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CONGRESS SHOULD INCREASE HUD'S BUDGET TO PREVENT FAMILIES FROM LOSING ASSISTANCE AND ADDRESS GROWING NEEDS

By Douglas Rice and Barbara Sard

Introduction

The President's budget for fiscal year 2008 proposes to cut \$2 billion (5 percent) from the Department of Housing and Urban Development (HUD), compared to the 2007 funding level, adjusted for inflation.¹ The deepest cuts would be made in housing for the elderly and disabled (a 29 percent cut), Community Development Block Grants (a 22 percent cut), public housing (an 8 percent cut), and Section 8 Project-Based Rental Assistance (a 5 percent cut), although other programs would receive reduced funding as well.

In most cases, these reductions would come on top of cuts made in these programs in fiscal years 2005 and 2006 (see Figure 1). Under the President's 2008 budget, total funding for HUD programs would fall to a level that is \$4.6 billion — or 11 percent — below the 2004 funding levels, adjusted for inflation.

The President is proposing these cuts

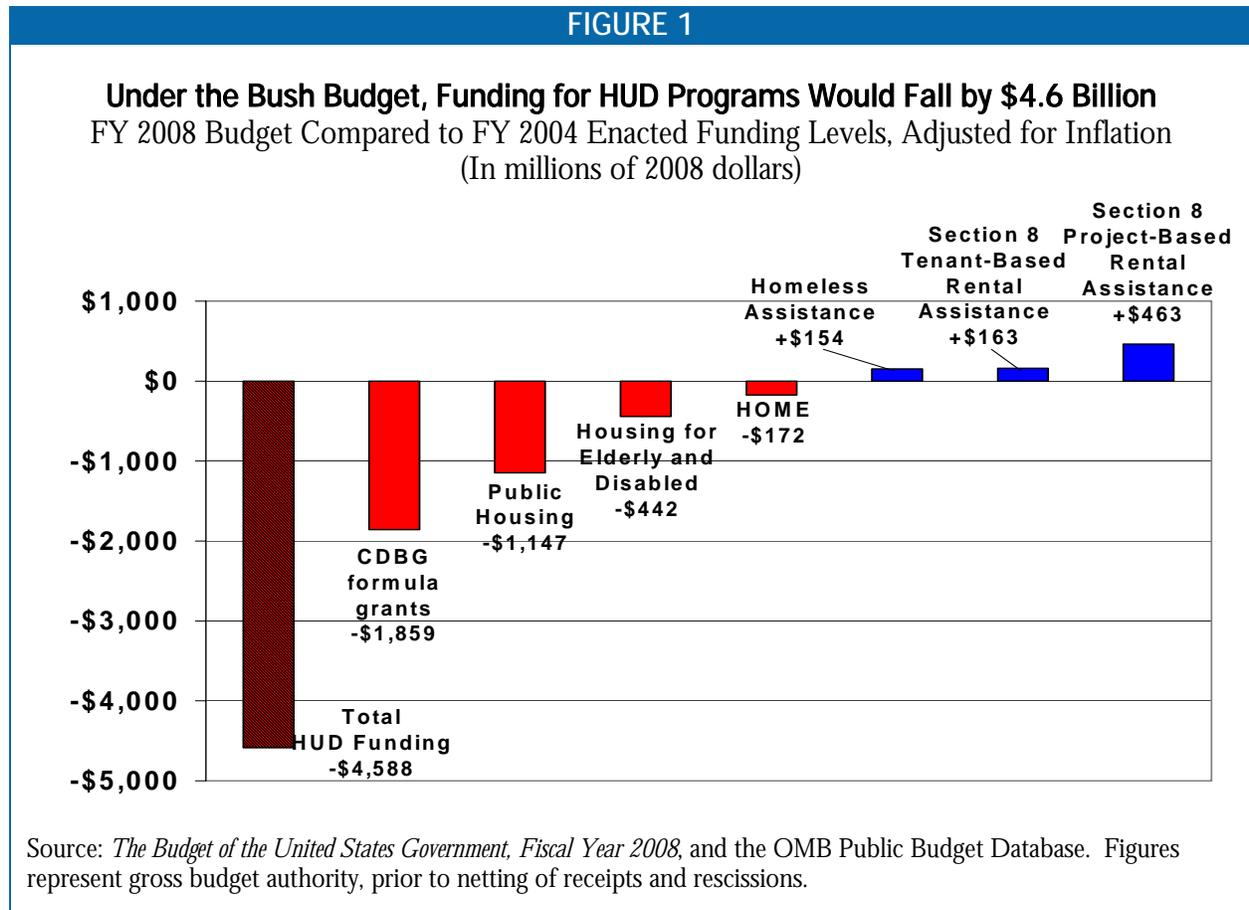
KEY FINDINGS

- Census data indicate that since 2000, the number of low-income renter families with severe housing cost problems has increased by one-third, to nearly 9 million.
- The President's budget, however, would cut HUD funding for 2008 by \$2 billion below the 2007 level, adjusted for inflation, and thereby exacerbate the effects of the large cuts made in 2005 and 2006.
- Congress took critical steps to reverse the weakening of low-income housing programs in the 2007 appropriations law, by providing funding increases for core HUD programs. But additional increases, as well as policy improvements, will be needed in 2008.
- Just to prevent low-income families from losing assistance and to avert a further deterioration of public housing, Congress will need to increase funding for the three principal low-income housing programs by an estimated \$2.8 billion above the President's request. This includes \$600 million for Section 8 vouchers, \$300 to \$900 million for Section 8 Project-Based Rental Assistance, and \$1.6 billion for public housing.
- Congress also should fund "incremental" Section 8 vouchers to help stem the growing housing affordability problems that low-income families encounter.

¹ These figures are for total gross discretionary budget authority, prior to netting of rescissions and receipts, for all HUD programs and administration. Gross budget authority is used because it provides a more accurate picture of program-level funding in the HUD budget than do net budget authority estimates. Calculations are CBPP's, based on the HUD budget for fiscal year 2008 and Congressional Budget Office (CBO) estimates of budget authority for fiscal year 2007. It should be noted that the President's budget was finalized before Congress agreed to final HUD funding levels for fiscal year 2007.

despite evidence that growing numbers of low-income families have serious housing affordability problems. Some 15 million low-income households have rent and utility costs that are unaffordable under federal standards (i.e., costs that exceed 30 percent of their modest incomes). Moreover, since 2000, the number of low-income renter families with the most severe housing cost burdens — that is, who pay more than *half* of their income for housing — has increased by one third, to nearly 9 million families.² (Recent improvements in the economy are unlikely to have altered these trends significantly; while average earnings for workers have risen in real terms in 2006 and early 2007, they have not kept pace with

FIGURE 1



increases in rents and utility costs.)³

When housing is unaffordable, vulnerable families are forced to endure hardships ranging from poorer nutrition to homelessness. Harvard University researchers found, for example, that high housing costs are strongly correlated with significant reductions in spending on food, transportation,

² These figures are based on a CBPP analysis of data from the 2000 and 2005 American Community Surveys, the latter of which is the most recent Census data available.

³ Over the 2-year period ending in April 2007, average rents and utilities have increased 7.9 and 16.0 percent, respectively, while average weekly earnings for workers increased 7.6 percent. Sources are the Consumer Price Index for residential rents and fuels and utilities, and the Current Employment Statistics survey for the earnings of production or nonsupervisory workers on private nonfarm payrolls. Both sets of data are published by the Bureau of Labor Statistics. Figures are nominal and seasonally-adjusted.

clothing, and other necessities.⁴ Unaffordable housing costs are also a primary cause of homelessness. An estimated 750,000 Americans are homeless on any given night, and up to 3 million are estimated to be homeless at some point over the course of a year.⁵

In early 2007, Congress took the first steps toward reversing the recent weakening of federal housing assistance and renewing efforts to make housing more affordable. It provided the first real increase in funding for HUD programs since 2004, adding nearly \$900 million (in inflation-adjusted terms) to HUD programs for fiscal year 2007 over the 2006 level, including significant increases in funding for HUD's main low-income programs. Congress also adopted an improved funding formula for the Section 8 voucher program that will distribute renewal funding more efficiently and help housing agencies restore recent cuts made in the number of low-income families receiving Section 8 voucher assistance.

Congress can make additional progress when it crafts the HUD appropriations bill for fiscal year 2008. The House and Senate have agreed on a budget resolution that rejects the overall cut in funding for non-defense discretionary programs that the Administration proposed. But large budgetary challenges remain. As this analysis shows, Congress must provide an estimated \$2.8 billion more than the President's budget requested for the three largest HUD programs in 2008 (Section 8 vouchers, Section 8 project-based rental assistance, and public housing) just to prevent families from losing housing assistance and to avert the further deterioration of public housing. This report briefly outlines the major funding issues for each of those three programs for the coming year.

Section 8 Housing Vouchers: Congress Should Build on Recent Improvements by Increasing Funding and Strengthening Incentives to Assist More Families

The Section 8 Housing Choice Voucher program is the nation's largest low-income housing program, providing rental assistance to about 2 million households. Low-income families use housing vouchers to rent modest apartments in the private market at a cost that is affordable for them. About 60 percent of the households using vouchers are families with children; nearly one-third include people who are elderly or have disabilities. Because vouchers are portable, they provide families with opportunities to move to communities where neighborhoods are safer, jobs are more plentiful, and schools are better.⁶

⁴ For example, the Harvard analysis revealed that families with children that were in the bottom income quartile and paid more than half of their income for housing costs spent 30 percent less on food than households with similar incomes and affordable housing costs. See Joint Center for Housing Studies at Harvard University, *The State of the Nation's Housing, 2006*, President and Fellows of Harvard College, 2006. Note that the analysis is based on data from the Consumer Expenditure Survey, which includes expenditures made with public benefits such as Food Stamps.

⁵ See *The Annual Homeless Assessment Report to Congress*, U.S. Department of Housing and Urban Development, February 2007, and Martha Burt et al., *Helping America's Homeless*, Urban Institute, 2001.

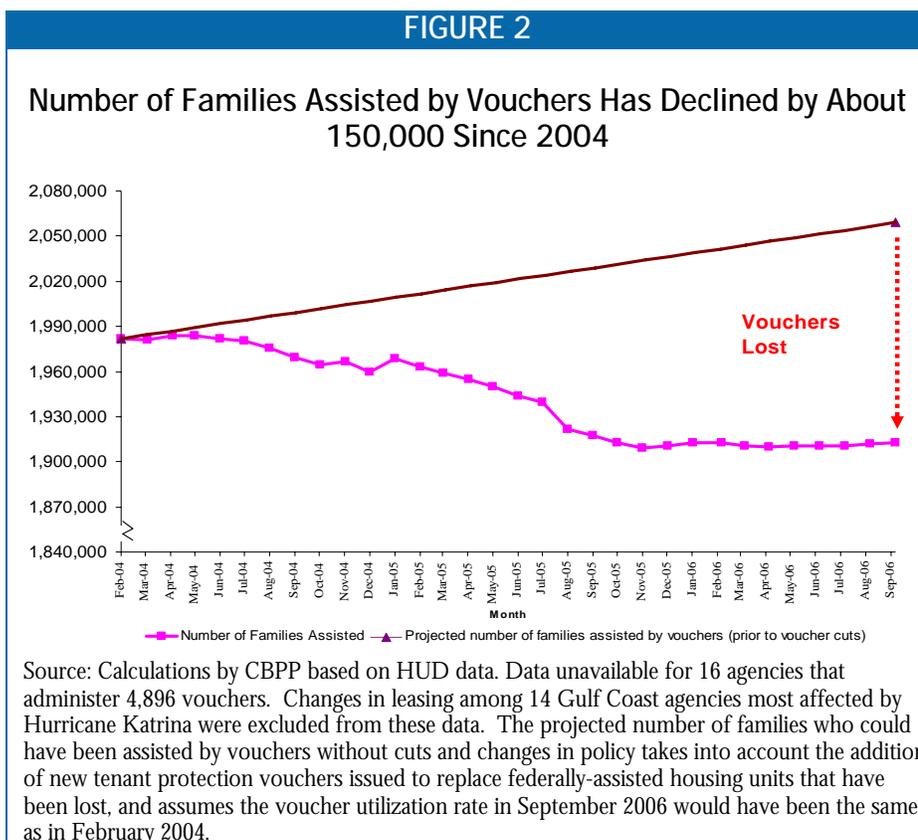
⁶ Recent voucher funding shortfalls have caused many housing agencies to take steps that effectively reduce the "portability" of vouchers or increase housing cost burdens on families that use vouchers. To make up for funding shortfalls, many agencies have, for example, reduced the maximum dollar value of vouchers or shifted utility costs on to tenants. The effectiveness of vouchers in ensuring housing affordability and promoting housing choices and opportunities therefore depends on adequate funding of the program.

In budget justifications submitted recently to Congress, HUD stated that the voucher program “is one of the Department’s and the Federal Government’s most effective programs. This program has been recognized as a cost-effective means for delivering decent, safe, and sanitary housing to low-income families.”

Yet despite its effectiveness, the voucher program has suffered setbacks over the past three years — and about 150,000 vouchers have been cut — because of a series of misguided actions by Congress and the Administration. In 2005 and 2006, funding shortfalls and ill-advised changes in the voucher funding formula produced financial instability among the state and local housing agencies that administer the program. Some agencies were forced to cut vouchers to address funding shortfalls; many others became extremely cautious in the administration of their programs, building reserves to protect against the risk of future funding cuts even if this meant reducing the number of families they served.

The voucher funding policy in effect in 2005 and 2006 further contributed to this trend by eliminating incentives for agencies to assist more families and failing to penalize agencies that did not spend large shares of their funding allocations. The result has been a significant reduction in the use of Section 8 vouchers, despite the growing need for housing assistance among low-income families (see Figure 2).⁷

To its credit, Congress changed course for fiscal year 2007, adopting a more efficient voucher funding formula and providing \$487 million in additional funding for voucher renewals in the appropriations law enacted in February.⁸ In 2007, for the first



⁷ The 2005 and 2006 voucher funding formulas based funding allocations on housing agencies’ costs during a three-month period in early 2004. Funding allocations were thus independent of later changes in leasing or spending, and agencies therefore had no incentives to increase leasing or to spend their allocations. See Barbara Sard and Martha Coven, “Fixing the Housing Voucher Formula,” Center on Budget and Policy Priorities, November 1, 2006; available at <http://www.cbpp.org/11-1-06hous.htm>.

⁸ Public Law No. 110-5. The funding increase of \$487 million in 2007 is in nominal terms and amounted to a nominal increase of 3.5 percent above the 2006 funding level.

time in three years, every housing agency will receive sufficient funding to renew every voucher in use during the previous year, and many agencies will be able to improve their performance and assist more families. Moreover, the improved renewal funding formula helps to restore incentives for agencies to serve additional families, as explained below. As a result, housing agencies have the potential in 2007 to recoup many of the approximately 150,000 vouchers lost over the prior two years.

Congress can build on this progress in fiscal year 2008 by further stabilizing the program and encouraging agencies to assist more low-income families. To do so, it should take five steps:

- 1) make permanent the new funding formula and provide adequate renewal funding;
- 2) protect agencies' funding reserves at a reasonable level;
- 3) modify the administrative funding formula to encourage agencies to serve more families;
- 4) fund new, "incremental" vouchers to help the growing number of low-income families facing severe housing affordability problems; and
- 5) encourage agencies to consolidate their voucher programs.

These steps, discussed below, would prevent low-income families from losing housing assistance in 2008 and allow agencies to restore and expand their voucher programs to meet the growing needs for assistance.

1. Make Permanent the New Funding Formula and Provide Adequate Renewal Funding

Congress should permanently authorize the voucher renewal formula that was implemented in the 2007 appropriations law. This "recent-cost" formula, which bases each agency's share of renewal funding on its actual voucher usage and costs in the previous calendar year, distributes funding more efficiently than the formulas used in 2005 and 2006, and allows more vouchers to be used at *no added cost*.

Continued use of the recent-cost formula also would give agencies an incentive to assist the maximum number of families that their annual budgets will support, because each agency's annual renewal funding will be based on the agency's success in assisting families in the previous year. Finally, codifying the formula in the authorizing statute that governs the voucher program would reduce the uncertainty and instability that has plagued the voucher program since 2004, by removing decisions about renewal funding policy from the annual appropriations process.⁹ Acknowledging its advantages, HUD's 2008 budget request endorses the use of a recent-cost voucher formula.

⁹ Rep. Maxine Waters has introduced legislation, the Section 8 Voucher Reform Act of 2007 (SEVRA), that would permanently authorize the use of a recent-cost voucher funding formula. The legislation (H.R. 1851) also would make many other improvements in the voucher program. See Barbara Sard and Will Fischer, "Bipartisan Legislation Would Build on Housing Voucher Program's Success," Center on Budget and Policy Priorities, May 4, 2007; available at <http://www.cbpp.org/5-4-07hous.htm>. On a strong bipartisan vote, the House Committee on Financial Services approved H.R. 1851 on May 24, 2007.

Providing an adequate level of voucher renewal funding would also be critical to the program's stability. To ensure that the approximately 2 million low-income families using vouchers in 2007 will continue to receive assistance in 2008, we estimate that \$15 billion will be needed for voucher renewals. This is about \$600 million more than Congress allocated for voucher renewals in 2007, and about \$600 million above the amount requested by the Administration for 2008.¹⁰

This increase is needed for two reasons. The first is the rising costs of rents and utilities. Voucher costs are highly sensitive to changes in the private rental market, and over the past three years, average rental costs (including utilities) have risen by an average of 3.7 percent per year.¹¹ The voucher funding formula adjusts each agency's allocation for rent and utility inflation by applying an Annual Adjustment Factor (AAF), as determined by HUD. According to CBPP's preliminary estimate, the average AAF will be 4.3 percent for 2008.¹²

Second, more vouchers will require renewal funding in 2008 than in 2007. This increase will come from two sources: restoring vouchers to use in 2007 that were unused in 2006; and the first-time renewal of tenant protection vouchers that were newly issued in 2007. As explained above, Congress provided sufficient funding in 2007 to enable agencies to assist more low-income families this year. The number of vouchers in use in 2007 is therefore likely to rise, reversing some of the recent losses of housing vouchers across the country.

If housing agencies were to spend their entire 2007 voucher funding allocations to increase the number of families they assist, the amount of additional renewal funding needed in 2008 to cover rising rent and utility costs alone would be \$620 million. Most agencies are unlikely to move so aggressively this year, however, as HUD has not yet provided them with official notification of the funding increases they are due in 2007. As a result, CBPP estimates that only \$300 million in additional renewal funding will be needed in 2008 to cover rental cost inflation and the expected increase in voucher leasing as agencies restore vouchers to use.

But, as noted above, there is a second source of additional vouchers that will require renewal funding in 2008. HUD issues new tenant protection vouchers every year to replace other units of federal housing assistance that have been eliminated and thereby to ensure that communities will not suffer a net loss of affordable housing resources when public housing is demolished, private owners of federally assisted housing do not renew their contracts, or other changes occur.¹³ In the initial

¹⁰ The voucher program is in transition in 2007, and CBPP's renewal funding estimates are therefore preliminary. As explained above, Congress made positive changes in the voucher funding formula in 2007 and provided a significant increase in funding. It is reasonable to expect that housing agencies will respond to these improvements — once they are aware of them — by assisting additional low-income families. Yet, three months after enactment of the 2007 funding bill, HUD has not yet notified agencies of their 2007 funding levels. Thus it is difficult, at this point in time, to estimate precisely how much voucher leasing will increase in 2007 and, therefore, what renewal funding needs will be in 2008. For a full explanation of the method used to estimate voucher renewal funding needs in 2008, see the Appendix.

¹¹ This figure is the result of CBPP calculations based on Consumer Price Index data for residential rents and utilities.

¹² The actual average AAF for 2008 is likely to vary somewhat from this figure, as HUD will calculate the actual AAFs based on more recent consumer pricing data that are not yet available.

¹³ HUD has recently modified its policies to reduce the number of tenant protection vouchers issued. These changes, discussed in a recent memo to housing agencies, will reduce the affordable housing resources available to communities. (See HUD notice PIH 2007-10, issued on April 30, 2007.) SEVRA (see footnote 9 of this report) would require HUD to restore the policy of issuing replacement vouchers for assisted units on a one-for-one basis. Congress should include a similar directive in its HUD appropriations legislation for fiscal year 2008.

year, these vouchers are funded out of a special account for tenant protection vouchers. In subsequent years, however, they are renewed out of the same account that funds other voucher renewals. Because of tenant protection vouchers, the number of vouchers requiring renewal increases by about 25,000 vouchers every year, increasing the total cost of renewals. Under our estimate, the cost of first-time renewal of new tenant protection vouchers issued in 2007 will be about \$300 million in 2008.¹⁴

Administration's Proposed Freeze Would Lead to Additional Voucher Cuts

The Administration's budget for fiscal year 2008 proposes to freeze voucher renewal funding at \$14.4 billion. Under a freeze, an estimated 80,000 vouchers being used in 2007 would *not* receive renewal funding in 2008. (This figure could be higher or lower, depending on how aggressively agencies lease up vouchers in 2007.) Some housing agencies have large balances of unspent funding from previous years and could draw on those funds to prevent families from losing assistance. However, Congress cannot rely on reserve balances as a substitute for adequate renewal funding because many agencies have insufficient reserves to make up for renewal funding shortfalls.

About one-fifth of agencies are likely to have reserves of less than 4 percent of their total renewal funding in 2008, according to CBPP estimates. One-tenth of housing agencies will have reserves of less than 2 percent. If per-voucher costs keep pace with rising rent and utility costs, many of these agencies would have to cut vouchers under a freeze in renewal funding.

Moreover, a freeze would disproportionately harm *high-performing* agencies, since they are more likely to have used their voucher funding to assist more low-income families rather than to accumulate substantial reserves.

HUD Secretary Jackson recently told Congress that agencies would not have to cut families from voucher assistance but instead could cope with renewal funding shortfalls by reducing voucher subsidy levels (called "payment standards"). This, however, could well create additional problems. To manage the shortfalls and financial instability of the past few years, many agencies have already reduced voucher payment standards. As a result, the average cost of a Section 8 voucher declined slightly between 2004 and 2006, even as average rental housing costs (rents and utilities) rose by 8.4 percent.¹⁵

¹⁴ This estimate, which is significantly higher than in recent years, reflects a recent change in Administration policy regarding the funding of tenant protection vouchers that effectively increases renewal funding costs (while also reducing the annual costs for issuing new tenant protection vouchers). Since 2005, the Administration's stated policy has been to provide initial funding for new tenant protection vouchers only through the remaining months of the calendar year in which they are issued rather than for a full 12 months. Accordingly, when tenant protection vouchers are renewed for the first time in the subsequent year, every one must be funded for an entire 12-month period. In effect, this policy shifts costs from the account for new tenant protection vouchers to the account for voucher renewals. However, the evidence provided in HUD budget documents and federal notices has been inconsistent, and it remains unclear whether HUD is following this policy in practice. Nevertheless, our estimate of renewal funding needs in 2008 assumes that HUD is following its stated policy. If, in fact, HUD is not following this new policy, then voucher renewal funding needs in 2008 will be lower than we have estimated (and funding needs for new tenant protection vouchers will be higher than the amount requested in the Administration's budget).

¹⁵ This statement is based on a CBPP analysis of data from HUD's Voucher Management System and the Bureau of Labor Statistics' Consumer Price Index.

It is unlikely that agencies could cut payment standards further without impairing vouchers' effectiveness. Deep cuts in payment standards make it difficult for families to locate housing they can afford with their vouchers (and their own resources). As a result, families are increasingly limited to apartments in very poor neighborhoods or are forced to pay an unaffordably high share of their limited income for housing. Both of these results contradict the basic goals of the voucher program. Finally, cutting payment standards — especially if done on short notice to address a funding shortfall — often imposes a financial loss on building owners, who will then be less willing to continue to rent to voucher holders.

HUD officials have also suggested that Congress could freeze voucher renewal funding and avert reductions in the number of families assisted by removing restrictions on the maximum number of vouchers that agencies may issue. Beginning in fiscal year 2003, Congress has sought to control Section 8 costs by prohibiting agencies from using voucher funds to lease more than their authorized number of units.¹⁶ If this cap were lifted, agencies that have leased close to their authorized number of vouchers and still have substantial reserve funding would be able to draw on reserve funding to assist more families.

This policy change, however, would not prevent voucher cuts at housing agencies that do *not* have substantial reserves, and the fact that some agencies in other communities could potentially lease additional vouchers is not compensation for such losses. In addition, lifting the voucher cap raises a complex set of policy concerns, such as equity in the distribution of vouchers among communities, and should be considered only as part of a comprehensive review of voucher funding policy.

2. Protect Agencies' Funding Reserves at a Reasonable Level

Following a three-year decline in the number of families benefiting from voucher assistance, Congress took important steps in the fiscal year 2007 appropriations law to help housing agencies begin to rebuild their voucher programs. Even so, by the end of this year, agencies are likely to have restored no more than half of the approximately 150,000 vouchers they have lost. Congress can encourage agencies to continue to rebuild their voucher programs — at no added cost to the federal Treasury — by protecting a portion of agencies' funding reserves and strengthening incentives for agencies to use this funding to help more low-income families.

As noted above, unreliable voucher funding has caused many agencies to administer their programs very cautiously since 2004, such as by allowing reserves of unspent voucher funds to accumulate even as they assist fewer families. The funding formula used in 2005 and 2006 exacerbated this trend by eliminating incentives for agencies to fully utilize their funding. As a result, agencies have accumulated more than \$1 billion in unspent funding reserves, according to HUD.

HUD has legal authority to “recapture” unused funding reserves and redistribute them to other housing agencies. While HUD officials have recently testified to Congress that they have no

¹⁶ Because not all families are able to find housing where they can use their vouchers, some agencies overissue vouchers, just as airlines overissue tickets, in order to use as many of their authorized vouchers as possible. As a result of this practice, agencies sometimes overlease vouchers — i.e., lease a number of vouchers greater than their authorized number. Since fiscal year 2003, agencies have been prohibited from using voucher funding for vouchers leased above their authorized number.

intention of doing so in 2007, HUD's intentions for 2008 are less clear. The Administration's 2008 budget request rightfully expresses concerns about the accumulation of large unspent balances at some agencies that could be used to assist low-income families; it indicates that in the future HUD will reduce renewal funding allocations for agencies that maintain such large balances.

Agencies need funding reserves to manage their voucher programs effectively.¹⁷ At the same time, voucher funding should be used to assist as many families as possible. What level of reserve funding constitutes the correct balance between stability and efficiency is best decided as part of a comprehensive voucher funding policy, and is therefore best answered through the deliberative procedures of the authorizing committees in Congress. The bipartisan Section 8 Voucher Reform Act of 2007, or "SEVRA" (H. R. 1851), would allow agencies to retain an amount equal to one-twelfth of their annual voucher funding as a reserve in 2008.

If SEVRA is not finalized prior to enactment of the final 2008 HUD appropriations bill (with a strong bipartisan vote, the House Financial Services Committee approved SEVRA on May 24, 2007), the Appropriations Committees should ensure that agencies will be able to draw on sufficient reserve funding to restore the vouchers they have recently cut and to assist additional families in 2008.

Congress can accomplish this by prohibiting HUD from recapturing funding reserves in such a way as to leave any agency with reserves smaller than it would be allowed under SEVRA (i.e., with less than one month's worth). If HUD continues to delay in notifying housing agencies of their 2007 voucher funding levels, however, many agencies will not be able to spend their allocated funds this year and will have a greater need to draw on reserves in 2008 to restore vouchers to use. Congress may then want to consider allowing somewhat higher levels of funding reserves in 2008. By doing so, Congress would enable agencies to rebuild their depleted voucher programs at no added cost to the federal government.

3. Modify the Administrative Funding Formula to Encourage Agencies to Serve More Families

In addition to making permanent the new voucher funding formula and protecting reasonable levels of funding reserves from recapture, another way that Congress can encourage housing agencies to serve more families is by distributing administrative funds among agencies on the basis of the number of families each agency serves. This proposal is in the Administration's 2008 budget and was included in the Senate-passed HUD appropriations bill for fiscal year 2007.

This change would reinstate the policy that was in place prior to fiscal year 2004, when HUD distributed administrative funding on the basis of the number of voucher units each agency leased. Since then, Congress has, in effect, based each agency's administrative funding on the amount it was eligible to receive in 2003, adjusted for any new tenant protection vouchers the agency received and prorated to fit within the amount appropriated each year for administrative costs.

¹⁷ The experience of the current year demonstrates why this is true. As of mid-May 2007, agencies are still effectively being funded at 2006 levels, and HUD still has not notified them of their actual renewal funding allocations for calendar year 2007, despite the fact that Congress approved a \$487 million increase in renewal funding in February. It is safe to conclude that many agencies have been able to sustain their voucher programs — and avoid cutting families from the program — only by drawing on reserves of unspent funding from prior years.

Distributing administrative funds based on the number of families assisted would be fairer than the current system, as administrative costs are roughly proportional to the number of families assisted. It would also restore an important incentive for housing agencies, which could “earn” additional administrative funding by helping more families (within the constraints of their program budgets).

4. Fund New, “Incremental” Vouchers to Help the Growing Number of Low-Income Families with Severe Housing Affordability Problems

Rising housing costs and stagnating incomes have created serious housing affordability problems for growing numbers of low-income families. Responding to this disturbing trend, Congress authorized (and funded) approximately 300,000 new housing vouchers between 1996 and 2002, on top of the tenant protection vouchers that were issued to replace other types of federal housing assistance. Congress has funded no incremental vouchers since 2002. While these incremental vouchers provided critically-needed assistance in many communities, most of the gains in vouchers have been offset by losses of public and private assisted housing that has not been replaced with new developments or tenant protection vouchers. As a result, the total number of low-income families receiving federal housing assistance rose only modestly during the late 1990s and early part of this decade and has likely declined over the past few years.¹⁸

To reduce the number of low-income families with severe housing affordability problems, it is critical that Congress break with the neglect of the past five years and resume funding incremental vouchers.¹⁹ These vouchers could be targeted to specific purposes, such as helping communities reduce homelessness. A good first step was taken recently by the House Committee on Financial Services during its consideration of the Section 8 Voucher Reform Act of 2007. With bipartisan support, the committee approved an amendment sponsored by Rep. Al Green (D-TX) and Rep. Spencer Bachus (R-AL) that would authorize 100,000 new housing vouchers over the next five years.

5. Encourage Agencies to Consolidate Voucher Programs

In its budget, the Administration proposes to set aside \$5 million in 2008 on a pilot basis to provide bonus administrative fees to agencies that volunteer to consolidate the administration of their voucher programs. While the details of this proposal have not yet been released, the idea represents very sound policy. About 1,700 housing agencies administer fewer than 600 vouchers;

¹⁸ See Douglas Rice and Barbara Sard, “Effects of the Federal Budget Squeeze on Low-Income Housing Assistance,” Center on Budget and Policy Priorities, February 1, 2007; available at <http://www.cbpp.org/pubs/housing.htm>. The Administration’s 2008 budget request for new tenant protection vouchers may also have to be supplemented with additional funds to meet the needs of Gulf Coast areas. Thousands of units of public housing and other federally-assisted housing were damaged by the 2005 hurricanes. While the ultimate fate of many of these units (e.g., public housing in New Orleans) remains uncertain, it is possible that a large number of units will go permanently out of service and have to be replaced with tenant protection vouchers in 2008. The Administration’s 2008 budget requests only \$150 million for new tenant protection vouchers, only \$1 million more than was requested for 2007 and \$11 million more than HUD obligated for this purpose in 2006, despite the fact that very few tenant protection vouchers were issued to agencies in the Gulf Coast during 2006 (awards for 2007 have not yet been announced).

¹⁹ Each 10,000 new vouchers would cost about \$80 million, including administrative fees, for the first full year of funding.

put another way, 72 percent of the 2,400 housing agencies with voucher programs administer only 16 percent of all vouchers. Some of these agencies could achieve significant savings for themselves and for the federal government by consolidating the administration of their voucher programs. The pilot program would also help to identify program and policy changes that could be beneficial to implement on a larger scale.

Section 8 Project-Based Rental Assistance: Up to 140,000 Low-Income Families Could Lose Affordable Housing If Congress Does Not Address Budget Shortfalls

The Section 8 Project-Based Rental Assistance (PBRA) program provides rental subsidies for nearly 1.3 million privately owned apartment units, ensuring that the rents for these units will be affordable even to households with extremely low incomes.²⁰ A large percentage of the households living in these units include people who are elderly or have disabilities.

Section 8 PBRA sustains a critically important stock of affordable housing for some of the poorest and most vulnerable Americans. Over the long term, however, this affordable housing will be preserved only if Congress and HUD can overcome a host of policy and funding challenges.²¹

One challenge is that Section 8 PBRA's annual funding needs are growing and will continue to grow over the coming decades. The reasons for this are grounded in funding decisions made decades ago when Congress created the program. Originally, Section 8 PBRA units were funded under contracts lasting 20 to 40 years, with Congress providing full funding for these contracts up front. When those contracts began to expire in the 1990s, Congress chose to fund the renewed contracts on an *annual* basis instead. As more of the long-term contracts have expired, the number of units requiring annual renewal funding has increased, which in turn has driven up annual appropriations of renewal funding.²²

Annual appropriations for Section 8 PBRA will have to increase for a second, related reason. In recent years, HUD has recaptured excess funding from PBRA contracts and used it to supplement the program's annual appropriations, thereby reducing the amount of new budget authority needed.²³ As the number of units funded under long-term contracts continues to shrink, however, so will the pool of excess funds available for recapture and reuse. The amounts of annual new budget authority needed from Congress will grow.

²⁰ HUD defines "extremely low-income" families as those with incomes at or below 30 percent of the area median income; in most areas this threshold is approximately the poverty line.

²¹ This paper discusses only one set of funding issues. There are numerous other policy challenges critical to the future of PBRA. See Douglas Rice and Barbara Sard, "Effects of the Federal Budget Squeeze on Low-Income Housing Assistance," Center on Budget and Policy Priorities, February 1, 2007; available at <http://www.cbpp.org/2-1-07hous2.htm>. Also see the papers made available by the National Housing Trust at: http://www.nhtinc.org/pub_pol_background_new.asp.

²² Currently, four-fifths of PBRA units are funded on an annual basis, while the remaining fifth continue to be funded under their original long-term contracts. Over the next decade, long-term contracts governing about 200,000 units will expire, which means that annual renewal funding needs will continue to increase over this period.

²³ The overfunding of some original Section 8 contracts is a consequence of the inherent difficulty of estimating actual rental costs for a period covering 20 to 40 years.

For these reasons, renewal funding will have to increase in fiscal year 2008 (and subsequent years) to prevent the loss of Section 8 PBRA for low-income families, even aside from rent inflation and other factors that may affect renewal funding needs.

Despite Growing Renewal Costs, the Administration's Budget Would Cut Section 8 PBRA

For fiscal year 2008, the Administration's budget requests \$5.8 billion for Section 8 PBRA, including \$5.5 billion for renewals of expiring contracts. This is about \$300 million less than what Congress appropriated in FY 2007, and there are sound reasons to believe it falls well short of what will be needed in 2008 to renew assistance for the low-income families, seniors, and people with disabilities that depend on Section 8 PBRA for affordable housing.

For a variety of reasons, precise estimates of Section 8 PBRA's renewal funding needs are difficult to make. Very little information on program costs is publicly available, and Congress has repeatedly raised questions about the reliability of the program cost estimates that appear in HUD's annual budget documents. In part to collect data that may be used to provide more reliable estimates of renewal funding needs for 2008 and later years, HUD is reviewing the entire portfolio of more than 20,000 PBRA contracts. HUD officials recently told Congress that this review will be completed by the end of the summer of 2007, although analysis of the resulting data may require additional months of work. It is therefore possible that HUD will be able to give Congress more accurate budget estimates for Section 8 PBRA prior to final decisions on appropriations legislation for fiscal year 2008.

An analysis of HUD budget documents and Treasury spending data for the first half of fiscal year 2007 suggests that between \$6.1 and \$6.7 billion could be needed to fund renewals of Section 8 PBRA housing in fiscal year 2008. This estimate is \$600 million to \$1.2 billion higher than the amount requested by the Administration.

Administration budget documents indicate that HUD expects to use \$300 million in recaptured funds to supplement new funding for Section 8 PBRA approved by Congress for fiscal year 2008. If such funds are indeed available, this would reduce the estimated renewal funding shortfall to a range of \$300 million to \$900 million.²⁴ Nevertheless, a shortfall of this magnitude would risk the loss of affordable housing for between 45,000 and 140,000 low-income families.

Congress has wisely prioritized funding for Section 8 PBRA renewals in its annual legislation to fund HUD programs. For fiscal year 2007, for example, Congress increased renewal funding for Section 8 PBRA by \$300 million above the Administration's request to ensure that adequate funding would be available. Based on the estimated funding shortfalls outlined above — and pending the

²⁴ It is unclear whether recaptured funds (beyond the \$300 million cited above) could be made available to supplement Section 8 PBRA funding for 2008. The Administration's 2008 budget does assume that \$1.3 billion in additional funds will be recaptured from Section 8 during 2008, but it also assumes that these funds will be used to meet a proposed \$1.3 billion rescission. In recent testimony before Congress, however, HUD Assistant Secretary Brian Montgomery indicated that he did not believe recaptured Section 8 funds would be available to meet the proposed rescission, although he insisted that PBRA program funding needs would be fully met under the budget in 2008. One interpretation of this testimony is that, in Mr. Montgomery's view, the \$1.3 billion in Section 8 recaptures identified in the budget for rescission will in fact be needed for PBRA renewal costs in 2008. If this is true, then HUD would have to find other sources of recaptured funds (from other programs) to meet its proposed rescission.

results of HUD's review of PBRA contracts — Congress should proceed as if it will again be required to increase funding for Section 8 PBRA significantly above the Administration's request.

Public Housing: Chronic Underfunding Threatens 1.2 Million Units of Affordable Housing

Public housing remains a critical resource of affordable housing for 1.2 million low-income families, about half of which include people who are elderly or have disabilities. Since 1995, approximately 160,000 public housing units have been demolished or sold without being replaced or have become uninhabitable due to deterioration.²⁵ Chronic funding shortfalls for public housing are threatening to worsen this trend, risking the loss of additional units at a time when the need for affordable housing is growing in most American communities.

Overall, the President's budget proposes to cut funding for public housing by \$503 million (8 percent) in fiscal year 2008, compared to the 2007 funding level, adjusted for inflation. The budget would cut or underfund all three major funding streams that support public housing:

- **Public Housing Operating Fund.** The President's budget proposes \$4 billion in operating funding for fiscal year 2008. These funds are intended to make up the gap between the rent revenues that housing agencies receive from low-income tenants (which by federal law are capped at about 30 percent of each tenant's income) and the costs of operating public housing, including utilities, maintenance, and security.

While the budget request represents a modest increase over 2007 funding levels, the amount requested is \$1 billion below the expected cost of operating public housing in 2008, according to HUD's own operating cost formula. Moreover, 2008 would be the sixth straight year that public housing faced substantial shortfalls in operating funding, the longest duration of shortfalls in operating funding in the more than 30 years that Congress has provided annual operating subsidies.

- **Public Housing Capital Fund.** Under the Administration's budget, capital funding — which housing agencies use to cover major costs such as replacing roofs or heating systems — would drop to \$2 billion in 2008, a cut of \$451 million (nearly 19 percent) compared to the 2007 funding level, adjusted for inflation. The requested level is nearly \$600 million below the amount needed to meet new capital needs likely to accrue over the coming year, as estimated by a HUD-sponsored study.²⁶

Under the budget request, 2008 would be the third year in a row that capital funding has failed to keep pace with annually accruing capital needs, let alone to address the roughly *\$20 billion*

²⁵ For more on the loss of public housing (and privately owned assisted housing), see Douglas Rice and Barbara Sard, "Effects of the Federal Budget Squeeze on Low-Income Housing Assistance," Center on Budget and Policy Priorities, February 1, 2007; available at: <http://www.cbpp.org/2-1-07hous2.htm>.

²⁶ See Abt Associates, *Capital Needs of the Public Housing Stock in 1998*, Department of Housing and Urban Development, 2000. This report concluded that the annual cost of meeting accrued capital repair needs was \$2 billion in 1998, which is \$2.6 billion in 2008 dollars. The report also determined that a \$24.6 billion backlog of capital repair needs existed in 1998. While this backlog is likely to have declined somewhat since 1998, e.g., through renovations funded by the HOPE VI program, substantial capital repair needs remain.

backlog of capital repair needs. Moreover, since public housing's operating subsidies (even if fully funded) and rent revenues together are generally sufficient only to cover the day-to-day costs of operating public housing, agencies are unable to accumulate reserves to cover capital costs (in the way, for example, that owners of private apartments do).

- **HOPE VI.** HOPE VI provides grants to housing agencies to revitalize severely distressed public housing developments. The President's budget proposes to eliminate the HOPE VI program and rescind the \$99 million allocated for HOPE VI in 2007. This is the fifth consecutive year that the Administration has proposed to eliminate HOPE VI. While Congress has voted to continue the program each year, it has reduced funding sharply below the \$570 million provided in 2003. Particularly in the absence of adequate capital funding, HOPE VI grants offer agencies one of the few resources that are available to refurbish — or else demolish and rebuild — public housing that is obsolete or severely deteriorated.

The President's proposed funding levels would worsen public housing's already chronic funding shortfalls. Some housing agencies may be able to cope with inadequate funding on a short-term basis by drawing on operating reserves or increasing administrative efficiencies. As shortfalls have continued year after year, however, agencies increasingly have been forced to make changes that harm low-income families and undermine the viability of public housing.

Some agencies, for example, have indicated they will shift assistance from poorer families to those with somewhat higher incomes, who can be charged higher rents under federal public housing rules. Other agencies have passed costs on to tenants in the form of higher utility charges or other fees. In addition, many agencies have reduced expenditures on security in public housing projects, placing tenants at greater personal risk.

Funding shortfalls also are compelling agencies to delay maintenance and major repairs, with potentially costly consequences.²⁷ Safety hazards such as defective locks or broken heating or fire protection systems may go unaddressed for extended periods of time. One agency, for example, deferred installing sprinkler systems in high-rise developments for the elderly. Reduced spending for the upkeep of building exteriors and grounds can also contribute to neighborhood blight.

Moreover, forgoing maintenance and repairs can raise costs over the long term. Delaying repairs to roofing or plumbing, for example, can result in more serious damage that is more expensive to fix. In addition, with fewer maintenance staff in place, preparing vacant units for occupancy may take longer, which extends the length of time units are vacant (and the length of time that low-income families must wait for affordable housing) and reduces the agency's rent revenues.

Finally, chronic shortages of funding to pay for operating costs and capital repairs increase the likelihood that agencies will ultimately decide they can no longer afford to maintain in good condition all of the housing developments they operate, and thus that agencies will choose to demolish or sell off some developments to finance the rehabilitation of others. According to press reports, for example, one housing agency announced plans to sell more than one-third of its housing

²⁷ For a fuller discussion of these effects, see Will Fischer, "Public Housing Squeezed Between Higher Utility Costs and Stagnant Funding," Center on Budget and Policy Priorities, October 11, 2006; available at: <http://www.cbpp.org/10-11-06hous.htm>.

units because, in the words of one official, “We’re just not willing to watch our beautiful housing stock deteriorate.”²⁸

Conclusion

The number of low-income families with severe housing affordability problems has continued to grow in recent years. Yet federal low-income housing programs, which reach only one in four eligible families because of funding constraints, are losing ground. Since 2004, most of these programs have suffered significant funding reductions. As a result, the number of families benefiting from federal housing assistance has dropped substantially, and the nation’s supply of public housing has continued to deteriorate.

Congress took some initial steps to reverse course in fiscal year 2007, but additional steps are needed in 2008. The three largest low-income housing assistance programs will require an estimated \$2.8 billion above the President’s budget request to prevent families from losing assistance and to avert the further deterioration of public housing. Congress should also provide substantial funding for new housing vouchers to help stem the sharp growth in the number of low-income families facing severe housing affordability problems.

²⁸ Kirsten Stewart, “Fed cutbacks hurt Utah public housing,” Salt Lake Tribune, July 13, 2006.