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Evaluating the Fiscal Impact of the Housing Stability Plus Program

SUMMARY

IN DECEMBER OF 2004 THE DEPARTMENT OF HOMELESS SERVICES implemented a major new program, Housing Stability Plus (HSP), to provide rent supplements to eligible homeless families and single adults. HSP rent supplements replace existing city subsidy programs. At the same time, the city ended the preference homeless families had received for federal Section 8 rental vouchers and vacant public housing apartments. A two-year demonstration program for about 1,000 single adults annually was also approved by the state. The Bloomberg Administration hopes to house up to 6,500 homeless families each year using HSP.

Unlike Section 8 vouchers, HSP assistance will phase out over five years, and receipt of the HSP supplement is tied to public assistance receipt for families.

To date, the Bloomberg Administration has not released any estimate of the costs or savings associated with HSP.

Our analysis of the fiscal impact of the program finds the following:

- The HSP rental supplement provides the opportunity to significantly lower the average shelter population, potentially saving hundreds of millions of dollars in shelter costs annually compared to the alternative of continuing to rely on a diminishing number of Section 8 vouchers and other permanent placement options.
- These savings more than offset the cost of the HSP supplement under a broad range of plausible assumptions; however, under equally plausible assumptions, the program could result in net costs.
- Achieving net budgetary savings will depend critically on four key factors, some of which are not fully under the city's control:
 - o the rate at which homeless enter the shelter system;
 - o the rate at which residents leave shelter on their own;
 - o the success that remaining eligible homeless families and adults have in using the HSP supplements to find permanent housing;
 - o their ability to remain housed and not return to the shelter system as the supplement phases out.
- Compared to Section 8, however, HSP may present participants with a disincentive to leave public assistance, resulting in higher public assistance costs compared to the alternative.

Given the sensitivity of the results to relatively minor changes in key variables, the city and its state partners will need to monitor results carefully to ensure the program's success.

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INTRODUCTION

In October of 2004, the Department of Homeless Services (DHS), in conjunction with the Human Resources Administration (HRA), Department of Housing Preservation and Development, and the Administration for Children's Services, announced the creation of a new program, Housing Stability Plus (HSP). Beginning in December, homeless households were no longer given priority for available Section 8 vouchers or public housing units as they had been in the past.¹ Instead, under HSP, eligible homeless families and single adults receive a rent supplement tied to their public assistance shelter allowance, resulting in a maximum allowable rent as set by the city and state.

The city also eliminated other city programs, including the Emergency Assistance Rehousing Program (EARP), the Long

Term Stayer Program (LTSP), and the Employment Incentive Housing Program (EIHP)- see sidebar for more details.

HSP is the city's response to cuts in federal funding for Section 8 as well as part of its overall plan for reducing the shelter population and finding more permanent solutions to homelessness. To date, the Bloomberg Administration has not released any estimate of the costs or savings associated with HSP. In this Fiscal Brief, IBO provides an estimate of the net fiscal impact of HSP, compared to an alternative future of limited availability of Section 8 vouchers and other permanent housing solutions for the homeless.

Although fiscal impact is the focus of our analysis, it is not the only—nor necessarily the most important—measure of success. There are other measures on which the success of HSP will be evaluated, such as the size of the shelter

Other Subsidy Programs Eliminated

The implementation of HSP marks the end of a number of other housing assistance programs at DHS and other agencies.

DHS offered bonuses to landlords that rented apartments to homeless families with Section 8 vouchers through the Emergency Assistance Rehousing Program. Landlords received one-time cash bonuses that varied based on the size of the household using the Section 8 voucher—for example, the bonus for renting to a family of four was \$4,500. Under HSP, these bonuses are no longer offered.

In November of 2002, DHS implemented its Long Term Stayer Program. LTSP was a rental subsidy program designed to help families on public assistance ineligible for Section 8—for example, those with criminal records—and who have been in the shelter system for long periods of time, to find permanent housing. Under LTSP, landlords received a one-time bonus equivalent to those given through EARP, and rent payments for five years. Unlike Housing Stability Plus, LTSP payments remained steady over the five-year period. LTSP maximum subsidy payments were slightly lower than “fair market rents” (see below), but higher than HSP maximum rents.

LTSP served a relatively small number of families—through September 2004, DHS had placed a total of 324 families. It is not clear whether the small number of placements was due to the limited eligibility, the allowable rent levels, or other factors. In the month between the end of Section 8 eligibility for homeless families and the beginning of HSP, DHS placed 75 families with LTSP, a significant increase over prior utilization, which suggests that the program was more appealing when there were fewer other options. DHS has stopped issuing new LTSP assistance, although those families already participating will continue to receive aid. Those families that would have been eligible for LTSP can now participate in HSP.

The Employment Incentive Housing Program was a Human Resources Administration program which provided rental assistance to families that were homeless (including households in HRA domestic violence shelters), on public assistance, and either were employed or likely to be employed after finding housing. EIHP provided two years of rental assistance, in conjunction with one-time bonuses like EARP and LTSP. Between the program's inception in March of 2001 and July of 2003, HRA placed 846 families using EIHP, of which 588 were from the DHS shelter system. EIHP will also be phased out as HSP is fully implemented.

In total, the 2005 budget for these three programs is \$28.5 million. The majority (\$17.2 million) of this funding is for EARP. Savings from eliminating these programs will offset some of the costs of implementing HSP.

population after implementation, or the number of households finding permanent housing with HSP supplements. The fiscal impact, however, is largely a function of, and varies with, the program's success along these other dimensions.

The report begins with an overview on recent trends in the homeless population, then goes on to describe the HSP program and some issues that observers have raised about its design. We then turn to the analysis of the fiscal impact, and the factors which will ultimately determine whether HSP leads to net savings or net costs.

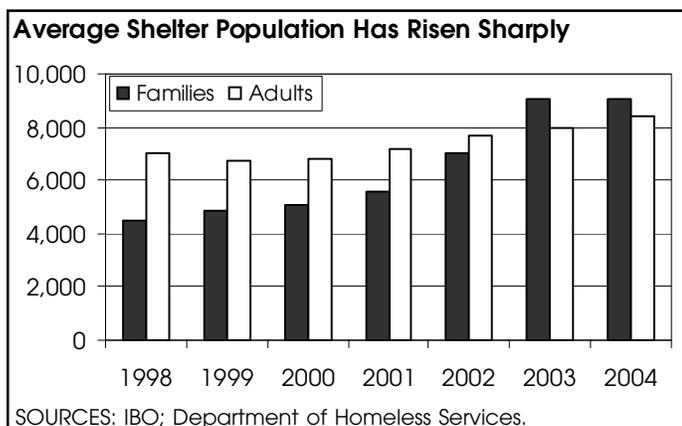
HOMELESSNESS IN NEW YORK CITY

On any given night, there are between 35,000 and 40,000 people in the New York City homeless shelter system. About 8,000 to 9,000 of the shelter residents are single men and women, while the remainder are homeless families, including 15,000 to 16,000 children.

Growth in the Shelter System. Since 1998, the number of homeless families has risen sharply. The number of homeless single adults has also grown, although the increase has not been as pronounced.

City spending on homeless services has grown commensurately with the size of the shelter population. In 1999, the Department of Homeless Services spent \$392.9 million to provide shelter and other social services. By 2004, total DHS spending had grown to \$673.8 million, a 71 percent increase.

New York City is under court order to provide shelter to anyone who requests it and who has no other place to go. As a result, DHS's efforts to reduce the size of the shelter population must focus on helping people find alternatives to shelter, either before they enter the system, or permanent housing placements for those who are already homeless.



Placement Type	2002	2003	2004
Section 8 w. EARP bonus	1,429	2,157	3,862
Public Housing	1,108	1,818	1,891
HPD Units	191	309	154
Other Section 8	540	392	262
Long Term Stayer Program	-	29	232
Other	253	584	605
TOTAL	3,521	5,289	7,006

SOURCES: IBO, Department of Homeless Services Critical Activity Reports, various years.

The number of families in the shelter system leveled off in 2004. Although there was a slight drop in the number of families entering the system, the plateau is largely attributable to the increase in the number of families placed in permanent housing.

About 85 percent of the permanent housing placements were made using federal housing subsidies: Section 8, a private-market voucher program, or public housing owned and operated by the New York City Housing Authority (NYCHA). In most cases, DHS has paired Section 8 rental vouchers with the Emergency Assistance Rehousing Program, which gives landlords one-time bonuses for renting to homeless families. Although Section 8 rent payments are made by the federal government, the city is responsible for paying a part of the EARP cost. In 2004, DHS spent almost \$17 million on EARP.

DHS also promoted permanent housing placements through management of its contracts with nonprofit shelter operators. Shelter operators were given targets for permanent housing placements. Those that met their targets were given financial bonuses; those that did not were penalized. The agency also implemented client responsibility standards, under which households were required to accept appropriate apartments. DHS attributes much of the increase in permanent housing placements to these management initiatives, which will remain in place under HSP.

HOUSING STABILITY PLUS—RATIONALE, PROGRAM DESIGN, AND ISSUES

Program Rationale. There are four primary reasons why the city is implementing the HSP program.

First, the supply of Section 8 vouchers is drying up (see sidebar). There will certainly be no new vouchers authorized by the federal government in the near future, and funding cuts may force NYCHA to warehouse existing vouchers as they turn over. DHS can no longer count on the availability of

Section 8 to place a significant number of homeless families in permanent housing.

Second, according to DHS, because homeless families have been given preference for Section 8 vouchers, households seeking Section 8 vouchers had an incentive to identify themselves as homeless by entering the shelter system. By

ending the prioritization of homeless families for Section 8, DHS anticipates that fewer households will apply for shelter. DHS pointed to a sharp drop-off in the number of applications received in the three months following the change in policy announced October 19 to demonstrate that this is indeed the case. Looking at a longer time frame, however, suggests that it is too early to conclude that the HSP program has reduced the

Section 8 and Public Housing—Dwindling Resources

Under Section 8, tenants locate a private-market apartment renting at or below “fair market rent,” which is defined by the federal Department of Housing and Urban Development (HUD) as the fortieth percentile of market rents in a given area. Tenants pay 30 percent of their income in rent, and the remainder is paid for by HUD. As long as households meet income and other basic eligibility requirements, their Section 8 subsidy will continue.

There are more than 110,000 Section 8 vouchers in use in New York City. Although there is a significant waiting list for Section 8 vouchers, homeless families have been a priority population for those vouchers that do become available. According to NYCHA, about 6,000 vouchers turn over annually. Many of these vouchers are then directed to homeless families.² The supply of vouchers is likely to decrease, however, as Section 8 funding is curtailed. This was one of the primary motivations for the creation of the Housing Stability Plus program.

Traditionally, Congress has renewed all authorized Section 8 vouchers based on the actual cost of providing the rental subsidy. However, over the last two years the program has been converted to a budget-based program—housing authorities are provided funding based on the number of vouchers in use and average costs as of a fixed date. In federal fiscal year 2004, this change effectively cut resources for most housing authorities. Although much of NYCHA’s federal fiscal year 2004 cut was eventually restored, the authority faces similar risks in 2005. According to news reports, NYCHA’s Section 8 shortfall for 2005 is approximately \$50 million.³

For federal fiscal year 2005 (ending September 30, 2005), HUD calculated the average cost of a Section 8 voucher in New York City based on data from May, June, and July 2004. Because vouchers cover the difference between tenant income and fair market rents, if incomes go down and/or rents go up, the average cost of a voucher will also go up. However, even if the average cost of vouchers does rise, the housing authority will not be provided with additional funding. Last year, in response to the same concerns about funding levels, NYCHA “warehoused” vouchers—that is, did not re-issue available vouchers—in order to cushion against what would have been inadequate funding if all vouchers were in use. NYCHA also reduced its payment standard—the maximum rent a Section 8 voucher will cover—from 110 percent of fair market rent to 100 percent. Other housing authorities around the country have instituted minimum tenant rent payments, and taken other measures to ensure that they have the resources to deal with changes in voucher costs when federal funding allocations no longer reflect actual cost.

In addition, the Bush Administration has twice proposed converting the program to a block grant. Although the details of the proposals have varied, both have included major programmatic changes and overall funding cuts. Although neither of the block grant proposals has been passed by Congress, it is likely that more changes—in particular greater funding cuts—will be proposed in the future, which further adds to the uncertainty surrounding Section 8.

There have also been significant cuts to public housing funding under the Bush Administration. The bulk of the funding for public housing comes from federal operating and capital grants. Between 1999 and 2004, NYCHA’s capital grant fell from \$434.8 million to \$365.8 million, a 16 percent reduction. NYCHA is also facing operating deficits—it ended 2003 with a deficit of almost \$200 million, and although the authority projects balanced budgets for 2004 and 2005, it expects deficits of about \$100 million in 2006, 2007, and 2008.⁴ The deficits could increase pressure on NYCHA to raise the number of working families living in public housing, since they can pay higher rents than public assistance recipients.

number of families looking for shelter. There is generally a drop in the number of applications at the end of the summer—although the 2004 decrease is larger than the past two years. It will take time for any change in applicant behavior to fully materialize.

In addition, the DHS screening process is designed to prevent households with legitimate housing alternatives from entering the shelter system. On average, 40 percent to 55 percent of applicant households are turned away from the shelter system because they have somewhere else to go, or because they make their own arrangements before being found eligible. If the DHS screening process is functioning as intended, it should prevent people from entering the shelter system simply to get a Section 8 voucher. There are, however, costs associated with eligibility screening and shelter placements during the screening process; if the drop in applications is sustained, DHS could see savings from reviewing fewer applications.

Third, because homeless families have been given priority for Section 8 and public housing, there is little or no opportunity for other needy households to obtain vouchers. Using HSP as the re-housing program will allow the city to assist a wider range of families with Section 8 vouchers and public housing units that do become available, thereby potentially preventing future homelessness.

Finally, the HSP program is an outgrowth of the increases to the shelter allowance implemented by the state in November 2003. Public assistance grants are comprised of two primary components: the main grant, and the shelter allowance. In November 2003, the state raised the shelter allowance levels. Under the state plan municipalities were given the right to submit plans for supplemental rental assistance, targeted as they saw fit, subject to state approval. New York City created HSP under this authorization, and received state approval for the program on December 9, 2004.

HSP Program Design. Two key elements of the program are rent subsidies and eligibility criteria.

HSP Rent Subsidies. Public assistance shelter allowances will be combined with HSP supplements up to a maximum rent based on family size. Both the shelter allowance and the HSP rent supplement will be paid directly to the landlord.

To calculate the HSP maximum rent, DHS identified the community district in

each of the five boroughs with the lowest cost rental housing, and averaged the median rents in these five districts.⁵ According to data analysis by DHS and the Department of Housing Preservation and Development, the majority of homeless families come from these communities, and choose to go back after exiting shelter.

For all but the largest families, maximum rents under HSP are \$150 per month lower than fair market rent, the rental standard for Section 8.

The HSP supplement will phase out over five years, dropping by 20 percent of the first year amount each year. Shelter allowances, however, do not phase out, which will help mitigate the annual decline in the HSP supplement. For example, in year one a three-person household would receive \$400 a month in shelter allowance funding, and \$525 a month in HSP supplemental funding, while in year two the household would receive \$400 a month in shelter allowance funding, and \$420 a month in supplemental funding, for a total of \$820 a month in rental assistance. The aggregate drop in rental assistance is therefore about 11 percent between years one and two.

Eligibility. There are three eligibility categories for HSP. By far the largest group of recipients is homeless families.⁶ In order to qualify for an HSP supplement, a family must be receiving public assistance (and not under sanction), and have been in the shelter system for at least 90 days. In recent years, DHS has worked aggressively to ensure that shelter residents receive the benefits to which they are entitled, and currently about 70 percent of homeless families receive ongoing public assistance. Another 20 percent are receiving some form of short-term assistance, and may enter the ongoing welfare rolls, which would qualify them for HSP. Families not receiving public assistance will not be eligible.

Homeless single adults who have spent more than nine months in the shelter system will also be eligible for HSP supplements. This group falls short of the commonly used definition of “chronically homeless.”⁷ DHS has reported that it is seeking to serve adults who are heavy users of shelter services, but who

HSP Monthly Benefits Vary by Family Size						
<i>First Benefit Year</i>						
Family Size	2	3	4	5	6	7
Apartment Size	1 BR	2 BR	2 BR	3BR	3 BR	4 BR
Shelter Allowance	\$283	\$400	\$450	\$501	\$524	\$546
HSP Shelter Supplement	537	525	475	675	652	851
Maximum HSP Rental Amount	\$820	\$925	\$925	\$1,176	\$1,176	\$1,397

SOURCES: IBO, Department of Homeless Services.
NOTE: Shelter allowances are for families with children.

have not necessarily reached chronic status. Single adults will also have to remain in compliance with Safety Net Assistance program rules in order to receive HSP. DHS estimates that about a third of single adults are currently receiving public assistance.

The single adult component of HSP is distinct from the family supplements authorized under the shelter allowance increase. Instead, the state has waived its regulations to accommodate the city's request to implement a two-year demonstration program that will serve a total of 1,000 individuals annually. At the end of the two years, the program will be evaluated and its future determined.

Finally, the program will apply to families where the children are in foster care, and the only barrier to reunification is lack of housing. Parents may or may not be in the shelter system. DHS estimates that there are no more than 200 households that fall into this category. If HSP supplements allow children to leave foster care noticeably faster than they otherwise would, there will be additional savings. If parents would otherwise use the shelter system to gain access to housing to allow them to regain custody of their children, there will also be savings from lower shelter usage. However, IBO was unable to obtain the data necessary to estimate these potential savings.

Potential Barriers to Success. There are several factors that could jeopardize the success of HSP, including the supply of housing at the given rent levels, the phaseout provision of the rent supplements, and the willingness of landlords to participate.

Housing Supply. About 60 percent of the units in the city rent for amounts equal to or less than the HSP maximum rent for a given apartment size. However, these low cost units are not necessarily available to households leaving the shelter system. Vacancy rates for the units affordable to HSP participants average 1.5 percent.⁸ In comparison, units renting at levels above the HSP maximum have an average vacancy rate of 4.1 percent.

Furthermore, about two-thirds of the units affordable to HSP participants have been continuously occupied for at least five years. More than 40 percent of the affordable units have not turned over in the last 10 years. Moreover, a significant share of the

affordable units—56 percent of two bedrooms, for example—are rent regulated. When these units do turn over, rents are subject to increase because of vacancy allowances and capital improvements. As a result, many of these units will no longer rent at levels affordable to HSP participants. The low turnover rate in affordable apartments has affected households with Section 8 vouchers as well.

If a significant number of shelter residents cannot find apartments that are affordable within HSP program parameters, the number of households able to leave the shelter system with the rent subsidy may be less than hoped for.

Phaseout. The households eligible for HSP participation, by definition, have extremely low incomes. A family of three on welfare, for example, will receive \$291 a month, plus \$186 in food stamps, excluding the housing allowance and HSP subsidy. Because these families have very limited cash resources, they are vulnerable if faced with an emergency.

In the first year a household receives an HSP supplement, the full rent payment is made by the city directly to the landlord. However, as the supplement phases out, the household is responsible for paying an increasingly large share of the rent. In year two, the family of three pays up to \$105 per month, or 36 percent of its cash income. In year three, it is responsible for \$210 per month, or 72 percent of its cash income. If household income does not grow commensurately, a relatively minor emergency—such as a child's illness—could push a household into rent arrears. If a household's welfare case is sanctioned, it can lose both a portion of its cash income and the entire housing subsidy. When this occurs, families are at risk of falling behind in rent and reentering the shelter system.

Ideally, of course, a household will transition from welfare to work. In this case, however, the household loses both its welfare grant and the HSP supplement. If one member of a household of three people gets a full-time, minimum wage job in year two of the HSP supplement, the family's cash income

Housing Supply and Turnover at HSP Maximum Rents					Weighted
	Studio	1 Bdrm	2 Bdrm	3 Bdrm	Average
Total Units Under HSP Maximum	85,253	460,802	375,831	165,327	
Total Vacant Units Under HSP Maximum	2,443	6,650	5,519	1,601	
Vacancy Rate	2.9%	1.4%	1.5%	1.0%	1.5%
Last Turnover 5 Years Ago or More	58.2%	63.4%	68.4%	67.4%	65.3%
Last Turnover 10 Years Ago or More	34.1%	41.5%	45.5%	44.9%	42.8%
SOURCES: IBO, 2002 Housing and Vacancy Survey.					
NOTES: HVS rents were adjusted upwards to reflect calendar year 2005 levels. Excludes public housing.					

will rise to \$1,040 per month (pre-tax) but the welfare grant will be reduced.⁹ The reduction in the welfare grant, combined with the phaseout of the HSP supplement, means that by year four, the household will be paying 50 percent of its income (excluding food stamps and Medicaid) in rent, even without rent increases. The city has asked the state to continue the HSP supplement after a family has made the transition from welfare to work, thereby providing an added incentive to work. At this point, the state appears reluctant to do so, although discussions remain open.

There will be some support services offered to HSP participants to help them achieve the necessary income growth. Through HRA-contracted providers and Department of Small Business Services programs, participants will receive employment services. Families also have the option of receiving aftercare services through nonprofit organizations that have existing contracts through the New York State Homeless Intervention Program. DHS and HRA are also working together to create a system to identify families at risk of sanction, and to help these families remain in their home.

Landlord Participation. In a real estate market like New York City’s, building owners typically have multiple candidates for a given apartment, and can choose whether to rent to an HSP supplement holder or another household. This was also the case under Section 8, and because Section 8 often entailed long waits for apartment inspections and bureaucratic problems with payments, some landlords refused to accept the vouchers.

HSP is intended to streamline many of the bureaucratic processes associated with Section 8, thereby making it easier and less expensive for landlords to rent to tenants with rental subsidies. In addition, DHS plans to mediate problems between participating landlords and tenants, and implement an “early warning” system that will alert the agency when tenants fall behind in their rent. Together, these initiatives could encourage more landlords to participate. DHS has reported that there were 350 lease-signings in the first six weeks of HSP implementation.

Other aspects of the program design, however, may make HSP less attractive than Section 8 vouchers. HSP offers lower rent payments than Section 8, phases out over time, and offers no bonuses to landlords. As a result, it remains to be seen how many landlords will be willing to rent to tenants with HSP supplements.

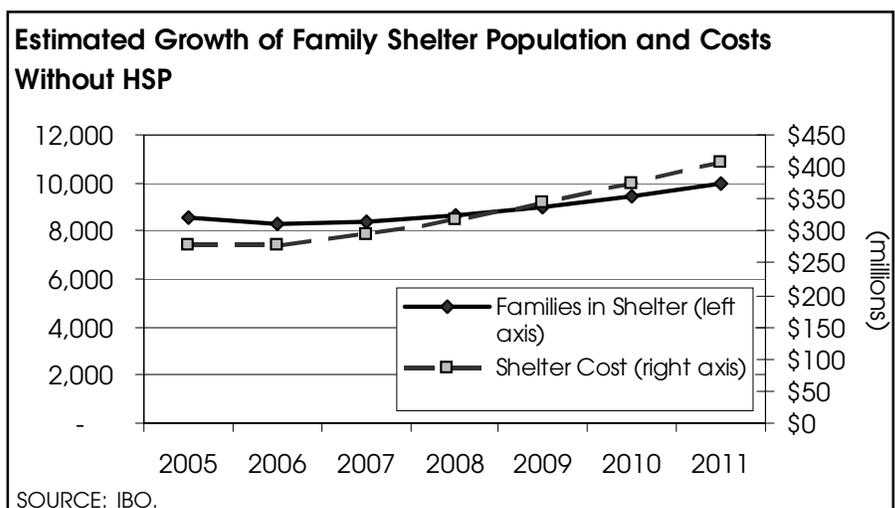
DHS’s experience with EARP suggests that landlords need an incentive to accept homeless households with rental vouchers. As DHS and other city agencies have experimented with small rental subsidy programs, such as the Long Term Stayer Program and the Employment Incentive Housing Program, they have incorporated bonuses for landlords to accept tenants. Although there will be no bonus money available, DHS will offer participating landlords the first three months’ rent up front when they rent to households with HSP supplements.

HSP’S FISCAL IMPACT

Defining Net Savings. The evaluation of the fiscal impact of HSP measures the net savings or costs to the city on an all funds basis under various assumptions. The net fiscal impact is measured relative to a “no HSP” scenario, described below. There are four components of the calculation:

- Reductions in the shelter population will reduce the amount spent by DHS on shelter, *relative to what it would have spent* by continuing to use available Section 8 vouchers and other programs to house homeless families and adults;
- Additional savings will be realized from eliminating other city rental assistance programs;
- The savings will be at least partially offset by the cost of the HSP supplements (paid by HRA);
- HSP could lead to an increase in public assistance costs, since families will have to remain on welfare in order to receive the supplement, while they could continue to receive Section 8 or public housing even after exiting public assistance.

The net savings is therefore the savings from reduced shelter usage—both families and adults—and elimination of other housing assistance programs, less the costs of HSP



supplements and additional public assistance.

The results include savings from eliminating city programs—EARP, LTSP, and EIHP. Savings from eliminating these other city programs varies over time, since the cost of EARP depends on the number of Section 8 placements made, which is assumed to drop annually in the no HSP model. Average annual savings from elimination of these programs is about \$16.4 million. Savings from the adult HSP program also fluctuates with the number of entrants, ranging from an average of \$3.7 million annually when the shelter population is declining, to about \$5.3 million per year when the shelter population is increasing.¹⁰ As noted above, we lacked the necessary data to estimate the impact of the family reunification component of HSP, although it is likely small and will not substantially affect the findings, which are driven primarily by the family figures.

Our estimates are on an all funds basis—including city, state, and federal spending. The city’s share of the savings and costs will depend on the public assistance status of participants and shelter residents, but should generally be at least 25 percent of the total. Like the cost of shelter, the cost of the HSP program will be shared by the city, state, and in some cases federal governments. For families, the supplements will be part of a household’s welfare grant. The city and state will each pay 25 percent of the cost, and the federal government will cover the remaining 50 percent. Funding will come from the Temporary Assistance to Needy Families (TANF) block grant. Single adults are not TANF-eligible, and the cost for their HSP supplements will be split between the city and state.

No HSP Scenario. The estimates of the net savings or costs from HSP are relative to a scenario in which it is assumed that the city continues to rely on available Section 8 vouchers and city programs. We assume that in the absence of the new program, DHS would have continued to place homeless families in permanent housing using a combination of Section 8 vouchers, public housing units, and city programs. Placements are assumed to start out at about 3,000 in the first year, but to decline steadily, reflecting the funding pressures on the Section 8 program. Assuming a roughly constant 8,750 new entrants into the family shelter system each year—consistent with the current rate—the average shelter population would rise at about 3 percent annually, and the cost of family shelter would grow to over \$400 million by 2011, compared to about \$270 million currently. (This shelter cost—and the cost figures used throughout this analysis—represents only the per diem rate paid to shelter operators per household, and excludes DHS personnel and administrative costs, as well as some social

services and operational costs not included in the per diem rate.)

Under the hypothetical no HSP scenario, the number of homeless families climbs over time, because the number of families placed in permanent housing does not keep pace with the number of families entering the system.

If we instead assume that in the absence of the HSP supplements, there would be no placement options at all for families, the number of families in the shelter system could reach as many as 21,500 by 2011.¹¹ Under this scenario, any placements at all through HSP would represent a savings for the city.

Alternative Scenarios and Key Variables. Although we modeled a wide range of combinations of variables, we present here two scenarios—a better case and worse case. The “better case” scenario assumes a housing market that is successfully accommodating housing demand among HSP recipients, and a job market that is helping them to stay in permanent housing even as the supplement phases out. In contrast, the “worse case” scenario assumes that shelter residents have greater difficulty finding permanent housing alternatives, and that a higher number of them who do find housing will face difficulty paying a rising share of the rent themselves and ultimately return to shelter. For purposes of comparison, we assumed in both cases a constant number of entrants to the shelter system each year, which allows us to focus on the impact of different assumptions about the values of other key parameters while abstracting from the growth or decline in the number of shelter entrants.¹²

The results depend upon the values of three key variables:

- (1) the *independent exit rate*: the percentage of families that leave prior to 90 days (the point at which they would become eligible for a supplement);
- (2) the *success rate*: the probability of successfully renting an apartment using the supplement;
- (3) the *return rate*: the number of families with supplements who lose their apartments and return to the shelter system.

A fourth factor is the impact that the link between housing assistance and public assistance receipt could have on the decision to voluntarily leave public assistance. We assume that fewer HSP participants will leave public assistance each year than would be the case if they received a Section 8 voucher or other rental assistance not tied to public assistance status.

Summary of Scenario Assumptions

	HSP Better Case	HSP Worse Case	No HSP
Pre-90 Day Exit Rate	50%	40%	50%
Success Rate	65%	35%	n.a.*
Return Rate	1.3%	3.0%	1.3%

SOURCE: IBO.

NOTE: "No HSP" assumes approximately 3,000 placements in the first year, declining by 3 percent annually.

The choice of values and the impact of the variables on the results are discussed in more detail below.

Independent Exit Rate. HSP eligibility is limited to families who have been in the shelter system more than 90 days.

Unpublished research by Dennis Culhane suggests that 52 percent of families in the New York City shelter system stay less than 60 days.¹³ According to DHS, however, Culhane's figures include families that leave before ever being admitted to the shelter system. DHS estimates that approximately 33 percent of families admitted to shelter leave the shelter system at some point in the process without receiving a city-facilitated permanent housing placement.

It is not clear how HSP will affect clients' decisions to remain in the shelter system past 90 days. On the one hand, prior to the introduction of HSP, it typically required more than 90 days in the shelter system to get Section 8. Families may therefore make the same choices about remaining in shelter under HSP as they would have under Section 8. Alternatively, because there is a fixed date for HSP eligibility and guaranteed availability of the supplement, families may choose to remain in the shelter system to access HSP, when they would have left given the indefinite waiting period to get Section 8.

Because of this uncertainty, we model independent pre-90 day exit rates between 40 and 50 percent, which, when combined with other assumptions, yield total exit rates (comparable to DHS's 33 percent figure) that effectively range between 30 percent and 39 percent.

IBO assumes that half the adults in the shelter system will leave independently before reaching HSP eligibility.

Success Rate. The number of families eligible for HSP that are successful in renting an apartment using the supplement is critical to determining the program's cost. The success rate is the number of households that rent an apartment using HSP, divided by the number of families eligible for the supplement. It is almost certain that the success rate will be something less than 100 percent. In the first three-quarters of calendar year

2004, about 65 percent of those families given Section 8 vouchers through NYCHA were able to find an apartment where they could use the subsidy. It is unlikely that the HSP success rate will exceed that of Section 8, particularly given that the 65 percent success rate in 2004 is higher than in the past.¹⁴

DHS's use of financial incentives for shelter providers to promote permanent housing placements contributed to the relatively high number of placements in 2004, and these incentives will remain in place under HSP. In addition, according to DHS, the 65 percent figure understates the actual success rate for homeless families, since it includes some families that did not come from the shelter system. However, in 2004, landlords were eligible for EARP bonuses, which will not be offered in the future. Because the HSP program covers lower rents than Section 8, phases out over time, does not include the EARP bonus, and is untested, it is possible that the HSP success rate will be lower than 65 percent. In our estimates we used values of 65 percent as our better case and 35 percent as our worse case.

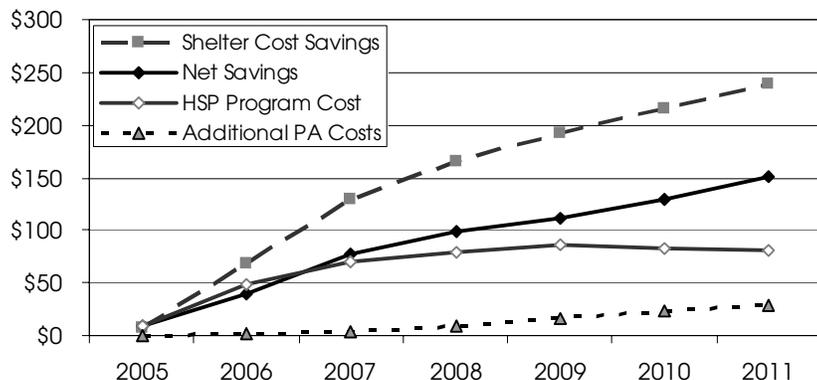
IBO assumes that 15 percent of eligible single adults will be able to successfully use HSP rent supplements each year. Although these individuals may not meet the definition of chronically homeless, many of them face significant barriers to both permanent housing and employment, including mental illness, substance abuse problems, or both. As a result, it seems probable that a smaller proportion of this population will be able to use the rent supplement than is true for families.

Return Rate. It is likely that as the HSP supplement phases out over the five year period, some families will be unable to pay the additional rent, and will become homeless again. Families that leave the HSP program are allowed to return to the shelter system. They can also try again to use the HSP supplement, but only at the level at which they left the program. For example, if a family is evicted in year three, when they are receiving 60 percent of the original supplement value, they can get a new supplement, beginning at 60 percent, and phasing out according to the original schedule.

According to DHS, the current return rate is 1.3 percent in the first year after leaving shelter, and 2.4 percent after two years. Since most of the placements from which these households are returning do not phase-out over time, under HSP the return rate could be higher. In our better case scenario we assume a first year return rate of 1.3 percent, and 1.1 percent each year after that. We use an alternative figure of 3.0 percent per year in our worse case scenario. In this

Net Fiscal Impact, Better Case Scenario

Dollars in millions



SOURCE: IBO.

NOTE: Net savings equals HSP program cost, plus additional public assistance (PA) costs, less shelter cost savings (family and adult) and elimination of city programs (not shown).

scenario we further assume that families that return to the shelter system have a lower success rate (33 percent) than new HSP recipients, since they will receive a lower-value supplement.

Entrants. The number of families entering the shelter system also determines the ultimate net cost of HSP. There are arguments to be made for expecting either increasing or decreasing numbers of entrants each year. Because the number of ongoing permanent housing placements is decreasing, advocates for the homeless would argue that the number of households needing assistance will rise. On the other hand, DHS believes that because shelter is no longer an avenue to Section 8 or public housing, the number of applicants will decline. In addition, because some Section 8 and public housing will be available to poor families that are not homeless, some cases of homelessness may be prevented.

Other factors that could affect the number of applicants include the state of the economy, welfare policy, and affordable housing production, all of which are outside the scope of this analysis.

IBO assumes that the growth rate of entrants to the shelter system is largely exogenously determined by forces outside DHS's control. However, because HSP may depress demand for shelter, IBO assumes that the family entrant growth rate is lower in the HSP scenarios than in the no HSP scenario. For the no HSP scenario we assume a constant number of entrants each year. For the two HSP scenarios we assume a 1.0 percent annual decline in the number of entrants.

Public Assistance. Almost all homeless families—including those placed in permanent housing—receive public assistance. However, families do not have to remain on welfare in order to continue to receive Section 8 or public housing benefits. A recent study suggests that welfare use among Section 8 recipients declines by about 15 percent in the year after receiving Section 8, and there is some evidence that the decline continues over time.¹⁵ At any given time, between 30 percent and 40 percent of Section 8 recipients in New York City are receiving public assistance. In the no HSP scenario, we assume that 10 percent of the households placed in permanent housing will exit public assistance annually who would not have done so had welfare receipt been a condition of housing assistance. The additional

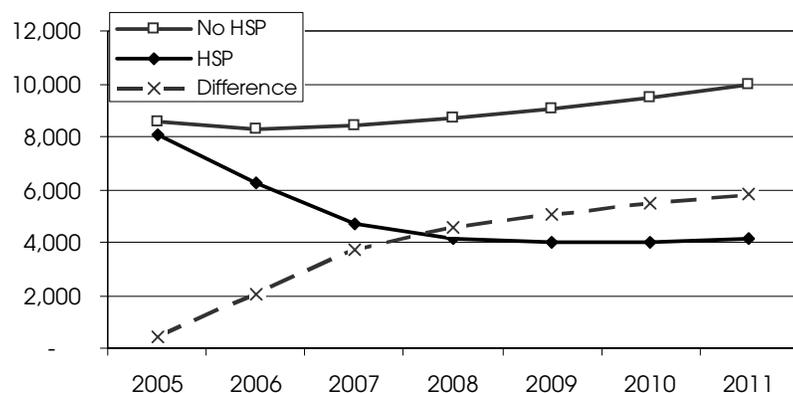
families receiving public assistance represent an additional cost to the city.

If the state grants the city's request to allow families to continue to receive HSP after exiting welfare for work, the incentive to remain on welfare, and hence the added public assistance costs, would be reduced or eliminated.

Fiscal Impact of HSP: Results. In the better case scenario, net savings relative to the no HSP case are realized in the first year and rise rapidly, reaching \$150 million per year by 2011. This assumes that a relatively high percentage of entrants to shelter leave within 90 days—50 percent—and that those who remain and receive an HSP supplement are fairly successful—65 percent—at using it within the first year. In addition, no more families return to shelter than do currently. The average number of families in shelter stabilizes at around 4,000, less than half the current number, and well below the no HSP case,

Average Shelter Population (Families)

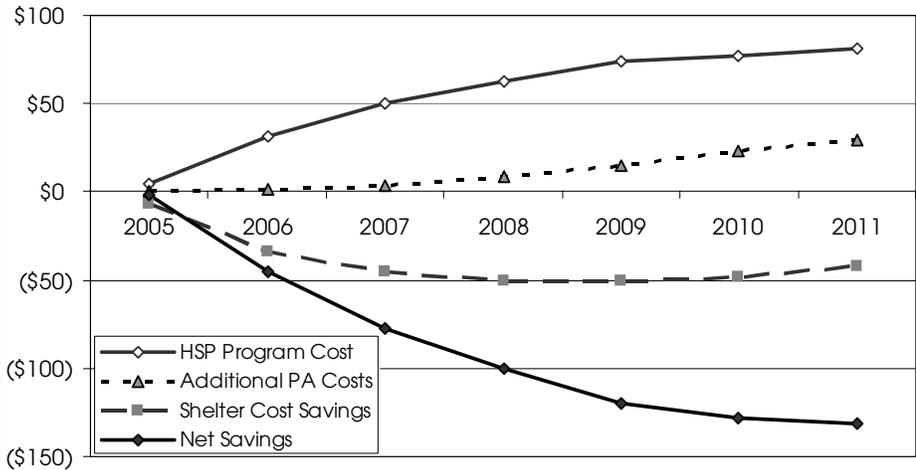
Better Case Scenario



SOURCE: IBO.

Net Fiscal Impact, Worse Case Scenario

Dollars in millions



SOURCE: IBO.

NOTE: Net savings equals HSP program cost, plus additional public assistance (PA) costs, less shelter cost savings (family and adult) and elimination of city programs (not shown).

in which average shelter population rises to reach 10,000 families by 2011 due to the declining number of available Section 8 placements. This difference in shelter population results in substantial savings from avoided shelter costs, which more than offsets the cost of HSP supplements.

In contrast, the worse case scenario results in net costs reaching \$130 million by 2011—again, relative to the no HSP scenario. In this scenario, we assume that more shelter entrants stay for 90 days in order to receive an HSP supplement (40 percent exiting before 90 days), but that fewer of them are successful at actually finding a place to live (35 percent). Of those that do, 3 percent return to shelter each year. In this case, the average shelter population continues to rise despite HSP, reaching almost 11,000 by 2011. Shelter costs are therefore actually higher than they are in the no HSP case; combined with the cost of the supplements, the city actually spends more money than it would by continuing to rely on Section 8 and other programs.

Other—equally plausible—assumptions can produce different results. For example, combining the better case with an assumption of a declining number of entrants into shelter yields smaller savings, because there is less shelter time avoided relative to the no HSP scenario. Alternatively, combining the worse case with an assumption of an increasing number of entrants into shelter leads to slightly lower costs.

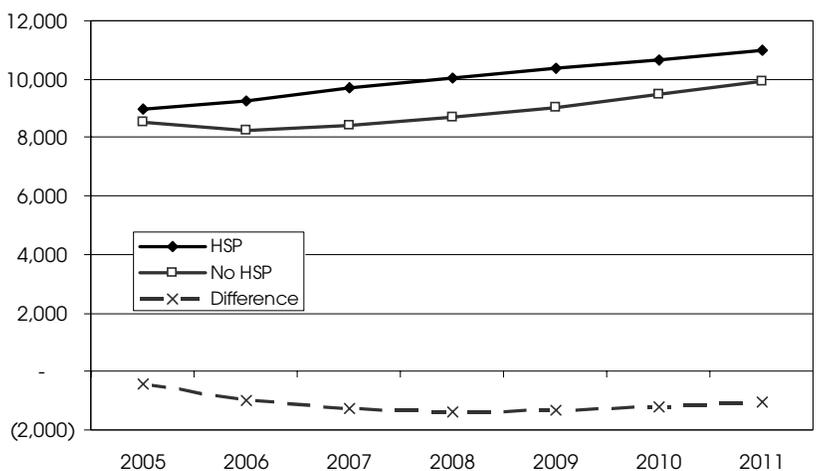
Finally, the scenario which comes closest to breaking even, relative to the no HSP case, is one in which a low level of independent exits from shelter (40 percent) is combined with a somewhat greater success at finding permanent housing (50 percent success rate). Depending on the rate at which people return to shelter, the fiscal impact results in modest and growing savings, or modest but stable net cost.

A Permanent Supplement Alternative.

IBO also compared HSP to a hypothetical city rental supplement that would not phase-out and would not be limited to households on public assistance. Without phasing out the supplement, the cost of providing the rental assistance grows very quickly. Furthermore, the share of homeless families that would exit on their own with 90 days could drop substantially, since an ongoing subsidy would be a significant incentive to remain in the shelter system. On the other hand, it is likely that the success rate for a permanent rental supplement would be higher than that for HSP as currently designed, since landlords could be more confident that their income stream was ongoing. A supplement that did not phase-out and that could continue if the recipient left public assistance could also lower the likelihood of returning to shelter. Net savings are possible with an ongoing supplement as long as the placement rate remains relatively high and the return rate low. If, however, a permanent rental supplement led to a significant increase in shelter utilization, savings would evaporate.

Average Shelter Population (Families)

Worse Case Scenario



SOURCE: IBO.

CONCLUSION

The city is addressing the threat to federal housing subsidies head-on by creating the HSP program. New York City is the only municipality that has a right to shelter, and is now creating a largely unprecedented rental subsidy program. HSP has the potential to save the city substantial amounts of money, and to stabilize the shelter population below current levels. However, relatively small changes in key variables—particularly the percentage of households who are able to successfully use HSP supplements and the proportion of participating households who eventually return to the shelter system—can dramatically change the fiscal picture. It remains to be seen if the program structure designed by DHS is robust enough to be successful in New York’s challenging real estate market.

Written by Molly Wasow Park

END NOTES

¹ Families can still go on the public housing waiting list (the Section 8 waiting list is closed). However, they no longer receive priority status for an apartment.

² In 2004, about two-thirds of the turnover vouchers went to homeless families, although this share is substantially higher than in previous years. NYCHA reports a turnover rate in public housing of about 3.4 percent, which would translate into about 6,200 units annually. In 2004, 1,891 public housing units went to homeless families, or about 30 percent of the available supply.

³ Chen, David. “Cut in U.S. Housing Aid Raises Concerns for Poor.” *New York Times*, January 27, 2005.

⁴ New York City Housing Authority FY2005 Budget and Financial Plan

Briefing, December 15, 2004.

⁵ Based on an HPD analysis of recent movers by community district, as of February 2004.

⁶ A “family” includes a couple with children, or a single parent with children. The typical profile is a mother with two children. Although childless couples are currently counted as part of the DHS family shelter system, they will be eligible for HSP under the adult component of the program.

⁷ An adult who has been in shelter at least 730 days out of the last four years, or 365 days out of the last two years is generally considered to be “chronically homeless.”

⁸ Vacancy rates are calculated from the 2002 Housing and Vacancy Survey, and are defined as the number of units in each size category that are vacant and available for rent, divided by the total number of rental units in that size category. Public housing units are excluded. HVS rents were adjusted to calendar year 2005 levels.

⁹ New York State recently increased its minimum wage. From January 1, 2005 through December 31, 2005, minimum wage will be \$6 per hour. Between January 1, 2006 and December 31, 2006, minimum wage is set at \$6.75. After January 1, 2007, minimum wage will be \$7.15. This calculation assumes the household enters the labor force when minimum wage is \$6 per hour.

¹⁰ HSP for single adults is a two-year demonstration program. IBO’s cost estimates assume that the program is continued at the current level.

¹¹ Assumes that the number of entrants remains constant at 8,750 annually, that 50 percent of families leave on their own within 90 days, and another 5 percent leave independently after 90 days.

¹² The number of shelter entrants is primarily driven by such exogenous (independent) factors as the economy, the housing market, welfare policy, and the weather.

¹³ Culhane, Dennis. Presentation to the Citizen’s Committee for Children, November 4, 2004.

¹⁴ Between 1985 and 1987, the New York City voucher success rate was about 33 percent. In 1993 it was 62 percent, and in 2000, about 57 percent of voucher holders were able to find apartments. Finkel, Meryl and Larry Buron. “Study of Section 8 Voucher Success Rates, Volume I, Quantitative Study of Success Rates in Metropolitan Areas.” November, 2001.

¹⁵ Patterson, Rhiannon, Michelle Wood, Ken Lam, Satyendra Patrabanish Gregory Mills, Steven Sullivan, Hiwotte Amare, and Lily Zandniapour. “Evaluation of the Welfare to Work Voucher Program: Report to Congress.” Prepared for U.S. Department of Housing and Urban Development Office of Policy Development and Research. March, 2004.

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