# Baseline Rent Optimum Escrow (BROE)

## Housing as a platform for economic independence for America's foster youth

The ***Fostering Stable Housing Opportunities Amendments Act of 2018 (FSHO)*** provides young people who are aging out of foster care alone, without having been adopted or having been returned to their parents, access to a three-year Housing Choice Voucher (HCV) which they can use to rent their own, permanent apartment from a private landlord. Further if a young person would like to extend their participation for an additional two years, they may work, attend school and/or if available, voluntarily enroll in HUD's Family Self-Sufficiency Program (FSS). As such, FSHO does more than just offer "on demand" access to a time-limited housing subsidy, it sends an important message to youth to engage in a range of activities that will bolster their income as well. Since FSHO was signed into law, 4,740 young adults in 286 communities have accessed safe, decent homes of their own from which they can move towards economic success.

The emphasis that FSHO places upon preparation for economic independence sets FSHO apart from other housing solutions. **This is because Congress, led by Reps Turner and Dean, designed FSHO in partnership with alumni and youth from America's foster care system.** Alumni have been demanding that child welfare professionals prepare youth for economic independence at least since the seminal Festinger survey of 1983, aptly entitled, "No one ever asked us." More recently this sentiment was affirmed by alumna Farrah Champagne, Esq. in the American University Law Review article entitled *Providing Proper Preparation: Achieving Economic Self-Sufficiency for Foster Youth*.

### *Background of FSS*

FSS emerged in 1989 as the "Project Self-Sufficiency" pilot and later, the "Operation Bootstrap" demonstration. FSS was codified in the Cranston Gonzales Affordable Housing Act of 1990, as HUD's Family Self-Sufficiency Program (FSS). Congress tweaks FSS regularly to move public housing authorities (PHAs) closer to the goal of FSS – to give people who receive public benefits the opportunity to use housing as a platform to escape government dependency.

Within months of unveiling the Section 8 Voucher Program in 1983, the Reagan Administration realized that, like most American social welfare programs, the housing subsidy program included a disincentive to improve one's economic standing. This is because, like all American social welfare policies, Section 8 operates as a "means-tested" program. This means that benefits are reduced as a household improves their earned income. To counteract that, the Administration implemented FSS.

FSS is a voluntary program that allows the head of household to meet with a PHA FSS Coordinator to design a five-year goal plan that lays out how the household will acquire the right mix of skills, gain employment, and build wealth to eliminate their need for public benefits. Once the goal plan is agreed upon, the head of household signs a "Contract of Participation" or the COP. At that time, whatever their rent burden is (referred to as the Total Tenant Payment (TTP)) is locked in place as a and the "Baseline Rent." From there, as households improve their earned income, their TTP grows accordingly. However, the difference between the new TTP and the Baseline Rent is deposited into an escrow account. At the conclusion of a successful COP, participants are handed a check for their escrow with no strings attached. FSS households have been known to accumulate over $30,000 in escrow and leave public assistance behind forever. **Despite this obvious success, Congress can take two simple steps on the heels of FSHO to vastly improve economic opportunities for foster youth.**

### *FSS is "HUD's Best Kept Secret," but it has obvious flaws that Congress can fix.*

With its emphasis on independence, wealth-building, and eliminating penalties for work, FSS is widely regarded as one of HUD's most important tools. That said, FSS does not receive the attention it deserves, which is by the Center on Budget and Policy Priorities (CBPP) nicknamed FSS HUD's Best Kept Secret in 2004. This is exactly why NCHCW, ACTION Ohio and our vast network of former foster youth sought to include FSS in the FSHO approach. However, FSS contains two significant flaws: it is not universally available at all PHAs and those who are working when they sign the COP are penalized for doing so. But Congress can eliminate these flaws quickly for youth by passing the Baseline Rent, Optimum Escrow (BROE) proposal.

### *What is the Baseline Rent, Optimum Escrow Proposal (BROE)?*

**Universalizing FSS for Former Foster Youth participating in FSHO/FYI/FUPY**

FSHO made time-limited HCVs universally available to youth at all PHAs that administer vouchers. FSHO also sends an important message to young people by rewarding them for moving towards self-sufficiency by allowing youth to extend their subsidy by two years if work, go to school, and/or enroll in FSS. However, FSS is not administered by all PHAs. This means that youth who interact with non-FSS PHAs forego the opportunity to be rewarded for working AND the opportunity to build wealth.

The first aspect of the BROE proposal, would complement FSHO by allowing any of the 2700 PHAs in the US administering HCVs to offer the FSS escrow account to youth participating in the FSHO FSS program. BROE simply extends FSS to all youth participating in FYI/FUP youth who are motivated to enroll. Congress could match FYI/FUP to FSS through authorizing or appropriations language as soon as possible.

**Establishing a Baseline Rent of $100 at the signing of the COP**

Youth who age out of foster care enter adulthood without any potential to benefit from generational wealth. For them, the economic starting point is purely of their own making. This is why Congress enacted the Foster Youth Independent Living Program in 1986 and expanded the program to include independent living training for youth beginning at age 14. From a very young age, trained child welfare professionals and an army of private agencies are paid to help youth understand the importance of school, work, and money management.

As a result, many young people are employed. These young adults experience a rude awakening when they learn that unlike unemployed youth, they will have to pay 30-40% of their adjusted gross income towards their rent. The PHA workers look at their income and use that to determine their Total Tenant Payment (TTP). If a young person is working, let's say as a barista at Starbucks and earning an average of $25,000 per year, their total tenant payment will be roughly $700. However, if the young adult was not working, they would have a TTP of zero (except in the instances where a PHA has a minimum rent in which case their TTP might be $50.). Additionally, the unemployed young adult will receive a direct cash payment called a Utility Allowance to ensure that they have heat and electricity.

FSS is designed to address this problem by establishing a baseline rent when a tenant signs the Contract of Participation. If the employed tenant enrolls in FSS, they would be assigned a Baseline Rent of $700. Here's how FSS works from there: if the tenant gets a raise or secures a higher paying job, they PHA re-calculates their TTP to reflect the increase. So, let's assume our barista gets a one dollar an hour raise. Her TTP increases to $712. Thus, the amount deposited into escrow on her behalf would be a modest $12 each month.

After five years, the total escrow account would be: $720. Sadly, one way to address this problem with the current Baseline Rent calculation is to advise a young person to be unemployed (or quit their job) so that they have zero income at the time that they sign the COP. Encouraging youth to quit their jobs or delay employment runs counter to the intent and spirit of FSHO and FYI.

**Here's how Congress can fix this**

**Change the FSS Program for youth FYI/FUP participants so that PHAs establish a Baseline Rent of $100 for all FYI/FUP when they sign the COP.** How will this help? Let's look at how this calculation would impact our barista. With a TTP of $700 and a Baseline Rent of $100, she would immediately place $600 in escrow every month (and more as her income increases). After five years, her escrow account would total roughly $36,000. When she cashes out that escrow and leaves the program, she can use that wealth to purchase a home, start a business, invest in a business, or otherwise build a future for herself with money that she earned.

The youth authors of FSHO have never asked for the five-year time limit to be lifted. In exchange for writing and delivering the concept to Congress for HUD's only time-limited housing subsidy, we believe Congress should seriously consider this important technical correction to FSS, BROE. For more information, please contact Ruth White at rwhite@nchcw.org 202-270-7336 or Lisa Dickson at lisa@fosteractionohio.org