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# THE INCREASING USE OF TANF AND STATE MATCHING FUNDS TO PROVIDE HOUSING ASSISTANCE TO FAMILIES MOVING FROM WELFARE TO WORK — 2001 SUPPLEMENT

by Barbara Sard and Tim Harrison

## Introduction

In February 2000, the Center on Budget and Policy Priorities published *The Increasing Use of TANF and State Matching Funds to Provide Housing Assistance to Families Moving from Welfare to Work*.[1] The paper provides a detailed look at eight state and local programs that use federal TANF or state maintenance-of-effort (MOE) funds to provide housing assistance to families attempting to make the transition from welfare to work. It also explains the issues that states and counties should consider in deciding which funding sources to use for particular housing programs. Since this paper was published, four additional states and localities — Michigan, Pennsylvania, Virginia, and Denver, Colorado — have initiated housing programs using TANF funds. Two of the original states — Minnesota and New Jersey — also have invested additional funds in new TANF- or MOE-funded housing programs while continuing their earlier initiatives.

In addition, over the last 12 months, the U.S. Department of Health and Human Services (HHS) has issued guidance on a number of questions concerning the permissible uses of TANF and MOE funds to provide housing assistance. Another development that may be relevant to the use of TANF funds for housing is the retention, at least for fiscal year 2001, of states' ability to transfer up to 10 percent of TANF funds to the Social Services Block Grant (SSBG).

This supplemental paper first reviews HHS' relevant guidance and states' ability to transfer TANF funds to SSBG. It then explores the six new state and local initiatives that use TANF or MOE funds to help subsidize families' ongoing housing costs. These recent efforts provide further evidence that an increasing number of state and local governments are recognizing the importance of addressing families' housing needs as part of state welfare reform efforts.

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[1] Barbara Sard and Jeff Lubell, *The Increasing Use of TANF and State Matching Funds to Provide Housing Assistance to Families Moving from Welfare to Work*, Center on Budget and Policy Priorities, February 2000, available on the internet at: http://www.cbpp.org/2-17-00hous.pdf.

## HHS Guidance on the Use of TANF and MOE Funds for Housing Assistance

In our original paper, we discussed the rules that apply to the use of federal TANF or state MOE funds and how these rules affect the design of programs to provide housing assistance. As we noted then, the rules on the permissible uses of TANF and MOE funding may influence decisions about what groups of families to target for assistance and which funding stream to employ. In the past year, HHS has issued guidance on a number of important questions that state and local governments may face if they wish to use TANF or MOE funds for housing assistance. Two of these questions concern the use of TANF and MOE funds to facilitate homeownership and to provide rental assistance.

### Use of TANF Funds for Homeownership

Over the last three years, state and local governments have begun to experiment with new ways to provide housing assistance to families making the transition from welfare to work, including exploring options that would facilitate homeownership. Recent questions about this issue include whether HHS rules permit the use of loans and grants to help families purchase homes, whether TANF and MOE funds may be used for counseling to clear up debt and credit problems that hinder families from purchasing homes, and whether TANF and MOE funds may be used to provide property tax credits.

Several state and local governments have begun to use TANF funds to facilitate homeownership.[2] Recent HHS guidance indicates that states may use TANF (or MOE) funds to provide loans or grants to help eligible families purchase homes.[3] Such payments are consistent with the first purpose of the TANF program: to care for needy children in their own homes.

According to HHS, benefits provided in the form of a grant or loan to assist with the purchase of a home would not count as "assistance" under federal TANF rules because the benefit would be a one-time payment.[4] This classification is important because "assistance"

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[2] Homeownership programs in Kentucky and several counties in North Carolina are discussed in our original paper. New homeownership programs in Michigan and Pennsylvania are described in this paper.

[3] See U.S. Department of Health and Human Services, *TANF Program Policy Questions*, "Use of Funds" Question 27. A complete listing of HHS's questions and responses is available at http://www.acf.dhhs.gov/programs/ofa/polquest/index.htm.

[4] Generally, TANF benefits qualify as "assistance" when they help to meet a family's basic and ongoing needs. HHS' final TANF regulations exclude nonrecurrent payments and short-term benefits from the definition of "assistance." 45 C.F.R. 260.31. In addition to its one-time nature, a downpayment benefit in the form of a loan would not be considered "assistance" because it is a loan. In the general section on the meaning of "assistance," HHS advises states that a TANF-funded loan to meet ongoing needs is not considered "assistance" because the recipient is legally obligated to repay the funds. HHS, *TANF Program Policy Questions*, "Definition of

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would trigger a family's 60-month time clock under the TANF program. If the family remains in the home for a specified period of time, such as five years, a loan may be converted into a grant, but the financial benefit that the family would receive by this conversion still would not qualify as "assistance." If a family fails to satisfy a condition for participation in a home purchase program (such as remaining in the home for five years), the state may treat the money provided as an overpayment subject to recovery. In sum, under no circumstances would a one-time grant or loan for homeownership affect a family's ability to receive up to 60 months of TANF "assistance" in its lifetime.

HHS guidance also provides that states may use TANF or MOE funds for credit counseling and to help needy families resolve bad debt and other credit problems that are hindering their ability to purchase homes or obtain rental housing.[5] One-time grants or loans to resolve credit problems, like payments to assist with home purchases, are not considered "assistance" under the federal TANF rules. Neither are counseling services. As a result, there is no adverse consequence to working families if states use only TANF funds for these purposes. States and counties could then reserve MOE funds for other benefits, such as ongoing rental subsidies, that are considered "assistance" and count against families' 60-month lifetime TANF time limit if funded with TANF dollars.

Recently, HHS stated that TANF funds may *not* be used to reimburse families for property taxes. This is because TANF funds may only be used for the refundable portion of tax credits; property tax credits generally are not designed to offset more than what a family paid in property taxes and hence are not like refundable tax credits. (A refundable credit is one that gives a family a payment when the credit amount exceeds a family's tax liability.) HHS' instruction is consistent with language in the preamble to the final TANF regulations.[6] This instruction not only clarifies that TANF funds may be used to fund tax relief only if the relief is a true income supplement (rather than simply an offset to taxes paid), but also prevents states from using federal funds to supplant state funds through property or sales tax credits.[7]

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[4] (...continued)
Assistance," Question 10, available on the internet at http://www.acf.dhhs.gov/programs/ofa/polquest/assist.htm. For a complete explanation of the consequences of providing TANF "assistance," please see Part IV of the Center's original paper.

[5] HHS "Use of Funds" Q & A, Question 21.

[6] See *Temporary Assistance for Needy Families, Program Instruction*, No. TANF-ACF-PI-01-01, January 17, 2001, Department of Health and Human Services; available on the internet at http://www.acf.dhhs.gov/programs/ofa/taxcrdt.htm. Previously, HHS had given both Michigan and Wisconsin permission to use TANF or MOE funds for property tax credits. The instruction allows the two states to continue doing so through tax year 2001.

[7] Many states offset some or all of the property sales taxes paid by certain taxpayers with what is in effect a
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## Use of TANF and MOE Funds for Rental Housing

While more state and local governments are using TANF funds to facilitate homeownership, most housing-related programs to date have been in the form of rental subsidies**.** Relatively few families making the transition from welfare to work are in a financial position to afford the ongoing payments on a home even with initial help, so states' focus on rental assistance makes sense.

Some state and local governments, however, are seeking ways to increase the supply of rental housing rather than focusing only on helping families afford existing housing. Recent HHS guidance provides that because of the prohibition against using federal funds for construction, rehabilitation, or purchase of buildings, states may *not* use TANF funds to help a developer purchase a multi-family building that would provide affordable rental housing to needy families. This prohibition applies to states and counties and their grantees, such as non-profit agencies and contractors. (This issue is discussed in the Center's original paper on page 40.) HHS did not indicate whether MOE funds that are accounted for separately from TANF funds are subject to the same prohibition.[8]

### *Use of TANF or MOE Funds for "Project-Based" Rental Assistance*

Although TANF funds may not be used directly to acquire or produce rental housing, a state or county may use TANF or MOE funds in other ways to help make rental housing more affordable. A state or county may enter into a multi-year contract with a non-profit or for-profit developer or owner of rental housing to provide TANF- or MOE-funded rental subsidies on behalf of eligible families. Such "project-based" rental assistance helps to reduce rents by paying a portion of the operating costs, including the cost of repaying a purchase or construction loan.

If TANF funds are used for project-based rental assistance, a state or county may commit TANF funds from the current year or unspent TANF funds from prior years to an owner of rental housing, to be paid over a specified number of future years. In this way, the availability of funds would not be subject to future decisions to commit funds from a state's TANF allocation for

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state-funded subsidy. Such state tax credits offset expenses, but do not provide additional income to households in excess of their tax liability and do not assist households that do not pay the particular tax. By restricting the use of federal funds to refundable credits, HHS is ensuring that TANF funds are used solely to provide an additional income supplement. Because relatively few state tax credits are refundable, HHS's instruction also makes it less likely that TANF funds will be used to replace, or supplant, current state expenditures. For a Center analysis of how TANF funds can be used to provide a refundable state tax credit, see Nicholas Johnson, *TANF Funds May Be Used to Create or Expand Refundable State Child Care Tax Credits*, available on the internet at http://www.cbpp.org/10-11-00sfp.htm.

8 HHS "Use of Funds" Q & A, Question 28.

future years.[9] However, the use of TANF funds in this way would constitute "assistance" to the families benefitting from the reduced rents that the project-based assistance enables the owner to charge. As a result, such a use of TANF funds counts against families' 60-month lifetime federal time limit for receipt of TANF benefits.

To provide project-based assistance to working families not already receiving TANF cash benefits, however, it is preferable to use separately-administered MOE funds rather than TANF or commingled TANF and MOE funds. As we indicated in our original paper, benefits provided with MOE funds that are accounted for separately from TANF funds do not count against families' five-year lifetime federal time limit on receipt of TANF "assistance." (See page 37 of the Center's original paper.[10]) HHS' decision in the final regulations to exempt benefits provided with separate state funds from the federal restrictions that apply to "assistance" provided with TANF funds is sensible. It encourages states to use their funds flexibly in designing anti-poverty strategies.

Another way a state or county can reduce rents in a particular multi-family building is by making a grant to an owner's reserve account of the amount anticipated to be needed for a specified future period, above tenants' rent payments, to meet operating expenses. The owner can then draw what is in effect an ongoing rent subsidy from this pool of funds. TANF funds *cannot* be used for this purpose. HHS guidance indicates that a state may set up a reserve account using state funds, but the funds placed in the account would only count as MOE expenditures in the years in which the developer used them to subsidize rents then due. Furthermore, if needy families received rent subsidies on an ongoing basis for more than four months, these benefits would be considered "assistance," regardless of the fact that the subsidies were drawn from a reserve account funded by a one-time state payment.[11] If the MOE funds are accounted for separately from TANF funds, however, as discussed above, receipt of MOE-funded rental subsidies for more than four months would not count for purposes of a family's 60-month federal lifetime time limit on receipt of TANF "assistance."

*Use of TANF or MOE Funds for "Bundled" Housing and Services*

HHS also has addressed the use of TANF or MOE funds to contract with a developer to provide multi-year rental housing subsidies "bundled" with services, such as on-site child care, employment assistance, or case management. (Minnesota and Virginia have established such

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[9] The contractual commitment does not allow the state to withdraw the full amount from the federal Treasury. It converts the total amount of contracted funds into an unliquidated obligation that is liquidated gradually as the government agency makes periodic payments under the contract.

[10] Payments a state makes each year to an owner of rental housing on behalf of eligible families, using state funds, may count toward the state's MOE obligation for that year.

[11] HHS "Use of Funds" Q & A, Question 23.

programs for families and individuals that are homeless or at risk of homelessness, as detailed below.) When housing assistance is integrated with supportive services, there may be a question as to which parts of the "bundled" package qualify as "assistance" under federal TANF rules.

HHS guidance on this issue indicates that the nature of the benefits provided, rather than the nature of the contractual arrangement with the owner, determines whether the benefits constitute "assistance."[12] As is generally the case when a family receives rental subsidies for more than four months, the rental subsidy portion of the payment to the owner is considered "assistance" because it provides ongoing support of the family's basic needs. However, the payment to the owner for the provision of services to the family would constitute "assistance" only in some circumstances, depending upon the type of service involved and whether the family is employed or not. In general, case management or counseling services with no cash value are not considered "assistance." Similarly, child care and employment-related services funded through TANF are not considered "assistance" if the family is employed.[13]

A state or county could combine TANF and MOE funds to help provide supportive housing for working families that are no longer receiving TANF monthly cash assistance but would benefit from on-site services to retain employment. TANF funds could be used to provide work supports such as child care and counseling services, while rental subsidies could be funded with MOE funds that are administered separately from TANF funds. In this way, families would not receive any benefit that would count against their federal time limit on the receipt of TANF "assistance." For families that are receiving monthly TANF cash benefits, in contrast, it does not matter if TANF funds are used for rental subsidies as well as for services since these families' TANF "time clocks" would be running anyway.

## Change in the Percentage of TANF Funds that May Be Transferred to the Social Services Block Grant

States may transfer up to 10 percent of the 2001 TANF block grant to the Social Services Block Grant (SSBG), and up to 30 percent to SSBG and the Child Care and Development Fund combined. Although many states are taking advantage of this flexibility, some states with

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[12] HHS "Use of Funds" Q & A, Question 29.

[13] More detailed explanations of the final TANF rules and how they apply to a variety of types of spending are contained in Liz Schott, Ed Lazere, Heidi Goldberg, Eileen Sweeney, *Highlights of the Final TANF Regulations*, Center on Budget and Policy Priorities, April 1999, available on the internet at: http://www.cbpp.org/4-29-99wel.htm.

unspent TANF funds are not transferring as much as they could to SSBG.[14]

If a state transfers TANF funds to SSBG and uses those funds for temporary rental assistance, receipt of the rental subsidies does not count against families' TANF time limit. (See page 42 of our original paper.) Families with children with incomes below 200 percent of the federal poverty level are eligible for SSBG services, including those funded through a TANF transfer.

Beginning in fiscal year 2000, Congress amended the TANF statute to permit states to transfer only 4.25 percent of the current year's TANF funds to SSBG. However, HHS appropriations legislation for fiscal years 2000, 2001 and 2002 retained states' ability to transfer 10 percent of their TANF allocation to SSBG. Congress must reauthorize the TANF program this year. It is unclear at this time if Congress will revise the SSBG transfer provision in the reauthorization process.

## State and Local Housing Programs Using TANF or MOE Funds to Help Families Move From Welfare to Work

The number of state and local programs providing housing subsidies to low-income families through TANF or MOE funds continues to grow. In our report issued last year, we described eight such programs: state initiatives in Connecticut, Kentucky, Maryland, Minnesota, New Jersey, and North Carolina and county initiatives in California's San Mateo and Los Angeles counties. Since then, three additional states — Michigan, Virginia, and Pennsylvania — and one county (Denver) have initiated TANF- or MOE-funded housing programs, and two of the original states — Minnesota and New Jersey — have invested additional TANF or MOE funds in new programs designed to supplement their earlier initiatives.[15]

In general, the new programs, like those discussed in the Center's original paper, are time-limited, modest in size, and (with the exception of the Michigan and possibly the

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[14] For a detailed look at the amount of TANF funds transferred to the Child Care and Development Fund and the Social Services Block Grant in FY 2000, see Ed Lazere, *Unspent TANF Funds at the End of Federal Fiscal Year 2000*, Center on Budget and Policy Priorities, available on the internet at: http://www.cbpp.org/1-22-01sfp00surplus.pdf. See also Zoe Neuberger and Ed Lazere, *Analysis of TANF Spending Through the Middle of Fiscal Year 2001*, available on the internet at: http://www.cbpp.org/9-28-01wel.pdf..

[15] In addition to the new programs discussed in this paper that provide ongoing housing assistance, Montana recently allocated $3.4 million in TANF reserves and $0.5 million from public housing agencies' federal Section 8 administrative fee reserves for a state housing trust fund called the Montana Revolving Loan Account. The trust fund will provide short-term aid in the form of rent mediation, downpayment assistance, and other time-limited benefits to TANF-eligible families to avoid providing "assistance" that would start the TANF clock. The establishment of a state housing trust fund may mark an important state commitment to housing, although the state legislature has directed the state to spend the money by September 2002 and there is no guarantee of future funds.

Pennsylvania initiatives) designed to serve fewer than 1,000 families. The amount of money appropriated also is modest, although Pennsylvania's commitment of $60 million ($30 million a year for two years) and Michigan's commitment of $25 million are more substantial than the earlier programs. In addition, Denver's contribution of $5.7 million of county-controlled TANF funds to its housing initiative exceeds the amount invested in earlier county programs.

The new programs generally are funded in part or in whole with TANF funds; states generally have not rearranged their use of TANF funds to free up MOE dollars to provide ongoing housing subsidies to working families.[16] Both Virginia and Denver, however, have designed programs that use TANF funds for the first four months of assistance for working families and state general funds or MOE funds, respectively, for subsequent months in order to avoid running the TANF time clocks of families not receiving TANF monthly income maintenance benefits. (Federal law excludes rental assistance provided for no longer than four months from the definition of "assistance" and its consequences.) Pennsylvania is considering using MOE rather than TANF funds for at least a portion of its Rental Operating Subsidy initiative.[17] New Jersey is the exception, using solely MOE funds for its program.

Like the initiatives described in the Center's original paper, most of the new housing initiatives provide tenant-based rental assistance. The new programs in Minnesota, New Jersey, Virginia, and Denver provide tenant-based rental subsidies to low-income families to help defray costs such as rent, utilities, and moving expenses.

*New Jersey's New Program*

New Jersey's new housing voucher program differs somewhat from the older state program, in addition to targeting different communities. As in the earlier program, the state is using MOE funds to provide tenant-based housing vouchers for families that have recently left TANF due to employment; families may use the vouchers to reduce the rent burden of their current housing or to rent new housing. The new program, however, is in part designed as an incentive for working families that remain eligible for supplemental TANF cash assistance to

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[16] In addition to the supportive housing and services program for the homeless detailed in this paper, Minnesota made $50 million in unrestricted state funds available for two affordable housing development initiatives by substituting TANF funds for state expenditures for the state's Working Family Tax Credit. This transfer of TANF funds effectively made $50 million of state General Fund revenue available to finance the two housing initiatives, whereas direct use of TANF funds for these initiatives would have been difficult or impossible. One of the new programs commits $30 million to develop new rental housing for families that are receiving TANF benefits or have recently left TANF due to employment or child support income. The other new state initiative allocates $20 million to a revolving loan fund to help finance homeownership opportunities for low-income families through Habitat for Humanity.

[17] Pennsylvania's Rental Operating Subsidy initiative will provide grants to reduce the mortgage payments on multifamily rental housing that receives certain state or federal funds, enabling the owners to reduce the amount they charge for rent. This program is discussed further at page 11 below.

close their welfare cases. Families that have been working at least half-time for four months while receiving a TANF supplement may in effect substitute a housing subsidy paid to their landlord for their cash welfare check. New Jersey's high rents and relatively low welfare grants mean that the rent subsidy is likely to exceed the family's previous partial TANF grant. In addition to receiving a benefit of greater dollar value, a family that opts for the MOE-funded rent subsidy in lieu of the TANF supplement stops the federal 60-month time clock from running. Families may return to the TANF cash assistance program if they lose their jobs.

The new voucher initiative in New Jersey differs in several other respects from the earlier program New Jersey established in 1998.[18] First, in the new program, families pay 40 percent of their income throughout the two years of the rental subsidy; under the first program, a family's required rental contribution increased from 45 percent of income in the first year the family is in the program to 65 percent of income in the family's third year in the program. The reduction in families' required rental contributions under the new program reflects a change in the state's expectations concerning families' ability to pay private market rents. Unlike the earlier program, the new program is designed as a bridge to receipt of a federal housing voucher, probably in recognition of the fact that New Jersey housing costs remain unaffordable for many low-wage workers. Program participants are required to apply for federal housing vouchers.

Second, the new program is administered by the New Jersey Division of Human Services rather than the state housing agency. Therefore, units will not have to pass inspection under the housing quality standards required for the federal housing voucher program and the earlier state program. Instead, units may receive a subsidy if they have a "certificate of habitability" or "certificate of occupancy" indicating compliance with local housing codes, which are generally less stringent than the federal standards. This change in procedure may make more housing units available to families and will avoid administrative delays, reduce administrative costs, and make it more feasible for a human services agency rather than a welfare agency to administer the program. If the local certification process relied on by the welfare agency ensures that participating families have adequate quality housing, the elimination of the additional inspection requirement of the prior initiative may result in a more effective program.

*Housing Assistance for Especially Vulnerable Populations*

While the earlier state programs were designed primarily to assist families that are making the transition from welfare to work, some of the new initiatives are experimenting with other types of housing assistance for low-income and vulnerable populations. In Minnesota, the focus is on homeless families. Minnesota's Supportive Housing and Managed Care Pilot Program provides integrated case management and support services, including employment and health care services, to families with children that are homeless or at risk of being homeless, have

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[18] The first New Jersey program discussed in our original paper is still operating for families that have not yet exhausted the three years of benefits. No new families are being accepted into that program.

a mental illness, or have a history of substance abuse or HIV. Minnesota's initiative also includes supportive housing and services for formerly homeless, employed, non-custodial parents.[19]

The Virginia and Denver programs serve other low-income families in addition to homeless families, but give priority to the homeless. Virginia's State Homeless Housing Assistance Resources Homeless Intervention Program (SHARE HIP) will provide time-limited financial and housing counseling assistance to low-income families that are experiencing a financial crisis and are at risk of homelessness or are currently homeless.[20] SHARE HIP assistance is intended to help the family obtain or maintain permanent housing by providing eligible clients with grants or loans for rent or mortgage payments and security deposits. The Denver program gives priority to families that are homeless or at imminent risk of becoming homeless, but all families must be working or complying with their Individual Responsibility Contract with the welfare agency.

*Homeownership Initiatives*

Michigan has dedicated $25 million in TANF funds to the Michigan Affordable Housing Fund, which will be used largely to support programs designed to increase homeownership by low-income families. Grants will be funneled through both a Habitat for Humanity initiative that will reduce the loans that families need to purchase new homes and a general Home Purchase Initiative that will provide a range of services for first-time home buyers. These programs have income limits that vary by county and do not require past or present receipt of TANF benefits; in the highest-income county, the income limit is $38,640 for a family of three, increasing to $52,900 for a family of eight. (In contrast, the homeownership program in Kentucky discussed in the Center's original paper is limited to former TANF families with incomes of no more than $27,760 for a family with three or more members.[21])

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[19] TANF assistance provided to a non-custodial parent (NCP) does not count against the federal lifetime time limit of the child's custodial parent or caretaker relative, unless the NCP is the spouse of the head of the TANF household. For fiscal year 2002, the Minnesota legislature has expanded this program with $2 million of state funds to serve single individuals who do not qualify as non-custodial parents of a TANF-assisted child.

[20] While the SHARE Homeless Intervention Program was created in 1989, Virginia has added new TANF funds to the program's budget, along with certain restrictions on how these funds can be used.

[21] Another important distinction between the Kentucky and Michigan homeownership programs is that the Kentucky program gives priority to families with Section 8 vouchers who have accumulated savings toward a downpayment on a home through the Family Self-Sufficiency (FSS) program. The FSS program is an employment and savings incentive program for low-income families that have Section 8 vouchers or live in public housing. Participants are provided case management services for employment and are allowed to establish escrow accounts in which are deposited the increased rental charges the families pay as a result of increases in earnings. For a complete discussion of the FSS program, please see Barbara Sard, *The Family Self-Sufficiency Program: HUD's Best Kept*

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Pennsylvania also is mounting a homeownership initiative. The state is committing $6 million — 10 percent of its Housing Collaboration Initiative — to expand homeownership by funding additional mortgage loans through Habitat for Humanity and other non-profit organizations. Families with incomes below 235 percent of the poverty line, or approximately $33,000 for a family of three, can qualify.

*Housing Rehabilitation and Development*

Two of the new state programs include initiatives to support housing rehabilitation. Pennsylvania intends to make $10 million available to support local community efforts to rehabilitate homes owned by low-income families and small rental properties. This funding may be used for lead-based paint abatement in addition to other types of repairs. Similarly, Michigan's program allocates $1 million to fund lead paint abatement in units receiving federal Section 8 voucher subsidies on behalf of families with at least one child under six years of age.

In a departure from other TANF- and MOE-funded housing programs, Pennsylvania is planning to use $4 million of TANF funds to help non-profits develop new cooperative housing or purchase existing rental properties that are at risk of becoming unaffordable or are in serious disrepair. (Properties may cease to be affordable for low-income families if the current owner decides not to renew an expiring federal rent subsidy contract.) By restricting the use of these funds to agencies' pre-development (or pre-purchase) costs and the provision of technical assistance, Pennsylvania anticipates this use of TANF funds will not run afoul of the prohibition on using TANF funds directly for construction or acquisition of multifamily rental housing.

In addition, Pennsylvania also is seeking to increase the number of rental units affordable to poor households through another innovative use of TANF funds. For existing rental housing that is mortgaged through the state housing finance agency or that receives federal Low Income Housing Tax Credits, the state will make one-time grants to owners through its Rental Operating Subsidy initiative to reduce the amount borrowed to finance the property.[22] In this way, an owner's operating costs will be reduced in return for the owner's agreement to lower the rent for eligible families for a certain number of years. This type of one-time payment to reduce ongoing housing costs by reducing the mortgage debt is similar to the one-time payment to assist with a home purchase that HHS has declared is a permissible use of TANF funds. (See the discussion

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[21] (...continued)
*Secret for Promoting Employment and Asset Growth*, Center on Budget and Policy Priorities, April 2001, available on the internet at: http://www.cbpp.org/4-12-01hous.htm. By helping families with Section 8 vouchers become homeowners, the Kentucky program frees up vouchers that can provide rental assistance to additional needy families.

[22] Grants will be limited to existing rental housing to avoid the prohibition on use of TANF funds for acquisition or construction of rental housing. See the discussion at page 4 above. The grants will repay a portion of the debt owed to the state housing finance agency through the PennHomes program. The PennHomes program will then have newly-available capital to loan to support additional rental housing construction.

at page 2 above.) Pennsylvania is structuring its program this way in order to serve working families without having the payments count against the families' 60-month federal lifetime limit on receipt of TANF "assistance." HHS has already stated that such one-time payments to homeowners are not considered "assistance." It would be equitable to treat in a similar manner the renter families that benefit from the reduced rents that one-time payments make possible. HHS has not yet ruled on the permissibility of Pennsylvania's proposal to use nearly $40 million in TANF funds in this manner.[23]

The key characteristics of the six new housing initiatives described here are detailed in the tables at the end of this paper. These tables are similar to those in the Center's original report. Table 1 lists the type or types of housing subsidy each program provides, the amount of the subsidy available per family, and the duration of the subsidy. Table 2 lists the income eligibility standards for the six new programs and their geographic scope. Table 3 summarizes the sources of funding the various programs use and includes the amount of funds allocated to the programs. A list of contact persons who can provide additional information about the six state and local programs discussed here is attached as Appendix A.

## Conclusion

State and local governments are increasingly providing housing assistance with federal TANF and state MOE funds. By recognizing that many more families need housing assistance than can be served by current federal housing programs and by acting to meet a portion of this need, state and local governments can help families make the transition from welfare to work, as well as provide affordable housing to low-income families. Whether states and counties provide vouchers that subsidize the rents of apartments that families locate in the private market, project-based rental assistance, or homeownership grants or loans, these new housing assistance programs can help families become more stable and self-sufficient.

The modest increase in the number of state and local governments that are using TANF and MOE funds to provide ongoing housing assistance programs is a positive step in the continuing evolution of the TANF program. These programs also demonstrate the opportunities that exist to provide crucial housing assistance to working families with resources outside the federal housing programs. State and local governments are recognizing their increased flexibility to use TANF funds to provide needed assistance to families to assist in the transition from welfare to work, avert homelessness, and facilitate homeownership.

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[23] It is disadvantageous to developers to use federal TANF funds to reduce the mortgage amount on a property that is financed through the federal Low Income Housing Tax Credit (LIHTC) program, due to technical LIHTC rules. Pennsylvania may use MOE funds rather than TANF funds to lower rents in buildings financed through the LIHTC program. As discussed at page 5 above, rental subsidies provided with MOE funds that are accounted for separately from TANF funds do not count against families' five-year federal lifetime limit on receipt of TANF "assistance."

These state and local efforts are constrained, however, by the TANF program rule that receipt of a housing subsidy for more than four months counts against a family's federal 60-month lifetime limit on TANF benefits, even for working families, unless the subsidy is funded with MOE funds that are administered separately from TANF funds. States should have the flexibility to provide housing assistance as a work support, just as they can provide transportation or child care subsidies, without running families' TANF clocks. This flexibility could be achieved by amending the TANF regulations, or if necessary the TANF statute, to allow ongoing housing subsidies that are not part of the monthly assistance grant, or that are provided solely to working families, not to be considered "assistance." A remedy for this problem should be considered as policymakers address TANF reauthorization in 2002.

Readers are encouraged to contact the Center for further information about the matters discussed in this paper or the original report published last year and currently on our website.

**Table 1: Type, Amount, and Duration of New State and Local Housing Subsidies Funded with TANF or MOE**

| | Type of Subsidy | | Amount of Subsidy | Duration of Subsidy |
|---|---|---|---|---|
| | **Tenant-Based Rental Assistance** | **Other Housing Subsidies; Additional Services and Benefits** | | |
| **Denver, CO<br>TANF Housing and Transportation Program** | √ | Move-in expenses | Difference between rent (up to FMR) and 30% of family's adjusted gross income. | Up to 12 months for TANF families and 4 months for former TANF families |
| **Michigan<br>Affordable Housing Fund** | | Homeownership grants, services to facilitate homeownership and lead abatement program | Approximately $10,000 per family for downpayment grants and cap of $5,000 to help families keep their homes. Lead abatement: 675 units at $1,300 per family and 10 units at $10,000 per unit. | One-time only grants. Services may be ongoing. |
| **Minnesota<br>Supportive Housing and Managed Care Pilot** | √ | Case management and supportive services; project-based rent subsidies | Estimated average subsidies: $777/month (Ramsey County) and $510/month (Blue Earth County). Family contribution is at least 30% of adjusted gross income. | No limit while receiving TANF cash assistance. Estimated average duration of six months as bridge to federal voucher. |
| **New Jersey<br>Housing Subsidy Program** | √ | Security deposits; utility turn-on expenses; moving expenses | Estimated average subsidy of $417/month. Family contribution is 40% of adjusted gross income; unit rent may be up to the HUD fair market rent. | 24 months |
| **Pennsylvania<br>Housing Collaboration Initiative** | | Project-based subsidies for up to 20% of units; homeownership assistance; rehabilitation; certain pre-development costs; service coordinators | Not yet determined | Generally one-time payments |
| **Virginia<br>SHARE Homeless Intervention Program** | √ | May be combined with payment of up to 6 months of rental arrears and utility deposit assistance | Full rent but no utility costs. | Up to 9 months of which no more than 6 months may be for rent arrears and 6 months for current and future rent. |

## Table 2: Who is Eligible for TANF- or MOE-Funded State and Local Housing Assistance?

| | Current TANF Recipients | Former TANF Recipients | Other Eligible Families | Geographic Scope |
|---|---|---|---|---|
| **Denver** | √<br>Complying with work-training plan | | Working families with income up to 225% of poverty line. Priority to families that are homeless or at imminent risk of homelessness. | Denver County |
| **Michigan** | | | *Habitat for Humanity* -Income up to 50% of area median income or $25,920 for a family of four, if higher. | Statewide |
| | | | *Home Purchase* and *Home Retention* - 60% of area median income or 80% of area median income in the lowest income non-metro counties. | |
| | | | *Lead Paint Abatement* - Section 8 families with income up to 200% of poverty line. | |
| **Minnesota** | √ | | Family or individual must have income below 120% of poverty line and (1) be a family with children that is homeless or at risk of homelessness and have mental illness, HIV, or substance abuse *or* (2) be an employed noncustodial parent. | Pilot program in two counties: one metro (Ramsey County) and one other (Blue Earth County) |
| **New Jersey** | √<br>Must close cash assistance case. Employed minimum of 20+ hours/wk. for last 4 mo. | √<br>Left TANF within past 6 months and employed with income $\leq$ 150% of poverty line. | Income limit increases to 200% of the poverty line in the second year. | In all counties except Monmouth, Bergen and towns of Perth Amboy and West New York. (The excluded areas had received federal welfare-to-work vouchers.) |
| **Pennsylvania** | √ | √ | Income limit is 235% of poverty line. For project-based rental subsidies, limit likely to be up to 40% of area median income. | Statewide |
| **Virginia** | √ | | Income up to 200% of the poverty line. Parents must comply with self-sufficiency requirements. | Statewide |

## Table 3: Sources of Funding for State and Local Programs

| | **Federal TANF Funds** | **MOE*** | **Other State or Local Funds** | **Total Amount Allocated** |
|---|---|---|---|---|
| **Denver** | √ | | | $5.7 million for housing program (total of $6.6 mil.) |
| **Michigan** | √ | | | $25 million |
| **Minnesota** | √ | | May supplement with county funds | $3 million |
| **New Jersey** | | √ | | $2.5 million |
| **Pennsylvania** | √ | Possibly, particularly for project-based rental operating subsidies in tax credit properties | The rehabilitation component will require a local match | $60 million ($30 million per year for two years): $40 million for project-based rental subsidies; $10 million for rehabilitation; $6 million for homeownership; $4 million for technical assistance and pre-development costs to non-profit agencies. |
| **Virginia** | √<br>Limited to 4 months of prospective rental assistance | | √ | $4.2 million TANF plus state funds |

*The "MOE" column represents programs that account separately for the use of MOE funds, rather than mixing MOE funds in a single program with TANF funds.

## Appendix A: Contact Information for State and Local Housing Initiatives

**Denver County:** *TANF Housing and Transportation Program*

Karen Miller, Administrator
Homeless, General Assistance and Housing
Denver Department of Human Services
1200 Federal Boulevard
Denver, CO 80204
phone: 720-944-2031
fax: 720-944-3092
karen.miller@dhs.co.denver.co.us

**Michigan**: *Michigan Affordable Housing Fund*

Pam Shaver, Welfare Reform/Self-Sufficiency Coordinator
Michigan State Housing Development Authority (MSHDA)
P.O. Box 30044
735 East Michigan Avenue
Lansing, MI 48909
phone: 517-373-9194
fax: 517-373-2450
shaverp@state.mi.us

**Minnesota:** *Supportive Housing and Managed Care Pilot Program*

Jennifer L. Ho, Executive Director
Hearth Connection
2801 - 21st Avenue South, Suite 220
Minneapolis, MN 55407
phone: 612- 721-3700, Ext. 110
fax: 612-721-9903
*jennifer.ho@csh.org*

**New Jersey**: *Housing Subsidy Program*

Joseph Maag, Coordinator
Office of Transitional Services
State of New Jersey Department of Human Services
Division of Family Development
3 Quakerbridge Plaza
P.O. Box 716
Trenton, NJ 08625-0716
phone: 609-588-2160
fax: 609-588-3369
jmaag@dhs.state.nj.us

Maura Sanders, Senior Attorney
Legal Services of New Jersey
100 Metroplex Drive
Suite 402
Edison NJ 08818
phone: 732-572-9100
fax: 732-572-0066
Msanders@lsnj.org

**Pennsylvania**: *Housing Collaboration Initiative*

Richard Overmoyer, Policy Director
Department of Community and Economic Development
400 North Street, 4th Floor - Commonwealth Keystone Building
Harrisburg, PA 17120-0225
Phone: 717-720-1373
Fax: 717-772-5080
rovermoyer@state.pa.us

**Virginia**: *SHARE Homeless Intervention Program*

Robbie Campbell, Project Manager
Division of Housing
Virginia Department of Housing and Community Development
501 North Second Street - The Jackson Center
Richmond, VA 23219
phone: 804-371-7113
fax: 804-371-7091
rdcampbell@dhcd.state.va.us