



# CENTER ON BUDGET AND POLICY PRIORITIES

## NEWS RELEASE

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### STUDY DETAILS CUTS IN LOCAL HOUSING AID CAUSED BY HUD FUNDING CHANGE

#### Funds Provided by Congress Would Go Unspent

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Funding shortfalls in a key federal housing program resulting from a recent change in federal policies are causing widespread reductions in housing assistance to low-income families, seniors, and people with disabilities, new research finds. The Center on Budget and Policy Priorities, the National Low Income Housing Coalition, and the Council of Large Public Housing Authorities have gathered information from 190 state and local housing agencies in 35 states that are being forced to reduce the amount of rental assistance they provide and/or the number of people they help.

The study (available at <http://www.cbpp.org/7-15-04hous-survey.htm>) is the first large-scale compilation of cuts in assistance that are occurring as a result of the funding shortfalls. Together, the 190 housing agencies assist roughly 30 percent of all families helped by the program nationally.

More than half of the 190 agencies are cutting costs by reducing the size of the subsidies they provide to families in the program, even families with little or no income. "This will make it harder — and in some cases, impossible — for these families to afford their current apartments," said Barbara Sard, director of housing policy at CBPP. "Some families will be forced to move into overcrowded and possibly unsafe apartments. Some may end up with no housing at all."

In addition, nearly half of the 190 agencies are cutting costs by reducing the number of families in the program. Some agencies have been forced to cut off program assistance for families that have been depending on it to help pay the rent. More agencies may have to take this extreme step over the next few months.

The program in question, known as the "Section 8" voucher program, is the nation's largest low-income housing program. It provides about 2 million households with vouchers that pay part of the cost of renting housing in the private market. (Voucher holders pay roughly 30 percent of their income in rent, while the voucher pays the rest, up to a dollar limit set for units of a given size in the local area.) Most voucher holders are working families or are elderly or disabled.

Although Congress provided the Department of Housing and Urban Development (HUD) with sufficient funds this year to continue supporting all vouchers now in use, HUD recently adopted a new method of distributing voucher funds to housing agencies that is leaving millions of dollars in appropriated funds unspent — and many agencies without the funds they need to maintain their programs.

## **New HUD Funding System Shortchanging Many Agencies**

Traditionally, HUD has provided state and local housing agencies with sufficient funds to cover the actual cost of the vouchers they distribute. In April, however, HUD announced that it was adopting a new funding system for fiscal year 2004 in which each agency's voucher funding is based on its voucher costs during the spring and summer of 2003, adjusted for a regional inflation factor computed by HUD.

As a result of this change, many agencies are receiving insufficient funds to pay landlords for all vouchers now in use. One reason for the shortfalls is that actual rents in many communities have risen faster than the rent inflation formula that HUD has adopted. Another is that HUD's new funding system does not take into account the fact that stagnant or falling incomes drive up voucher costs just as rising rents do. A voucher makes up the difference between the rent of a modest apartment and about 30 percent of a family's income, so voucher costs go up not only when rents rise, but also when incomes fall, as has happened in many areas hit hard by the slow economy.

Agencies that experience funding shortfalls have no choice but to cut back their voucher programs. While HUD has said it will allow some agencies to ask for additional funds, it plans to provide such funds only under limited circumstances. Moreover, it appears likely that HUD will not notify agencies of any funding adjustments until around the end of August; in the meantime, many agencies have to make cuts.

### **Low-Income Families Face Tighter Budgets, Risk Loss of Housing**

To determine the effects of the funding shortfalls the new HUD funding system has caused, the Center on Budget and Policy Priorities, the National Low Income Housing Coalition, and the Council of Large Public Housing Authorities have compiled information from 190 housing agencies across the country that have reported shortfalls. The cost-cutting steps these agencies are taking in response include:

- *Raising rents charged to needy families*, by reducing the amount of rent that a voucher can cover and/or by imposing minimum monthly rental charges on families with little or no income. These rent increases will force families to divert scarce resources from basic needs such as food, clothing, or transportation to pay the rent.

Low-income elderly and disabled people on fixed incomes may find rent increases especially difficult to bear. Some voucher holders will no longer be able to afford their current apartments and could be forced to relocate to overcrowded or substandard housing. Some could end up in homeless shelters or on the street.

"Many elderly Americans simply won't be able to afford living on their own without vouchers," said Timothy Gearan, senior legislative representative at AARP. "By weakening the voucher program, HUD's new policy risks forcing these people out of their homes."

- “*Shelving*” vouchers that become available when families leave the voucher program, rather than giving them to families on voucher waiting lists. This reduces the overall number of low-income families assisted and could cause an increase in homelessness.

In addition, some housing agencies have withdrawn newly issued vouchers from families that are still looking for an apartment. Many such families languished for years on a waiting list before receiving a voucher, only to have it taken away now, before they can use it.

“Vouchers are one of the best tools our community has to move homeless people into homes,” said Peter White, executive director of Christopher Community, an affiliate of Catholic Charities of Syracuse. “Already there aren’t nearly enough vouchers for all the families in shelters and on the streets who need them. Under HUD’s policy, the waiting lists will grow longer. Furthermore, vouchers are vital to single moms working low-wage jobs who need help to live close to their jobs and in good school districts for their kids.”

- *Cutting off assistance to some families currently relying on a voucher to help pay the rent.* Some housing agencies have ended voucher assistance to some families. More agencies may have to cut off current participants before the end of 2004.

“We’re trying very hard to avoid cutting families off,” said Peter Ansara, executive director of the Tacoma (WA) Housing Authority and a member of the Council of Large Public Housing Authorities. “The loss of their vouchers would cause these families extreme hardship and mean a loss of income for their landlords as well. We are not receiving enough funds from HUD. We have filed an appeal and are hopeful that we will be made whole. We’ve borrowed money from the city of Tacoma to put off terminations for a few more months, but without more funds from HUD, the potential to terminate vouchers is great. Several thousand families are depending on them.”

### **HUD Has the Power to Halt the Cutbacks**

HUD claims it was forced to revise the voucher funding system because of changes Congress imposed when it funded the voucher program this year. That view, however, is not shared by key members of Congress who helped draft the appropriations legislation. Senator Christopher Bond (R-Missouri), the chair of the Senate Appropriations subcommittee that oversees HUD, stated in an April 29 letter to HUD Secretary Jackson that HUD has the authority to take the steps needed to prevent voucher funding shortfalls this year.

Moreover, HUD admits that its new policy will *leave unspent* about \$190 million in funds that Congress provided the voucher program for this year. (Part of these funds may be provided to housing agencies as part of the appeals process.) CBPP estimates that the unspent amount could be substantially higher.

## **Administration Calling for Much Deeper Cuts in 2005 and Beyond**

While the ongoing cutbacks in voucher assistance are the biggest in the program's history, they are much smaller than the cuts that would occur over the next five years if the voucher funding reductions in the Administration's 2005 budget are enacted.

Under the Administration's proposals, voucher funding for 2005 would be set about \$1.6 billion below the level needed to continue today's level of services. Even larger cuts would come in later years: by 2009, the shortfall would be \$4.6 billion. In addition, the Administration is seeking to convert the voucher program to a block grant and sweep away federal rules that protect voucher holders, such as the rule that limits the share of its income that a family can be required to pay in rent.

If the proposed cuts are enacted and housing agencies dealt with them by helping fewer families, they would have to cut approximately 250,000 families from the program next year and 600,000 families — nearly a third of all participants — by 2009. Alternatively, if agencies dealt with the proposed cuts by raising rents, voucher holders would have to pay an average of \$850 more per year in 2005 and \$2,000 more in 2009. (Estimates of the effects of the cuts on individual agencies are available at <http://www.cbpp.org/3-17-04hous-states.htm>.)

“The harsh cuts we're seeing now pale in comparison to what we'd see in the future under the Administration's proposal,” said Sheila Crowley, president of the National Low Income Housing Coalition.

**The Center on Budget and Policy Priorities** is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. It is supported primarily by foundation grants.

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