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# HOUSE AND SENATE FUNDING BILLS RISK LOSS OF RENTAL ASSISTANCE FOR THOUSANDS OF LOW-INCOME FAMILIES

## But Risks to Families Could Be Reduced by Combining Features of Both Bills

By Douglas Rice

The House Transportation-HUD Appropriations Subcommittee and the full Senate Appropriations Committee have approved fiscal year 2012 funding bills that would make deep cuts in the budget for the Department of Housing and Urban Development. The proposed cuts, which are much deeper than the average reductions that the recently-enacted Budget Control Act mandates, would reduce the HUD budget to the lowest level in a decade, in inflation-adjusted terms.

In press releases accompanying the bills, the House and Senate committees, to their credit, expressed a commitment to preserving federal rental assistance for the low-income families currently receiving it. Because of the depth of the proposed cuts to the HUD budget overall, however, neither bill achieves this goal:

- **The House and Senate bills fail, for example, to provide funding to renew Housing Choice vouchers now used by 25,000 to 40,000 low-income families.**

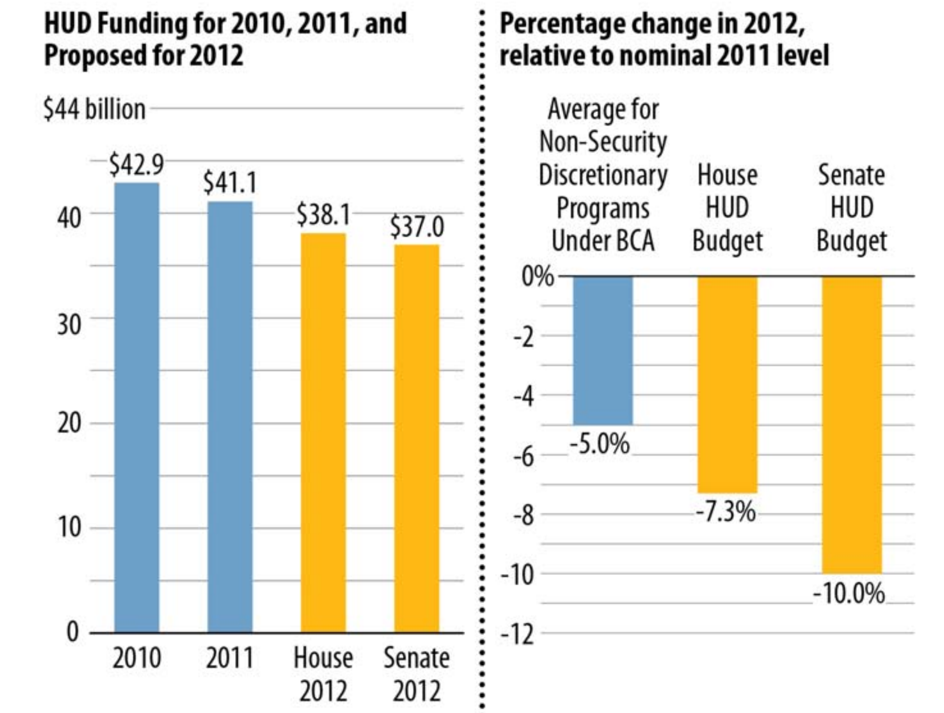
- **The bills also deeply underfund public housing.** Following the significant reductions in public housing capital funding made over the last decade, these further cuts would expose low-income families, most of whom include people who are elderly or have serious disabilities, to deteriorating or even hazardous living conditions. They would also accelerate the loss of this important source of affordable housing in many communities.

For many low-income families, these cuts would come at a particularly difficult time. The number of renter families with "worst-case housing needs" — that is, who receive no housing assistance and either pay more than half their income for housing or live in severely substandard housing — had already risen by more than 40 percent over the last decade even before the recession hit. Federal rental assistance programs currently serve only one in four eligible low-income families due to funding limitations.

As the House and Senate negotiate a final HUD 2012 budget over the coming weeks, they should place a priority on restoring sufficient funding to ensure that no low-income family will lose rental assistance and that local housing agencies are able to maintain public housing in decent condition. By combining various features from the House and Senate bills, Congress can achieve these important goals in the final legislation.

Figure 1

**House and Senate Cuts to HUD Budget Are Disproportionately Deep**




Source: HUD; Senate and House Appropriations Committees.

Source: CBPP estimates, House and Senate Appropriations Committees, OMB Public Budget Database

## House and Senate Bills Would Cut HUD Budget to Lowest Levels in a Decade, Departing from Key Principles that Should Guide Funding Decisions

The Budget Control Act (BCA) limits overall fiscal year 2012 funding for non-security discretionary programs — a part of the budget that includes most low-income housing programs — to a level about 5 percent below the 2011 level. This limit will compel Congress to make difficult decisions about which programs to cut. One principle that should guide these decisions is a maxim that Erskine Bowles and Alan Simpson made a core guiding principle of their commission's report, that policymakers should protect the vulnerable and should not cut programs for people with low incomes. The Bowles-Simpson commission emphasized that deficit reduction should be achieved without increasing poverty and hardship.

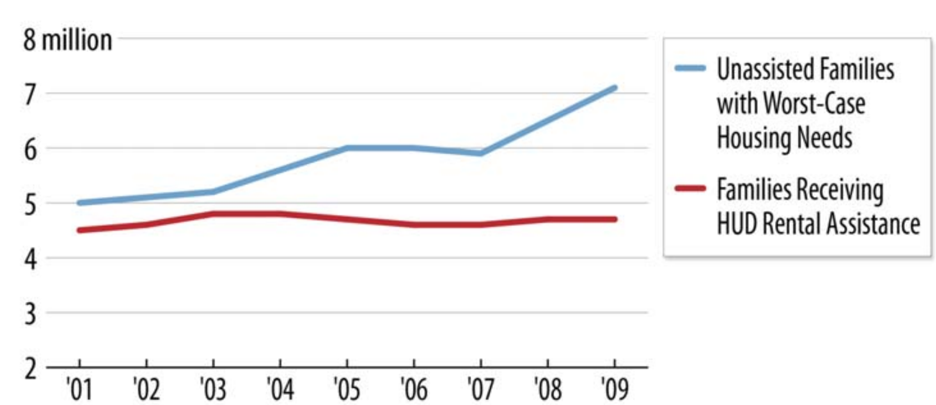
Accordingly, in allocating funding among housing and community development programs that HUD administers, Congress' first priority should be to preserve aid to the low-income individuals and families who currently receive rental assistance so they are not displaced from their homes. At an absolute minimum, the low-income housing programs that HUD administers should not be cut disproportionately relative to other non-security discretionary programs.

The House and Senate bills violate these principles. They make much deeper cuts in the HUD budget than the overall 5 percent reductions in funding that the BCA mandates for non-security discretionary programs. The House bill provides $38.1 billion for HUD for fiscal year 2012, a reduction of $3 billion, or 7 percent, below the nominal 2011 level. The Senate bill would cut the HUD budget by $4.1 billion or 10 percent. (See Figure 1.)

Under the House and Senate bills, the HUD budget would be reduced to the lowest levels since 2003 and 2001, respectively, in inflation-adjusted terms. These reductions in funding would come in spite of the fact that the number of low-income families experiencing severe hardship due to the lack of affordable housing — which HUD has termed, "worst-case housing needs — has increased by more than 40 percent since 2001.

Figure 2

Number of Renter Families with "Worst-Case" Housing Needs Increased by More than 40 Percent, 2001 to 2009




Source: HUD analysis of Census data; CBPP analysis of HUD data.

The depth of the overall cuts in the HUD budget made it difficult for House and Senate appropriators to preserve rental assistance for those families now receiving it even though they acknowledged this priority in the press releases accompanying their respective 2012 funding bills.[1] Tens of thousands of low-income families could lose rental assistance under the House and Senate bills, as explained below.

## House and Senate Bills Fail to Renew Housing Vouchers for Thousands of Low-Income Families

The Housing Choice Voucher program helps 2.1 million low-income households to rent modest housing at an affordable cost. Roughly half of these households are headed by seniors or people with disabilities; most of the remainder is families with children. On average, households using housing vouchers have annual incomes of only $12,600, well below the poverty line for families of two or more people. For these families, the loss of assistance would typically double or triple their monthly housing costs, placing many at risk of becoming homeless.

[1] The press releases are available on the committee web sites at http://appropriations.senate.gov/news.cfm?method=news.view&id=47cf6eff-98cd-42fe-b052-42113b9d431f and http://appropriations.house.gov/News/DocumentSingle.aspx?DocumentID=259012.

The Obama Administration requested $17.14 billion in 2012 to renew all housing vouchers currently used by low-income families. Because of fluctuations in housing rental costs, resident incomes, and the number of families using vouchers, it can be difficult to predict the cost of renewing vouchers. Acknowledging this, the Obama budget included a contingency policy that, without requiring additional federal appropriations, would ensure that most or all housing agencies would have adequate funds to cover their voucher renewal costs if the $17.14 billion turned out to be insufficient.

The contingency policy would authorize HUD to reduce the amount of voucher renewal funding for housing agencies with reserve funds that exceed a specified measure, with the understanding that these agencies would draw on their reserves to renew housing vouchers as needed.[2] This "reserve-offset authority," which Congress provided in the appropriations acts of 2008 and 2009, can free up voucher funds to reduce or eliminate funding shortfalls at housing agencies that have little in the way of funding reserves, thereby substantially lessening the chances that low-income families will lose assistance.

Our analysis of HUD's latest program-cost data suggests that without the reserve-offset authority, $17.4 billion would be required to renew all of the housing vouchers now in use, $225 million more than the President's request.

The House and Senate bills both fail to meet the President's 2012 budget request for the renewal of Housing Choice vouchers in important respects. First, the House bill provides $17.04 billion for housing voucher renewals, $100 million less than the Obama budget. Second and most important, the House bill fails to include the important reserve-offset authority the President's budget asks for. As a result, the House bill risks the loss of housing vouchers for more than 40,000 low-income families in 2012.

In contrast, the Senate bill provides HUD with the authority to offset a total of $750 million in renewal funding for housing agencies with reserve funds that exceed the standard — but it provides far less renewal funding than the House bill does. It provides only $16.4 billion in new funding to renew vouchers, a full $750 million less than the President's request.[3] The amount of savings associated with the reserve-offset authority is thus matched entirely by an equivalent reduction in funding, relative to the Administration's request. Put another way, the Senate bill uses the reserve-offset authority to compensate for a $750 million *cut* from the President's budget for voucher renewals rather than to cover renewal costs *exceeding* the President's budget. As a result, we estimate that the Senate bill would fail to fund more than 25,000 housing vouchers now in use.

[2] Funding reserves are balances of unspent program funds from previous years. In general, a well-managed housing agency will maintain modest reserves to cover unanticipated costs due to fluctuations in local housing markets and other factors and thereby to protect low-income families from displacement. Some agencies have reserve balances that exceed the modest level required for this purpose, while roughly one-fifth of agencies have few reserves.

[3] The Senate bill provides $17.14 billion for voucher renewals, including $4 billion in advance funding for 2013. Yet the bill also rescinds $750 million of the nearly $4 billion that was made available for 2012 in advance in the fiscal year 2011 law. The bill thus makes $16.4 billion in net funds available for 2012. In addition, the Senate bill authorizes renewal funding to be used for temporary housing vouchers under HUD's Disaster Housing Assistance program; the President's budget had requested $50 million for this purpose separately.

## Cuts in Administrative Funding Would Compound the Impact of Renewal Funding Shortfalls

The nearly 2,400 state and local housing agencies that administer the voucher program execute such tasks as processing new admissions, verifying tenants' income and eligibility, and inspecting apartments to ensure they meet federal housing quality standards. These functions also help to protect against fraud and abuse, and to ensure that funds are used as Congress intended.

The House bill would reduce administrative funding to just $1.1 billion, nearly $350 million (or 24 percent) below the 2011 level, and by $475 million (30 percent) below the 2010 level; agencies would receive only slightly more than 60 percent of the funds they will need and for which they will be eligible under HUD's administrative fee formula.[4] The Senate bill provides $1.4 billion for administrative fees, a cut of about $50 million from the 2011 level; agencies would receive roughly 80 percent of the funding for which they will be eligible.

Such sharp reductions in administrative funding — apart from reductions in voucher renewal funding — would almost certainly cause housing agencies to assist fewer families in 2012, although it is difficult to predict how many fewer. Every year, approximately 200,000 families exit the housing voucher program, enabling housing agencies to serve additional needy families from their waiting lists — if they have adequate staff to perform the tasks required to admit new families. If, for the second year in a row, agencies receive only a fraction of the administrative funding that they need and for which they are eligible, many will be forced to lay off staff, and their capacity to process new admissions will diminish. As a result, the number of families assisted will decline, exacerbating the losses that could result from the shortfalls in voucher renewal funding.

## Deep Cuts in Public Housing Would Raise Future Costs and Harm Vulnerable Families

Public housing provides affordable homes to 1.1 million low-income households, the great majority of which consist of working-poor families, elderly people, or people with disabilities. Two main federal funding streams support public housing developments: the public housing operating fund, which covers the gap between an agency's day-to-day operating costs and the rent that low-income residents can afford (generally residents are expected to pay 30 percent of income for rent); and the public housing capital fund, which covers substantial repairs and needed renovations.

The House bill would reduce funding for public housing in 2012 by nearly $1.4 billion, or 20 percent, below the 2011 level. This reduction, which would follow considerable reductions in capital funding for public housing over the past decade, would expose low-income households to deteriorating living conditions, greater risks of safety hazards, and possibly displacement from their homes. It would likely also raise future federal costs by forcing agencies to delay modest repairs that would avert more costly damage in the future, such as fixing leaky roofs. Finally, if repairs continue to be deferred, housing agencies will eventually be compelled to demolish or sell developments,

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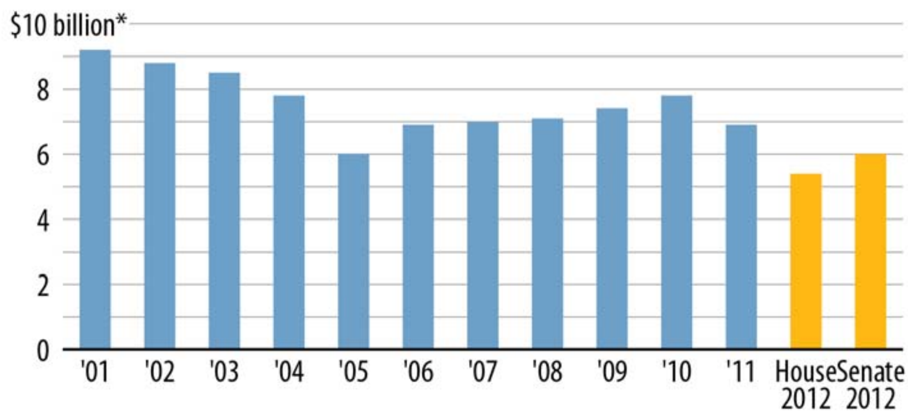
[4] Many observers believe that HUD's voucher administrative fee formula is outdated, and HUD has commissioned a study of program administrative costs for the purpose of improving the formula. Pending the results of that study, however, the existing formula is the only reasonable benchmark that exists.

displacing families from their homes, eliminating needed affordable housing, and squandering decades of federal and local investments.[5]

Figure 3

**Proposed Cuts to Public Housing Funding Follow Decade of Decline**




*Dollars adjusted for inflation

Source: OMB Public Budget Database. Figures exclude emergency appropriations, including funding made available in the 2009 economic recovery law.

The Senate bill would reduce funding for public housing by $800 million in 2012, $560 million less than House-proposed cuts.[6] This would ameliorate some of the worst consequences of the cuts included in the House bill, but it still deeply underfunds public housing. For instance, while the Senate bill's $1.88 billion for capital repairs is $343 million above the House level, it is still $165 million below the 2011 level and further still below the amount required to cover the new renovations and repair needs that emerge each year. As a result, the backlog of capital repair needs, which HUD estimates to be roughly $26 billion, would continue to grow in 2012.[7]

## By Combining Features of House and Senate Bills, Congress Could Significantly Reduce Cuts in Rental Assistance

Critical decisions about funding priorities remain to be made as the 2012 appropriations process advances over coming weeks. In finalizing the HUD funding bill, Congress should place a priority

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[5] For a more detailed discussion of the implications of the House and Senate bills for public housing, see the recent paper and blog by Will Fischer at http://www.cbpp.org/cms/index.cfm?fa=view&id=3583 and http://www.offthechartsblog.org/senate-bill-restores-some-public-housing-funds-but-still-makes-damaging-cuts/.

[6] The Senate bill also includes important policy improvements that would enable housing agencies to use operating reserves accumulated through efficient management to renovate developments and allow HUD to test a proposal to allow some public housing developments to switch to subsidy contracts that will make it easier for them to leverage private investment to help rehabilitate their properties.

[7] The Senate bill also provides $120 million for the Choice Neighborhoods Initiative, while specifying that $80 million shall be granted to public housing agencies.

on restoring adequate funding to renew all Housing Choice vouchers currently used by low-income families — including providing sufficient program administration funds to ensure that housing agencies will be able to assist families on their waiting lists when other families exit the program — and to enable agencies to operate and maintain public housing in decent condition.

Congress could achieve these important goals by combining features of the House and Senate bills. Specifically, Congress should:

- **Fund the overall HUD budget at least at the House bill level.** In their negotiations over final 2012 spending legislation, the House and Senate appropriations committees must reach agreement on a total funding level for the Transportation-HUD bill, as well as on the allocation of funds among federal agencies within the bill. As shown in Figure 1, the HUD allocation is $1.1 billion higher in the House bill than in the Senate bill (although it still represents a disproportionately deep cut to the HUD budget). In the final bill, HUD should be funded at no less than the House bill level of $38.1 billion.

- **Authorize HUD to offset Housing Choice voucher renewal funding based on each housing agency's funding reserves, as the Senate bill does, but increase funding for vouchers renewals by at least $250 million above the Senate bill level.** By requiring housing agencies to use excess funding reserves to renew housing vouchers, a reserve offset policy frees up resources to meet other critical needs in the HUD budget, such as averting deep cuts in funding for capital repairs in public housing or voucher program administration. The Senate bill includes a reserve offset policy, but fails to combine this policy with sufficient renewal funding. To ensure the renewal of all housing vouchers currently used by low-income families, the final HUD bill should also increase renewal funding by at least $250 million above the Senate bill level.[8]

- **Consider accepting the funding rescissions included in the Senate bill.** The Senate bill rescinds (i.e., returns to the federal Treasury) $432 million from the Housing Certificate Fund (HCF) and the Rent Supplement accounts.[9] These rescissions of unspent funds allocated in prior years reduce the overall cost of the Senate bill, enabling the bill to provide additional new funding for other HUD programs. Our assessment is that it would make sense to include some or all of these rescissions in the final bill as long as two conditions are satisfied: that HUD confirms in advance that the rescissions will not hinder its ability to fully fund rental assistance provided under these accounts (particularly under the HCF account); and the additional resources made available by the rescissions are used to prevent cuts in rental assistance elsewhere in the HUD budget.

Congress will be forced to make many difficult decisions about federal priorities in coming months and years, and there will be painful cuts in many areas of the federal budget. The steps

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[8] Voucher renewal funding could be increased in the Senate bill either by increasing the amount of new funding provided for renewals or reducing the bill's $750 million rescission of advance funds provided in the 2011 law.

[9] Formerly, the Housing Certificate Fund account was used for all of the Section 8 rental assistance programs, including the voucher (tenant-based) and project-based rental assistance (PBRA) programs. In 2005, Congress created separate accounts for the two types of Section 8 contracts that rely on annual appropriations, yet payments for the remaining long-term Section 8 PBRA contracts are still made from the HCF account. The Rent Supplement account is used for assistance for low-income families living in some properties with Section 236 subsidized mortgages.

outlined above are essential to ensuring that the hardships experienced by vulnerable families, as a result of lack of access to decent affordable housing, do not worsen as a result of the 2012 appropriations bills.