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Betting the House on Welfare Reform

One million New York City residents, including over 500,000 children, rely on public assistance as their primary source of income. Under the state's two basic welfare programs $2.4 billion in direct income support payments were made in 1996, of which over $1 billion was spent by recipients to secure housing. Nevertheless, their housing status is tenuous; approximately 250,000 welfare recipients are homeless or living doubled-up with others, and another 100,000 are protected from eviction by emergency rental payments or court-ordered rent supplements.

Last summer President Clinton signed a new federal welfare law (the Personal Responsibility and Work Opportunity Reconciliation Act, or PRA) which terminates the entitlement status of public assistance for families with children, ends the federal commitment to match state welfare spending, bars many non-citizen immigrants from receiving federal welfare funds, and imposes strict new work requirements and five-year time limits on welfare recipients.

Governor Pataki recently unveiled his proposals for implementing the new federal law in New York State. They include several provisions not required by the new federal act, including a "safety net" voucher program that would provide modest support for single adults, long-term welfare recipients, and immigrant families no longer eligible for federally-funded assistance. The Governor also proposes sequential benefit reductions reaching 45 percent of the original grant level and the elimination of the separate public assistance shelter allowance.

The new federal and proposed state welfare reforms are aimed at reducing welfare dependency and encouraging economic self-sufficiency. They are predicated on a rapid movement of welfare recipients into private-sector employment; neither provides funding to local governments for creation of new public sector jobs. If the private economy generates an adequate number of new jobs and welfare recipients prove qualified to fill them, the reforms may contribute to the amelioration of poverty and to the improvement of housing conditions. If the transition to private-sector work proves more difficult than anticipated, however, the housing arrangements of thousands of the city's poorest families could be destabilized.

Neither the federal law nor the Governor's proposed legislation contain safeguards that would ensure the housing status of recipients who are unable to make the transition to private sector work. Moreover, during the past several years Congress has slashed HUD's budget and terminated funding for new Section 8 rent certificates and vouchers. The Governor's welfare reform plan, meanwhile, seeks to eliminate the legal basis for court-ordered rent supplements on behalf of welfare families facing eviction.

Vulnerability Varies

Not all public assistance households are equally vulnerable to housing dislocation if their benefits are reduced or terminated. Of the 286,000 TANF (Temporary Assistance for Needy Families, formerly AFDC) families in the city, 36,000 are the principal tenants in public housing apartments, 21,700 live in city-owned *in rem* apartments and approximately 15,000 live in project-based Section 8 housing. Another 40,000 live in private unsubsidized housing, but receive rental assistance through the Section 8 existing housing program. The housing status of these welfare families will be somewhat insulated from any losses in direct income support.

Under current federal law residents of public housing may not be charged rents more than 30 percent of their gross income. If their income falls, their rent must be adjusted

Estimated Housing Status of Public Assistance Households

	AFDC		*Home Relief*	
Type of Rental Housing	*Number*	*Percent*	*Number*	*Percent*
Public Housing	36,000	12.6	4,000	2.0
In Rem Housing	21,700	7.6	4,100	2.1
Section 8 Project-Based	15,000	5.2	1,000	0.1
Supported SROs	0	0.0	3,000	0.2
Private Housing	161,700	56.5	95,100	47.5
Section 8 Existing Vouchers	39,200	13.7	1,000	0.1
Jiggetts Rent Supplements	25,000	8.7	0	0.0
Basic Shelter Grant	97,500	34.1	94,100	47.1
In Homeless Shelters	5,000	1.7	4,000	2.0
Doubled-Up or Living w/ Others	46,600	16.3	88,800	44.4
TOTAL	286,000	100	200,000	100

Source: CHPC Estimates

proportionately. Any decreases in the rental income of the Housing Authority would be offset by additional federal operating subsidies or, more likely, by curtailing maintenance and modernization expenditures. Out of pocket rent payments are similarly limited to 30 percent of gross income for welfare tenants who receive project- or tenant-based Section 8 subsidies, and decreases in direct income support would be offset by greater rent subsidies. The federal government would have to pick up the cost of the higher rent subsidy, further exacerbating its Section 8 contract renewal crisis.

Since the early 1980s federal tenant selection preferences and income targets have required public housing authorities and Section 8 housing managers to rent the majority of their vacant apartments to welfare families and other very low-income households. Fearing deterioration in the social and financial viability of their projects, those housing providers have pressed for relief from the strict federal requirements. In its past two HUD appropriation bills, Congress has temporarily suspended the tenant selection preferences, but the Senate and House could not agree on a housing bill that would have removed them permanently and eased the income targets. Congressman Rick Lazio has already introduced a modified version of the reform bill in the current Congress. If enacted, the reforms will protect the financial stability of the housing developments but will limit welfare families' access to subsidized housing.

City-owned *in rem* housing is not subject to the 30 percent rule and most welfare tenants are charged rents equal to their maximum shelter allowance. It would make little political or fiscal sense to evict those families, however, even if their rent-paying ability were nil. Most were originally relocated from publicly-funded homeless shelters, where the cost of housing them is several times greater.

The Governor's proposed legislation would allow the state to set different welfare benefit levels for residents of public and publicly-assisted housing. This could allow the state to set lower benefit levels for those families, economizing on state expenditures while forcing the federal government, and possibly the city, to absorb any rent shortfalls.

Of the 180,000 welfare families in the city who do not have access to subsidized housing, approximately 50,000 live in emergency shelters or doubled-up with other families. Furthermore, nearly one-fifth of those who rent their own apartments in the private market have had evictions staved off through participation in the *Jiggetts v. Grinker* class action lawsuit. Clearly, the housing circumstances of public assistance families who must find accommodations in the private, unsubsidized market are extremely precarious.

Housing providers and homeless advocates have long argued that the state's shelter allowance for public assistance recipients is insufficient to operate and maintain decent dwellings or to keep the families securely housed. At $286 per month for a family of three, the shelter allowance provides $100 less than what the Rent Guidelines Board reports is the cost of operating the average rent-stabilized unit, and represents little more than one-third of the federal fair market rent applicable in New York City. The state's shelter allowance has not been increased since 1987.

More than three-quarters of public assistance households in private housing currently pay rents at or above the maximum shelter allowance, with an average excess rent of $180 per month. A special tabulation of microdata from the New York City Housing and Vacancy Survey was recently made for *The Urban Prospect*, indicating that in 1993 over 85 percent of public assistance households with a minor present who rent private apartments paid in excess of $300 per month. Nearly half paid over $500 per month.

Rents Paid By Public Assistance Households in Private Housing, 1993

Contract Rents	*Total*	*Minor Present (AFDC)*	*Minor not Present (HR/SSI)*
Total Number	270,668	158,323	111,796
Total Reported	100%	100%	100%
$1 - $299	20.5	13.2	30.9
$300 - $399	17.3	15.8	19.3
$400 - $499	21.5	21.9	21.1
$500 - $599	18.4	20.2	15.8
$600 - $699	11.6	14.8	7.2
$700 & Over	10.6	14.2	5.6

Source: Tabulated from 1993 New York City Housing and Vacancy Survey Microdata File.

Pulling the Plug on *Jiggetts*

More than 25,000 public assistance tenants in New York City currently receive additional rental assistance under the *Jiggetts v. Grinker* lawsuit. These court-ordered payments totaled over $75 million in 1996.

The class-action suit, initiated in 1987, is based on Section 350 of the state Social Services Law, which directs the state to provide benefits that are adequate to allow children to be raised in their homes. *Jiggetts* charges that the Department of Social Services failed in its obligation to establish adequate benefit levels, which has resulted in thousands of families becoming homeless. During the six years preceding *Jiggetts* litigation, the number of homeless families increased from fewer than 300 to more than 5,000. In 1988, the New York Supreme Court found in favor of plaintiffs' claims regarding the inadequacy of the shelter allowance and granted a preliminary injunction requiring excess rent payments and arrears be made on behalf of participating families. This ruling was overturned by the Appellate Division and then reversed yet again by the Court of Appeals, which found that the Social Services Law did create a mandate and that the shelter allowances granted failed to fulfill this obligation. The Court of Appeals returned the case to the State Supreme Court, which, following a trial, has maintained its interim ruling since 1991.

Pending the court's final determination or a legislative change, temporary rental assistance payments are being granted to intervening families on a case by case basis.

To be eligible for *Jiggetts*, public assistance families must be the subject of an eviction proceeding. The average *Jiggetts* supplement is $245 per month, reflecting a mean rent of $531 for participating households. *Jiggetts* families currently represent about 25 percent of the public assistance households with rents above their shelter allowances. On average *Jiggetts* households pay more than other public assistance renters, which might be expected given the criteria that they be in eviction proceedings.

The Governor's proposal to merge the shelter and cash allowance into a single basic grant would undercut the legal basis for *Jiggetts*. Previous potential challenges to *Jiggetts* have included motions to consolidate the shelter allowance and cash grant, proposals to insert the shelter grant schedule into the Social Services Law(which would limit the courts' oversight of such allowances regardless of their adequacy), and simply removing the word "adequately" from the Social Service Law. The legislature has resisted such remedies -- while also declining to raise the shelter allowance -- reflecting what many believe to be a tacit acknowledgment that *Jiggetts*, while imperfect, is an effective interim solution to the housing problems of welfare families.

Worst Cases, Best Cases

It is impossible to anticipate with any certainty how public assistance families will react to the new welfare environment. During the past three years, the city's TANF/AFDC caseload has declined by 30,000 families, reflecting stricter eligibility screening, the threat of workfare assignments, and an improving economy. The city's total welfare population has now receded to 1991 levels. City officials and outside experts doubt, however, that the recent rate of decline can be sustained, as those recipients with the most ready alternatives are usually the first to leave the rolls.

A certain amount of attrition from the welfare rolls occurs naturally as recipients marry, find jobs, or otherwise regain financial independence. Pioneering research on the duration of welfare "spells" was conducted by David Ellwood and Mary Jo Bane in the mid-1980s; more recently, LaDonna Pavetti of the Urban Institute has advanced the understanding of the dynamic patterns of welfare dependency. This research indicates that almost half of welfare recipients can be expected to leave the rolls within two years, but that more than 40 percent remain dependent on public assistance for four years or more. Moreover, of those that leave the welfare rolls, over 70 percent will return within five years.

If the distribution of welfare spell duration remains roughly unchanged for New York City's current caseload, as many as 190,000 families may reach the first of the Governor's proposed benefit reductions by 1999, and over 100,000 families may experience the full 45 percent reduction by 2002, and reach the five-year time limits established by the new federal law. The number of families reaching their lifetime limits will increase in future years, as many former recipients experience recurrent unemployment. The PRA contains a hardship exemption that allows 20 percent of a state's caseload to exceed the five-year limit, but New York City could exceed that threshold by more than 25,000 cases. Governor Pataki's proposed "Safety Net" would allow all families exceeding the five-year limit to continue to receive assistance in the form of vouchers, but their total value would be capped at $317 per month for a family of three.

By comparing the distribution of payments under the *Jiggetts* litigation to the distribution of rents paid by welfare families in private housing, it is possible to get a rough estimate of the likelihood that a family will become subject to a non-payment eviction proceeding at different rent/benefit ratios. This analysis indicates that about 12 percent of welfare families who pay rents between $300 and $400 per month are in danger of eviction; the probability doubles for those who pay between $400 and $500 per month. Interestingly, the likelihood that a welfare family will become subject to an eviction proceeding remains at approximately 25 percent at rent levels above $500 per month, suggesting that those that pay the highest rents have proportionately more unreported income.

While it is widely assumed that most public assistance families have some outside income, there has been remarkably little quantitative research on the issue. Sociologists Christopher Jencks and Kathryn Edin conducted a relatively small survey of public assistance families in Chicago, finding that public assistance (including food stamps) represented only 58 percent of family income. The remaining income came from: salaried employment (5.1 percent), off the book jobs (9.3 percent), vice (4.2 percent), absent fathers (3.3 percent), boyfriends/resident fathers (8.6 percent), relatives and friends (6.5 percent), and other (5.2 percent). Another study of residents in a New York City low-income community reported that virtually all participants had some connection to the underground economy.

New federal and state work requirements and more vigilant collection of child support payments may diminish whatever outside income is currently received. Formal work participation requirements will increase from 20 hours per

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week for 30 percent of the caseload in 1998 to 30 hours per week for 50 percent of the caseload in 2002. While these work requirements may encourage more welfare recipients to enter the mainstream economy, they will also preclude some opportunities for informal labor income. Since all but $50 of child support collections are retained by the state to offset assistance payments, any increased collections will not benefit recipients significantly and could even result in less informal child support from absent fathers. (The PRA eliminates the federal contribution towards this "pass-thru", which the Governor proposes to reduce to $25.)

The combination of increasing work participation hours and lowering benefits will reduce the effective hourly earnings of workfare participants from approximately $5.90 in the second year of receipt to about $2.64 in the fifth. Faced with that progression, some may chose to accept the penalty for non-participation (equal to about $100 per month) and to seek off-the-book income in the informal economy.

Included in Governor Pataki's proposed reforms are provisions that will allow public assistance recipients to keep more of their reported earned income before they lose benefits. Although econometric studies have not found that past changes to benefit phase-out rates were effective in stimulating work participation, they have not previously been tried in an environment of benefit reductions and time limits.

The proposed legislation would enable families to retain 50 percent of their earnings and would extend public assistance eligibility up to $1,080 per month from the current $670. For example, a mother of two working full-time at a minimum wage of $5.15 per hour would earn about $10,900 annually, and still be eligible for approximately $100 per month in welfare benefits. Federal and state earned income tax credits would bring her total income to about $13,000, just above the federal poverty line. At the conventional 30 percent rent/income ratio, she would be able to afford an apartment rent of $320 per month. By comparison, if her apartment rent were $500 per month, her rent/income ratio would be approximately 47 percent. In order to afford a $500 per month apartment at a 30 percent rent/income ratio, she would need to earn $10.00 per hour. If she were to work 25 hours per week, she would be significantly better off under the Governor's new proposal than with the current system.

Wild Cards

For those recipients who do not comply with work requirements, for families that exhaust their five year time limits, for single adults and for immigrants no longer eligible under federal law, the Governor's plan would create a voucher program that would replace cash assistance with coupons for shelter, food, clothing, and other basic necessities. The proposed legislation limits the value of vouchers to the level of assistance provided to a similarly situated individual or family receiving TANF, a provision that may pose a particular hardship for immigrant households who are no longer eligible for food stamps.

The precise number of non-citizen immigrant households who receive public assistance in New York City is unknown. Census data indicate that immigrant families, on the whole, are no more likely than native born New Yorkers to receive welfare. The Independent Budget Office estimates that 22,500 immigrants will lose eligibility for Food Stamps and SSI in the coming year.

Approximately 200,000 New York City residents currently receive Home Relief benefits, the state/city public assistance program for childless adults. The maximum grant for a Home Relief recipient is $352, of which $215 is designated for rent. The Governor proposes to retain a form of Home Relief for the physically and mentally disabled, but would create a "Safety Net" voucher program for those who are able-bodied.

Relatively little is known about the housing status of Home Relief recipients. Of those who rent their own dwellings in SROs or conventional apartment buildings, over three-quarters pay rents in excess of their shelter allowances. Even if they receive rent vouchers equal to the current shelter allowance, the loss of direct cash assistance may prevent many from plugging their rent deficits. It is estimated that nearly half, however, are living with friends or relatives, boarding informally, or are homeless. It is unclear how useful the vouchers will be for obtaining informal housing accommodations, and how the loss of direct cash assistance will affect the finances and housing status of extended families in which recipients may live.

Another unknown variable in the welfare/housing equation is the effect of federal changes in Supplemental Security Income (SSI) eligibility. The new restrictions will affect primarily immigrant households and low-income families with children with disabilities. Although the city has a relatively high concentration of such beneficiaries, some of them are members of nuclear or extended families and how the loss of the SSI income will effect them is unclear.

It is not easy to assess the potential impact of the federal reforms or the Governor's proposed changes. Reducing the welfare caseload by a quarter of a million people has not, thus far, been the calamity that many advocates predicted. There has been no conspicuous increase in shelter entry, crime, or people living in the streets. Much depends on how welfare recipients react to the new environment, and on how well the local labor market can accommodate a sudden influx of low-skilled job applicants. In terms of keeping one million poor New Yorkers housed, the President, Congress and the Governor are apparently betting that it all works out.

CHPC has recently assembled a special committee of housing professionals to evaluate the impact of welfare reform on the city's housing stock. Copies of the committee's report, *An Analysis of the Housing Impacts of Governor Pataki's Welfare Reform Proposals*, are available from CHPC on request.