the Johns Hopkins University's Center for Policy Studies has noted similar reporting discrepancies in survey responses and administrative data and has suggested methods for improving the reliability of the survey responses. Although the Census Bureau and others are developing and testing questions to improve survey responses on welfare benefits and housing subsidies and HUD has worked to improve its data as well, it is still too early to obtain adequate data to test assumptions about the outcomes of recent welfare and housing reforms.

Agency Comments

We provided a draft of this report to HUD for review and comment. HUD stated that the report is fair and straightforward and provided some technical corrections. HUD's comments appear in appendix III. In addition, we provided excerpts of a draft of this report to the authors of each of the studies we reviewed. Several of the researchers and housing agencies provided us with comments that we incorporated as appropriate.

Scope and Methodology

To identify studies that estimated welfare reform's financial impact on housing assistance programs, we contacted known experts and officials from a variety of organizations and government agencies. In particular, we spoke with experts in housing and welfare research, representatives of major trade associations and advocacy groups, officials at 30 of the largest local housing authorities and 10 of the largest state housing agencies, and officials from 10 private management companies of various sizes that are managing properties with Section 8 subsidies.[15] Although we attempted to identify as many studies as possible, we recognize that the 13 studies we identified (see app. I) may not include all such studies that were performed. It should also be noted that it was beyond the scope of this review to assess the quality of the research underlying the individual estimates we reviewed. To consistently present the different studies'

[14] Mark Shroder and Marge Martin, New Results From Administrative Data: Housing the Poor, or, What They Don't Know Might Hurt Somebody (May 1996).

[15] The names of these private companies were provided to us by the acting executive director of the National Affordable Housing Management Association.

estimates of dollar changes in rental revenues, costs, and subsidies, we presented each study's findings as the percentage change in the subsidy relative to the total performance fund and/or housing assistance payments HUD says the agency received in 1997. We ignored the facts that HUD does not always provide 100 percent of the subsidy needed for public housing, as calculated under the performance funding system formula, and that HUD's outlays may lag behind changes in rental revenues by 2 to 3 years. In addition, although the results presented here are based on the assumption that HUD will provide 100 percent of the needed subsidy, the studies we reviewed made different assumptions about the percentage of the needed subsidy that HUD would be likely to provide. These assumptions ranged from 85 percent to 100 percent. To the extent that the subsidy is funded at less than 100 percent, more of the cost of welfare reform will be borne by local housing agencies and less will be borne by HUD. See appendix I for a list of the individual studies we reviewed.

To better understand the methodological and data issues that arise when estimating welfare reform's financial impact on HUD's housing programs, we also contacted known experts in welfare and housing who represented a broad range of views. We questioned them about the importance of specific methodological and data concerns using a semistructured questionnaire. We also gathered their research and analyzed the information collected from the interviews and research documents to develop common themes. Appendix II lists the experts with whom we spoke about methodological and data issues.

We conducted our work from May 1998 through November 1998 in accordance with generally accepted government auditing standards.

If you or your staff have any questions about this report, please contact me at (202) 512-7631. Major contributors to this report were Amy Abramowitz, Nancy Barry, DuEwa Kamara, and Lara Landeck.

Judy England-Joseph

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

Contents

Abbreviations

AFDC	Aid to Families with Dependent Children
CBO	Congressional Budget Office
DMG	David M. Griffiths & Associates, Ltd.
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
MDRC	Manpower Demonstration Research Corporation
OMB	Office of Management and Budget
TANF	Temporary Assistance for Needy Families

Identified Studies

National Studies

"Background Materials for Baseline Projections of Spending Under Current Law." Congressional Budget Office, Washington, D.C.: Mar. 1998.

"The Fiscal Impacts of Welfare Reform: An Early Assessment." Council of Large Public Housing Authorities. Issue brief. Fall 1996.

"Impact of Welfare Reform in Public Housing." David M. Griffith & Associates, Ltd. Sponsored by the Public Housing Authorities Directors Association. Unpublished. Spring 1997.

Newman, Sandra and Joseph Harkness. "The Effects of Welfare Reform on Housing: A National Analysis." Presented at the Policy Research Roundtable on the Implications of Welfare Reform for Housing, sponsored by the Fannie Mae Foundation in collaboration with the Institute for Policy Studies at The Johns Hopkins University (work in progress). July 22, 1997. For updated information, see "The Effects of Welfare Reform on Housing: A National Analysis" in Newman, Sandra J. (ed.) The Home Front: Implications of Welfare Reform for Housing Policy, Washington, D.C.: The Urban Institute Press, forthcoming.

"Technical Paper: Welfare Reform Budgeting." U.S. Department of Housing and Urban Development (HUD). Washington, D.C.: Oct. 4, 1996.

State and Local Studies

"Estimated PHA Income Loss Due to Proposed AFDC Cuts." St. Paul Public Housing Agency, Unpublished. Feb. 28, 1997.

"Impact of Welfare Reform on Program Costs." New Jersey Department of Community Affairs' Section 8 Housing Program. Unpublished. Jan. 1998.

Nguyen, Mai, Charles Kastner, and Ashley Lommers-Johnson. "Welfare Reform: Status of Washington State's Welfare Reform Plan; Effects on Residents, the Seattle Housing Authority, and Neighborhoods; and Prospects for Employment and Rent Income." Presented at HUD headquarters, Washington, D.C. Dec. 17, 1996.

"Potential Impact of CalWORKS." Housing Authority of the City of Los Angeles. Unpublished. Nov. 1997.

"Welfare Act Impact Analysis: District of Columbia Housing Authority (DCHA)—Final Report." David M. Griffith & Associates, Ltd. Apr. 1997.

"Welfare Reform Impact Study." Minneapolis Public Housing Authority. Unpublished. Spring 1997.

Welfare Reform Impacts on the Public Housing Program: A Preliminary Forecast. U.S. Department of Housing and Urban Development. Office of Policy Studies and Research. Rockville, MD., Mar. 1998.

"Welfare Reform Program and Financial Analysis." Miami-Dade Housing Agency. Unpublished. Oct. 1997.

Methodological and Data Experts GAO Interviewed

Government Experts

Paul Cullinan, Chief, Human Resources Cost Estimate Unit, Congressional Budget Office (CBO)

Shelia Dacey, Analyst, CBO

Debra Devine, Social Science Analyst, Office of Policy Development and Research, U. S. Department of Housing and Urban Development (HUD)

Katherine L. Meredith, Program Examiner, Housing Branch, Executive Office of the President, Office of Management and Budget (OMB)

Charles Nelson, Assistant Division Chief for Income and Poverty, Housing and Economic Household Statistics Division, Bureau of the Census, U. S. Department of Commerce

Don Oellerich, Acting Deputy Chief Economist, Office of the Assistant Secretary of Planning and Evaluation, U. S. Department of Health and Human Services (HHS)

Carla Pedone, Analyst, CBO

F. Stevens Redburn, Chief of the Housing Branch, Executive Office of the President, OMB

Les Rubin, Social Science Analyst, Office of Policy Development and Research, HUD

Ron Sepanik, Director, Housing and Demographic Analysis Division, Office of Policy Development and Research, HUD

Mark Shroder, Economist, Policy Development Division, Office of Policy Development and Research, HUD

Rueben Snipper, Analyst, Office of the Assistant Secretary of Planning and Evaluation, HHS

Christopher Snow, Analyst, Office of the Assistant Secretary of Planning and Evaluation, HHS

Academic Experts

Neil Bania, Associate Director, The Center for Urban Poverty and Social Change, Mandel School of Applied Social Science, Case Western Reserve University

Claudia Coulton, Lillian F. Harris Professor and Co-Director, The Center for Urban Poverty and Social Change, Case Western Reserve University

Joseph Harkness, Research Statistician, Institute for Policy Studies, The Johns Hopkins University

Jon Jacobson, Senior Research Analyst, Mathematica Policy Associates

Laura Leete, Research Associate, The Center for Urban Poverty and Social Change, and Assistant Professor of Economics, Case Western Reserve University

Sandra Newman, Interim Director, Institute for Policy Studies, The Johns Hopkins University

LaDonna Pavetti, Senior Research Analyst, Mathematica Policy Associates

Public Policy Analysts

Marty Abravenel, Senior Research Associate, The Urban Institute

Anna Kondratas, Senior Associate, The Urban Institute

Cynthia Miller, Research Associate, Manpower Demonstration Research Corporation

James Riccio, Senior Research Associate, Manpower Demonstration Research Corporation

Barbara Sard, Director of Housing Policy, Center on Budget and Policy Priorities

John Weicher, Senior Fellow, Hudson Institute

Sheila Zedlewski, Director, Income and Benefits Center, The Urban Institute

Other Public and Assisted Housing Experts

Jim Brigle, Director of Government Affairs, Public Housing Authorities Directors Association

George C. Caruso, Acting Executive Director, National Affordable Housing Mangement Association

Connie Campos, Policy Analyst for Housing, National Association of Housing and Redevelopment Officials

Major Galloway, Policy Analyst for Housing, National Association of Housing and Redevelopment Officials

Debra Gross, Research Director, Council of Large Public Housing Authorities

John Hiscox, Executive Director, Macon Housing Authority

Walter Huelsman, Vice President and National Director of Housing Consulting, DMG-Maximus, Inc.

Will Jones, Housing and Community Development Research Officer, National Association of Housing and Redevelopment Officials

Rich Parker, Executive Director, Athens Housing Authority

Comments From the Department of Housing and Urban Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

U. S. Department of Housing and Urban Development
Washington, D.C. 20410-6000

NOV 10

OFFICE OF THE ASSISTANT SECRETARY
FOR POLICY DEVELOPMENT AND RESEARCH

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

Dear Ms. England-Joseph:

Thank you for providing a draft of GAO/RCED-99-14, "Welfare Reform: Effect on Housing Subsidies Difficult to Estimate." As our staff noted at the exit conference, the report is fair and straightforward. Our comments at the exit conference have been addressed.

We would suggest the following additional corrections:

See comment 1.
Now on p. 3.

Page 4, paragraph beginning "Through its public housing..": Office of Budget requests the following revision for consistency with more recent data, and to avoid confusion about the treatment of public housing operating subsidies:

"Through its public housing and Section 8 programs, HUD provides housing assistance to about 4.3 million low-income households. In fiscal year 1997, HUD's outlay for public housing modernization and development subsidies, and for Section 8 subsidies, amounted to almost $20 billion. About $7.8 billion of this amount was allocated through the tenant-based Section 8 certificate and voucher programs under which housing agencies provide rent subsidies to private landlords. About $7.6 billion went directly to private landlords as part of the project-based Section 8 program, with the remainder of the $20 billion going for modernization and development of Public and Indian Housing. In addition, $2.6 billion were distributed through the annually appropriated formula-based performance funding system to State, county, and local housing agencies for the operation of public housing."

See comment 2.

Page 4, footnote 4: The sentence beginning "Generally, owners' rents.." should be deleted. The rule stated has never been true of the voucher program, and significant exceptions existed in the certificate program. Under our new legislation, when implemented, the sentence will be entirely inaccurate. We recommend deleting the sentence because stating an accurate general rule would be lengthy and tangential to this report.

See comment 3.
Now on p. 16.

Page 19: The second author of the paper listed in the footnote is Marge Martin, not Marge Turner. The reference to this paper in the relevant sentence of the text should substitute "researchers" for "economists."

Sincerely,

Xavier de Souza Briggs
Deputy Assistant Secretary
for Research, Evaluation
and Monitoring

GAO Comments

1. After additional discussions with HUD to clarify the information provided in comment 1, we included the data from HUD's suggested paragraph with certain appropriate modifications.

2. We deleted the footnote as suggested.

3. We changed the reference as requested.

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