

June 23, 2011

UNBALANCED APPROACH TO DEFICIT REDUCTION COULD CRIPPLE HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS

By Douglas Rice and Barbara Sard

Overview

Housing and community development programs could face crippling cuts over time if Congress and the Obama Administration agree to a deficit reduction plan that relies primarily or entirely on spending reductions rather than on a balanced mix that includes a significant revenue contribution.

Congress already made significant funding cuts in low-income housing and related programs in the final appropriations law for fiscal year 2011, which reduced total funding for housing assistance by \$800 million below the nominal 2010 level and cut funding for community development by nearly \$1 billion.¹ Further reductions in funding for these programs will almost certainly be made in fiscal year 2012. Key questions about how large these additional cuts will be, and the extent to which they will deepen in later years, will likely be answered by any broad agreement on deficit reduction that policymakers reach in coming weeks.

The consequences of an unbalanced approach to deficit reduction are made clear by the House-passed budget resolution for fiscal year 2012, which proposes to cut federal spending by more than \$4 trillion over the next decade while extending and expanding tax cuts that disproportionately benefit high-income households.

Under the House plan, which the House Appropriations Committee is using to draft appropriations bills for fiscal year 2012, housing and community development programs would be cut sharply next year. We estimate that total HUD funding would be cut by \$5.7 billion (14 percent) if the Transportation-HUD (T-HUD) Subcommittee distributed the overall level of cuts it has been directed to make proportionally among the affected agencies and programs. At \$35.4 billion, HUD's total funding level for 2012 would be the lowest since 2006 in nominal dollars and the

¹ "Housing assistance" is the budget category made up of the discretionary low-income housing programs administered by HUD and the USDA, including the Housing Choice Voucher program, the Section 8 Project-Based Rental Assistance program, public housing, HOME, homeless assistance grants, the supportive housing programs for the elderly and people with disabilities, and the rural rental assistance programs. "Community development" includes the Community Development Block Grant and a number of smaller programs.

lowest since 2001 in inflation-adjusted dollars.² Among other things, the funding cut would eliminate funding for Housing Choice vouchers for roughly 250,000 low-income families.

Moreover, the House resolution would require additional cuts in later years. Compared to the inflation-adjusted 2011 level, total funding for federal housing assistance would be reduced by \$75 billion over the next ten years and by 18 percent in 2021. Community development programs would lose approximately \$14 billion over the next decade, and funding in 2021 would fall to 28 percent below the 2011 level, adjusted for inflation.³

Other deficit-reduction proposals before Congress may appear innocuous in comparison to the House budget because no specific programs are explicitly targeted, but they could force spending cuts of a similar, or even more severe, magnitude. They include various proposals to impose a global spending cap, such as one introduced by Senator Corker that would impose stringent multiyear limits on federal spending enforced by automatic, across-the-board spending cuts, and an even more severe global spending cap included in the constitutional balanced budget amendment the House Judiciary Committee approved on June 15. (The Judiciary Committee's constitutional amendment would also require two-thirds supermajorities in the House and Senate to pass any revenue increases.) Such proposals share the core flaw of the House budget resolution: they fail to take a balanced approach to deficit reduction and, as a result, would almost inevitably force draconian deep cuts in a wide range of programs that benefit low- and middle-income families.

Real Risk Exists That Congress Will Soon Adopt Unbalanced Deficit-Reduction Plan

There is a broad consensus among economists that the large imbalance between federal revenues and spending projected for coming decades will cause serious economic problems.⁴ The President's Fiscal Commission and a majority of policy experts agree that the most effective and responsible way to reduce long-term deficits would be through a balanced approach that relies both on additional revenues and on savings from entitlement programs and the defense and non-defense areas of the discretionary budget. The bipartisan deficit-reduction agreement enacted in 1990 and the deficit-reduction package enacted in 1993 used a balanced approach. In addition to the President's Fiscal Commission, President Obama, the bipartisan "Gang of Six" in the Senate, and

² To implement the overall funding levels in the House-passed budget resolution, the House Appropriations Committee has approved a fiscal year 2012 allocation for the Transportation-HUD bill of \$47.7 billion. To estimate the potential funding for HUD, we assumed that its share of total funding in the bill would be proportional to its share in the T-HUD appropriations act for fiscal year 2011. The Committee could choose to provide more (or less) funding for HUD in the 2012 bill, but could do so only by making proportional reductions (or increases) for other agencies covered by the bill.

³ The House resolution includes ten-year projections of budget authority for each major category in the discretionary budget, including the category of "Income Security," two-thirds of which is made up of low-income housing programs, and "Community and Regional Development," a major subcategory of which is community development programs, mostly CDBG. In estimating potential reductions to housing assistance and community development programs, we assumed that the share of funding in each category devoted to housing assistance and community development programs would remain constant over the ten-year period. We then compared the funding levels derived from the House budget resolution to the actual 2011 funding levels, adjusted by the same inflators used in the CBO baseline.

⁴ On the causes of the fiscal imbalance, see Kathy Ruffing and James R. Horney, "Economic Downturn and Bush Policies Continue to Drive Large Projected Deficits," Center on Budget and Policy Priorities, May 10, 2011, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3490>.

others have proposed or have been developing deficit-reduction plans that put revenues, domestic programs, and defense all on the table.⁵

Congress must raise the federal debt limit by early August to avoid a government default of its obligations and resulting turmoil in financial markets, and many lawmakers are opposed to any increase in the debt limit unless it is accompanied by sharp spending cuts. There is serious risk that Congress will agree, as a condition of raising the debt limit, to a deficit-reduction plan that lacks balance and relies primarily or entirely on spending cuts. Deficit-reduction plans that rely primarily on spending reductions are likely to entail deep cuts in federal assistance to low-income families and communities.

Unbalanced Deficit-Reduction Plans Could Lead to Severe Cuts in Housing and Community Development Programs

The House budget resolution provides a guide to the magnitude of this threat. That resolution, which sets out a spending and tax blueprint for the next decade, proposes to cut federal spending by \$4.3 trillion over the next decade, while making all of the tax cuts enacted in 2001 and 2003 permanent and adding new tax cuts on top of those. The House plan gets roughly two-thirds of its spending cuts from programs for low- and moderate-income people, including Medicaid, Pell Grants, SNAP (food stamps), and rental assistance programs.⁶

The House budget resolution would likely result in sharp cuts to housing and community development programs in fiscal year 2012, and deeper cuts in later years. To meet the total funding level allowed by the House budget resolution, the House Appropriations Committee has agreed to provide \$47.7 billion for the Transportation-HUD funding bill for fiscal year 2012, a reduction of \$7.7 billion, or 14 percent, from the nominal funding level in 2011 (which itself represents a cut below the 2010 level). It will be up to the T-HUD Appropriations Subcommittee to decide how to distribute this reduction among the agencies and programs that the bill covers.

The left part of Table 1 shows what would happen if the funding reductions were allocated proportionally among those programs.⁷ Total HUD funding would be \$5.7 billion (14 percent) below the nominal 2011 level. The cuts to individual programs would be harsh:

⁵ On the President's Fiscal Commission, see James R. Horney, Paul N. Van de Water, and Robert Greenstein, "Bowles-Simpson Plan Commendably Puts Everything on the Table But Has Major Deficiencies Because It Lacks an Appropriate Balance Between Program Cuts and Revenue Increases," Center on Budget and Policy Priorities, November 16, 2010, <http://www.cbpp.org/cms/?fa=view&id=3325>. On a balanced approach to deficit reduction, see Robert Greenstein, "A Framework for Deficit Reduction: Principles and Cautions," Center on Budget and Policy Priorities, March 24, 2011, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3435>.

⁶ Robert Greenstein, "Chairman Ryan Gets Nearly Two-Thirds of His Huge Budget Cuts From Programs for Lower-Income Americans," Center on Budget and Policy Priorities, April 20, 2011, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3451>.

⁷ In distributing funding reductions to HUD programs, we made an exception for housing credit programs. For these programs, which collect receipts and reduce the amount of new budget authority required by HUD, we set funding levels equal to those in the President's budget request for fiscal year 2012. Because the President's budget anticipates that the size of the budgetary offset provided by the credit programs will be greater in 2012 than it was in 2011, our assumption effectively reduced the funding cuts attributed to other programs, making our estimates of those cuts more conservative.

- **Housing Choice Vouchers:** Funding for the renewal of housing vouchers would be cut by \$1.5 billion. As a result, housing vouchers used by approximately 250,000 low-income families this year would receive no renewal funding in 2012.⁸ Nearly half of the households using housing vouchers include people who are elderly or have disabilities. More than 40 percent are families with children.
- **Section 8 Project-Based Rental Assistance (PBRA):** Rental assistance contracts for approximately 135,000 low-income families would not be renewed due to shortfalls in renewal funding.⁹ Roughly two-thirds of households receiving assistance under Section 8 PBRA include people who are elderly or have disabilities.
- **Public Housing:** Funding for public housing operations would be cut by more than \$400 million.¹⁰ Funding for capital repairs, which was already cut by \$460 million in 2011, would be reduced by an additional \$180 million in 2012. These funding cuts would prevent many state and local housing agencies from making some major repairs or renovations — such as fixing leaky roofs or replacing broken heating systems — needed to prevent the deterioration of living conditions for low-income residents and to avert more costly damage. Over the long term, inadequate funding for public housing would accelerate the loss of affordable housing due to deterioration.

Funding for homeless assistance, housing for the elderly, and the housing and community development block grants would also be cut by substantial amounts.

To its credit, when Congress reduced funding for HUD programs for fiscal year 2011, it largely protected low-income families receiving rental assistance from being displaced by providing adequate renewal funding for Housing Choice vouchers, Section 8 PBRA, the public housing operating fund, and homeless assistance grants. Such an approach would require still deeper cuts in other HUD programs, particularly capital grant and block grant programs. If the House subcommittee were to pursue this approach again for fiscal year 2012, cuts to other housing and community development programs would be more than 40 percent, according to our estimates.¹¹ (See the right side of Table 1.)

⁸ To a modest extent, state and local housing agencies could prevent the termination of rental assistance to families due to shortfalls by drawing down reserve funding balances. But such measures would be effective only temporarily. There are other steps that agencies can take to cut costs in the event of renewal funding shortfalls, but most of them are also harmful to low-income tenants (e.g., reducing rent subsidy levels and thereby increasing housing costs for tenants).

⁹ This estimate assumes that the President's budget request for Section 8 PBRA renewals is necessary and sufficient to fully renew contracts in 2012.

¹⁰ The President's budget proposes to reduce funding for public housing operations by \$655 million in fiscal year 2012, while requiring housing agencies to draw down reserves of unspent funds from prior years to cover their operating costs, and to increase funding for capital repairs by \$365 million. On a net basis, the President's budget thus reduces funding for the two major public housing programs by \$290 million. As shown in left side of Table 1, the cuts to public housing would be twice as deep under the House plan if the cuts were distributed proportionally across programs and would total \$601 million.

¹¹ To calculate this figure, we assumed that the House T-HUD bill would meet the President's request for Housing Choice Voucher renewals, Section 8 PBRA renewals, and public housing operating and capital funds. For homeless

Table 1

**Potential Cuts in Housing and Community Development Programs
Under House T-HUD Allocation for FY 2012 (in millions)**

	If Cuts to T-HUD Bill Are Made Proportionally Among Programs			If Renewal of HUD Rental Assistance Is Protected from Cuts		
	FY 2011	Estimated Funding under T-HUD for FY 2012	Estimated Cut in FY 2012	FY 2011	Estimated Funding under T-HUD for FY 2012	Estimated Cut in FY 2012
Housing Choice Voucher renewals	\$16,669	\$15,162	-\$1,507	----	----	----
Section 8 PBRA renewals	\$8,932	\$8,124	-\$808	----	----	----
Public Operating Fund	\$4,617	\$4,200	-\$417	----	----	----
Public Housing Capital Fund	\$2,040	\$1,856	-\$184	----	----	----
Homeless Assistance	\$1,901	\$1,729	-\$172	----	----	----
Section 202 Elderly Housing	\$399	\$363	-\$36	\$399	\$231	-\$168
HOME	\$1,607	\$1,462	-\$145	\$1,607	\$930	-\$677
Native American Housing	\$649	\$590	-\$59	\$649	\$376	-\$273
CDBG	\$3,336	\$3,034	-\$302	\$3,336	\$1,932	-\$1,404

Source: Center on Budget and Policy Priorities analysis of House T-HUD allocation.

For many programs, these cuts would come on top of the substantial cuts made in fiscal year 2011. Moreover, the reductions in funding would deepen in later years under the House budget resolution. By 2021, annual funding for housing assistance programs would be 18 percent below the 2011 level, adjusted for inflation, while annual funding for community development would be down 28 percent. Under such a spending plan, communities would lose a total of roughly \$75 billion in housing assistance and \$14 billion in community development grants over the next ten years.

Other deficit-reduction plans that rely primarily or entirely on spending cuts also would have severe effects. For instance, the Corker spending cap proposal, which would cap total federal spending at 20.6 percent of GDP, would force \$3.6 trillion in spending cuts over the next decade. The impact on discretionary programs likely would be great, particularly if Congress felt pressure to lessen the magnitude of any cuts in popular programs such as veterans programs, Medicare, and the

assistance grants, we assumed that the bill would increase funding by \$99 million above the 2011 level, which is HUD's estimate of the increased cost of grants renewals, according to HUD budget documents.

like by making larger cuts in other areas.¹² The balanced budget amendment that the House Judiciary Committee approved June 15 would require cuts even more extreme than those called for under the House budget resolution.¹³

Conclusion

A key issue in the deficit-reduction debate is whether increased revenues will be a meaningful part of the solution, or whether Congress will choose to reduce the deficit primarily or entirely by cutting programs. For housing and community development programs, the level of any cap on appropriations for either non-security or non-defense discretionary programs also is critical. Decisions on these issues will determine to a significant extent the amount of federal resources available to housing and community development programs in 2012 and future years.

¹² Edwin Park, Kathy Ruffing, and Paul N. Van de Water, “Proposed Cap on Federal Spending Would Force Deep Cuts in Medicare, Medicaid, and Social Security,” Center on Budget and Policy Priorities, April 15, 2011, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3471>.

¹³ Robert Greenstein, James R. Horney, and Kelsey Merrick, “Balanced Budget Amendment Would Require More Extreme Cuts Than Ryan Plan,” Center on Budget and Policy Priorities, June 8, 2011, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3508>.