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The Family Self-Sufficiency Program: A Promising, Low-Cost Vehicle to Promote Savings and Asset Building for Recipients of Federal Housing Assistance

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At a time when policymakers are increasingly looking around for inexpensive ways to encourage savings, there is one promising program that is already on the books. The Family Self-Sufficiency (FSS) program is largely responsible for helping thousands of lower-income families make a successful transition from welfare assistance to independence. Despite its relatively small size, FSS is one of the largest asset building programs available to assist the working poor and has made an important contribution to the country's asset-building efforts. Its success to date is worth building upon. Several crucial and low-cost reforms would significantly expand the program's impact.

The FSS Program—What It Is and How It Works

The FSS program was created by Congress in 1990 to help promote employment and boost the assets of low-income families receiving federal housing assistance. Currently serving more than 75,000 families nationwide,[1] the FSS program is administered by local Public Housing Agencies (PHAs). It is open to all families in the Housing Choice Voucher (Section 8) program or living in public housing, but PHAs have the discretion to determine the number of families that can participate and how they will be selected. The FSS program has two primary components, escrow accounts and case management, that work together to help families build assets and make progress toward self-sufficiency and homeownership. In general, they work as follows:

Escrow Accounts

- Most families receiving housing assistance pay 30 percent of their adjusted income for rent and utilities. As their incomes rise, so do their rents.
- FSS participants, however, have an opportunity to obtain a refund for some or all of these higher rent payments. As the rent of a FSS participant rises due to higher earnings, an amount equal to the rent increase is deposited into an escrow account.[2] This creates an opportunity for savings, as well as an incentive for participants to make progress toward self-sufficiency.
- Individuals that successfully complete the FSS program receive their accrued FSS escrow funds plus interest. To graduate successfully, a FSS participant must become employed, be free of welfare assistance for at least 12 months, and substantially achieve the goals in their self-sufficiency plan. The basic program length is five years, but many families graduate in less time. There are no formal restrictions on the use of the escrowed funds, but many families use the funds for homeownership, post-secondary education, or to start a new business. FSS participants may also apply for interim withdrawals to cover work-related expenses and other expenses that are consistent with achieving their self-sufficiency goals.

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Case Management

- FSS case management is designed to help each participant develop a self-sufficiency plan that includes specific goals and to facilitate access to support services that help each participant achieve these goals. The nature of the services to which participants are referred varies among programs and communities. Examples include employment search, employment training, high school or post-secondary education, financial literacy education, child care, and transportation assistance.

Because HUD places no formal limits on the number of families that may participate in FSS, there may be an opportunity to grow local FSS programs to assist more families. One promising approach to expand local FSS programs is to foster partnerships between housing agencies that administer FSS programs and other agencies in the community that can provide services and case management. Modest changes in the procedures HUD uses for funding FSS would help support these efforts.

FSS Is Effective in Helping Low-Income Families Build Assets and Achieve Self-Sufficiency

FSS has a growing track record of helping families build assets.[3] Data from November 2000 reflect that approximately 48 percent of FSS participants, enrolled in the program for at least 12 months, had positive escrow balances; the average balance was about $2,400 and these accounts were growing at a rate of about $300 per month on average.[4] Certain FSS programs report significantly greater asset accumulation. In Portland, OR, for example, escrow payouts at graduation have averaged $7,000.[5] The FSS program in Montgomery County, MD, reports average accumulations by graduates of $8,000. [6] The average escrow payout among 22 FSS programs in Oregon and Vancouver, WA is at least $3,297.[7]

The evidence is equally convincing that participation in the FSS program is linked to increased earnings, self-sufficiency, and homeownership. An evaluation of the Portland FSS program in mid-2000 found that the average annual earnings of its graduates increased from $4,000 at the beginning of the program to $17,500 at graduation – an increase of 338 percent.[8] To similar effect, Montgomery Country, MD reports that average earned income of FSS graduates increased from $9,180 to $27,130 annually – an increase of nearly 200 percent. Some 40 percent of FSS graduates in Portland, OR and 25 percent of FSS graduates in Montgomery County, MD became homeowners. The homeownership rate among graduates of the 24 programs in Oregon, Idaho, and SW Washington State is 36 percent.

The FSS Program Can Become More Effective

While FSS is one of the largest asset-building programs available to assist the working poor, it represents only a tiny faction of HUD's budget and receives very little in the way of programmatic support from HUD. For FSS to achieve its potential, policymakers need to identify and highlight this program as a means to promote savings and asset building for recipients of housing assistance and to ensure the program has stable funding and adequate administrative support.

In recent years, changes to the procedures used to allocate housing voucher funds appropriated by Congress have inadvertently undermined funding support for FSS. Because most FSS escrow accounts are funded through the same account that is used to fund housing vouchers, and because many housing agencies are concerned with their ability to fully fund their voucher programs, many housing agencies have taken steps to reduce the size of their FSS programs as a cost-cutting measure. Other changes to the funding system for FSS have led hundreds of local FSS programs to lose HUD funding for the FSS coordinators that administer the program. The Administration should provide a clear statement that it is committed to this program and offer a plan to ensure greater funding stability for both FSS escrow accounts and FSS coordinators.

HUD should also be encouraged to work with HHS, the Department of Labor, and other federal and state agencies to promote interagency collaboration around FSS at the state and local levels. Since FSS focuses on linking families in HUD-assisted housing with services provided by welfare, workforce, and other agencies, it provides a unique opportunity for such collaboration. Finally, HUD should expand the internal resources it devotes to FSS to provide local FSS programs with more detailed guidance and technical assistance, as well as a venue for cross-site learning and exchange.

Funding Instability Undermines FSS

Funding allocation problems impair the effectiveness of the FSS Program. Currently, funding for FSS is provided through four separate HUD accounts, with separate funding for the escrow accounts and program coordinators in both the public housing and voucher programs. Three out of four of these accounts experienced significant funding problems in 2004. To ensure the ongoing success of FSS, it is vital that these funding streams be made more reliable. The problems of each account are reviewed below, along with a proposed solution. To a large extent, these problems can be solved within existing or proposed funding levels.

Funding for FSS Program Staff

HUD distributes a limited amount of dedicated funding to housing agencies to pay for the staff that provide case management and handle other responsibilities involved in administering an FSS program.

Section 8 FSS Coordinators. These costs are covered by a set-aside of housing voucher funding that is awarded competitively through an annual Notice of Funding Availability (NOFA).

- Due to changes in the way these funds were awarded last year, nearly one-third (256) of the 771 agencies that received FSS coordinator funding the prior year lost all FSS coordinator funding from HUD.[9] Many of these agencies will be unable to continue to administer their FSS programs without this funding, and some have reportedly already shut down their programs. Many other programs have stopped admitting new families.

- This funding problem was due principally to changes in the way funds were allocated in the NOFA, rather than to a shortage of funding for FSS coordinators.[10] For this reason, HUD's request for additional funding for FSS coordinators in the FY 2006 budget – while clearly helpful in allowing the program to serve more families – will not fully solve the problem.

Solution: HUD needs to restore funding for FSS Coordinators at agencies that lost it and greatly improve the reliability of annual funding. At a minimum, each housing agency (and each region within a state housing agency) should get funding for at least one FSS coordinator. Funding for additional coordinator slots should be awarded in a predictable, reliable manner.

Public Housing FSS Coordinators. Until last year, the FSS coordinator costs for programs serving public housing residents were funded through the public housing operating fund. This appeared to work well.

- Last year, HUD changed the funding source to a competitive funding process through a section of the Resident Opportunity and Self Sufficiency (ROSS) program.

- While the full ramifications of this change are still not clear, in general, the process does not appear to have gone well in its first year of operation. In awards announced in February 2005, HUD awarded only $5.7 million of the $16 million announced as available for public housing FSS coordinator costs. Initial reports suggest that many housing agencies were denied funding due to technicalities unrelated to the performance of their FSS programs. Some of the public housing FSS programs that have lost funding have also taken steps to reduce or shut down their programs.

- In the latest public housing FSS Coordinator NOFA, announced in mid-March 2005, HUD indicated that it would be rolling over the unawarded funds to the current funding round—a positive step that may eventually help to sort out the funding problems in this account. Unfortunately, however, it does not solve the problem of how existing public housing FSS programs can survive until that funding is awarded in late 2005 or early 2006.

Solution: Funding for public housing FSS coordinators needs to be made more predictable and reliable. One option would be to authorize housing agencies to pay for the cost of one FSS coordinator position through the public housing operating fund—a return to the prior, more reliable funding mechanism—and then make additional ROSS funds available on a competitive basis to agencies that can demonstrate a need for additional

FSS coordinator staff. The public housing operating fund could also represent an interim solution for agencies denied funding in February.

Funding for FSS Escrow Accounts
A key feature of FSS is the ability of program participants to build savings through FSS escrow accounts.

Section 8 Escrow accounts. The escrow accounts in the voucher program are funded as one component of the housing assistance payments (HAP) funding provided by HUD to state and local housing voucher programs. Unfortunately, the new procedure that went into effect in FY 2004 to allocate HAP funds have had unintended, negative consequences for local FSS programs.

- Instead of receiving reimbursement for their actual program costs, housing agencies now receive a flat dollar amount based on the prior year's spending plus an inflationary factor.

- Under the new funding mechanism, many voucher programs have received insufficient funds to cover their actual program costs. In an effort to avoid or minimize reductions in the number of families receiving housing assistance, a growing number of agencies have responded by adopting the alternative cost-cutting measure of suspending new admissions to the FSS program.

Solution: In addition to fully funding the housing voucher program, Congress and HUD need to address the adverse consequences of the new voucher funding mechanism on both FSS and the voucher program more generally. Housing agencies should not be forced to reduce the number of families provided housing assistance in order to participate actively in FSS.

Public Housing Escrow accounts. Housing agencies are reimbursed for the escrow costs of FSS participants in public housing through the public housing operating formula.

- While this funding mechanism appears to work reasonably well, there are two problems to address. First, many housing agencies appear to be unaware of how HUD provides funding for FSS escrow accounts for public housing residents – a likely cause of the low participation rate of public housing residents. Second, when the public housing budget is not fully funded at the federal level—as was the case last year—agencies are not fully reimbursed for their operating costs.

Solution: HUD should encourage PHAs to enroll public housing residents in FSS and educate housing agencies on how the escrow accounts are funded. HUD and Congress should also ensure that the overall funding levels for the public housing program are adequate. Finally, as HUD moves to adopt a new public housing operating formula, it will be important to ensure that the new formula continues to reimburse PHA for the costs of FSS escrow contributions.

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[1] According to HUD data, as of 1/31/05, there were about 75,300 individual participants in FSS. Most of these–67,240–were enrolled in Housing Choice Voucher FSS programs, the balance (8,070) in public housing.
[2] For more details, see endnote 7 of Barbara Sard (2001), *The Family Self-Sufficiency Program: HUD's Best Kept Secret for Promoting Employment and Asset Growth*, Center on Budget and Policy Priorities, http://www.cbpp.org/4-12-01hous.htm.

[3] For more information, see Jeff Lubell (2004), *A Diamond in the Rough–the Remarkable Success of the FSS Program*, FSS Partnerships (http://www.fsspartnerships.org/includes/fssresults.pdf) and Jeff Lubell (2004), *Expanding Asset-Building Opportunities for Low-Income Families through FSS*, FSS Partnerships (http://www.fsspartnerships.org/includes/expandingfss.pdf).

[4] Sard (2001), p. vi.

[5] *Summary of Outcomes/Challenges—Housing Authority of Portland Family Programs*, December 6, 2002.

[6] Data provided by Nancy Scull, FSS Coordinator for the Housing Opportunities Commission of Montgomery County, MD. Graduate data are as of 12/31/03.

[7] FSS Annual Progress Report Summary through 9/30/2003, prepared by Joy McCray of HUD. This is the combined average for public housing and Section 8 voucher FSS programs. Graduate escrow averaged $3,661 among Section 8 voucher FSS graduates and $2,933 among public housing FSS graduates.

[8] Karen J. Gibson, Assistant Professor, School of Urban Studies and Planning, Portland State University, *The Goals Family Self-Sufficiency Program: A Survey of Graduates*, December 2002.

[9] While some 75 housing agencies that did not get funded in the prior year received funding in the latest round, the net number of agencies receiving funding under this year's NOFA declined by 181 from last year – a drop of nearly one-fourth.

[10] For background on this issue, see the National Association of Housing and Redevelopment Officials' analysis, reprinted at http://www.fsspartnerships.org/includes/NAHRO/FSSNOFA.pdf.