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# THE EFFECTS OF THE FEDERAL BUDGET SQUEEZE ON LOW-INCOME HOUSING ASSISTANCE[1]

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## Executive Summary

Federal housing assistance programs for low-income families face growing budget challenges. Housing costs have grown faster than most families' incomes in recent years, and a growing number of low-income families — including many working-poor families — face housing costs that are unaffordably high. Yet even as the need for low-income housing assistance has grown, the emergence of large budget deficits is creating growing pressure for significant cuts in domestic programs, including low-income housing programs. Indeed, funding cuts have already contributed to the loss of more than 150,000 Section 8 housing vouchers and weakened efforts to rejuvenate and preserve the nation's supply of public and private assisted housing for low-income families.

**KEY FINDINGS**

- **Nearly 9 million low-income families have severe housing affordability problems, an increase of 33 percent since 2000. Yet despite the increasing need for low-income housing assistance, the emergence of large federal budget deficits has created pressure to reduce domestic spending and led to cuts in low-income housing assistance.**
- **In 2006, funding for HUD's affordable housing and community development programs was $3.3 billion (8 percent) below the 2004 level, adjusted for inflation. These cuts come at a time when funding increases will be needed merely to continue to assist the same number of families being helped now.**
- **The squeeze on low-income housing already is affecting low-income families. More than 150,000 Section 8 housing vouchers have been lost over the past two years.**
- **Cuts in low-income housing assistance threaten to undermine major federal goals such as preserving the stock of affordable housing and improving housing opportunities for low-income families.**

Unfortunately, budget deficits are expected to persist over the next ten years and then — driven primarily by rising health care costs, the aging of the population, and recent tax cuts — to grow larger in succeeding decades. The magnitude of the projected deficits and their probable economic impact are sufficiently great that Congress will be forced sooner or later to take major corrective action.

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This raises a critical question: what type of actions will policymakers take to address the large budget shortfalls? Unless policymakers address the shortfalls in a responsible, balanced manner that puts all parts of the budget (including taxes) on the table, deep cuts ultimately may be made in key safety-net programs for poor families, including low-income housing assistance programs. Housing affordability problems could worsen sharply as a consequence.

This paper explores these issues. It examines the implications of the mounting federal budget squeeze on the three largest federal sources of housing assistance for low-income families. It finds that:

- **Large and growing numbers of low-income families face unaffordable housing costs.** Housing costs are placing heavy burdens on large numbers of low-income renter households, and these burdens have grown significantly since the start of the decade. Recent Census data indicate that 8.8 million renter households with "low incomes" (i.e., below 80 percent of the median income in their state) pay more than *half* of their cash income for housing. The number of such households with severe affordability problems has increased by 33 percent since 2000.

  High housing-cost burdens fall disproportionately on the poorest and most vulnerable people. Nearly two-thirds of the low-income households that face severe housing-cost burdens — i.e., that pay more than 50 percent of their income for housing — have family members who are children, elderly, or people with disabilities. And more than 70 percent of those with severe housing affordability problems have incomes below 30 percent of their state median income. (Generally, 30 percent of the median income is roughly equivalent to the poverty line.)

  Severe housing-cost burdens can have a range of harmful consequences. Families with severe housing-cost burdens face greater difficulty paying for food, medications, transportation, and other basic needs. They are also more likely to be evicted from their homes and to suffer homelessness. These effects can negatively affect family members' nutrition and health, children's educational development, and parents' ability to maintain steady jobs.

- **Federal low-income housing assistance reduces housing affordability gaps.** Each year, the federal government spends more than *three times* as much on tax breaks for homeowners — with a large share of the resulting tax benefits going to upper-income households — as it spends on low-income housing assistance. Moreover, federal low-income housing programs are not entitlement programs, and, due to funding limitations, they reach only a fraction of those who are poor enough to qualify for them. Nevertheless, these programs enable roughly 5 million low-income households to secure decent, affordable housing.

  Most of these households are helped by one of four programs: the **Housing Choice Voucher Program** (also known as "Section 8"), which provides families with vouchers they use to help pay for rental housing in the private market; **project-based Section 8 rental assistance,** which helps cover the operating costs of privately owned housing in order to make it affordable for low-income families; **public housing,** which provides affordable housing to nearly 1.2 million of the nation's poorest families; or the USDA's Section 515 **Rural Rental Housing Program** (which is usually combined with rental assistance from the Section 521 Rental Assistance Program). All four of these programs provide rental assistance that reduces families' housing costs to roughly 30 percent of their income, the standard of housing affordability for low-income families that is used by the Department of Housing and Urban Development (HUD).

| TABLE 1<br>Major Federal Low-Income Housing Programs Assist Roughly Five Million Households[2] | | | | |
|---|---|---|---|---|
| | **Housing Choice (Section 8) Voucher Program** | **Project-Based Section 8 Rental Assistance** | **Public Housing** | **Section 515 Rural Rental Housing Program And Section 521 Rental Assistance Program** |
| **Number of Housing Units, 2005** | 2,116,850 (authorized vouchers) | 1,293,000 | 1,162,000 | 260,000 |
| **Funding, FY 2005 (budget authority)** | $14.8 billion | $5.3 billion | $5.2 billion | $692 million |

By providing subsidies that allow even the very poor to afford decent housing, these programs greatly increase the likelihood that families who are helped can find affordable housing. These programs also free up income that impoverished families can use for basic food, medical care, transportation, and other items that can improve their health and their employment prospects. In addition, evidence suggests that when housing assistance is integrated with well-designed work supports, it can help low-income families increase their employment and earnings.

- **The nation faces serious budget challenges, and the resulting budget squeeze already has led to cuts in low-income housing assistance.** The federal budget outlook has suffered a dramatic reversal over the past five years. In January 2001, the nonpartisan Congressional Budget Office (CBO) projected $5.6 trillion in federal budget *surpluses* for the coming ten years (2002-2011). In contrast, CBO's most recent projections indicate that the federal government is likely to amass budget *deficits* of $3.2 trillion over the same 2002-2011 period, assuming that the recent tax cuts and measures to shield middle-class families from the Alternative Minimum Tax are extended.

  More than two-thirds of this negative budget swing of more than $8 trillion has been caused by legislation that Congress and the Administration have enacted, rather than by economic or other factors outside their control. And the single largest cause has been the series of expensive tax cuts enacted since 2001. The tax cuts, along with sharp increases in spending on defense and homeland security, account for nearly 85 percent of the cost of legislation enacted since 2001. In contrast, changes in spending on domestic discretionary (i.e., non-entitlement) programs, such as low-income housing assistance, have had little impact on the deterioration in the federal budget outlook; they account for only 6 percent of the cost of legislation enacted since 2001.[3]

  Unfortunately, the budget outlook will grow considerably worse in coming decades, as federal

[2] See Appendix B for more detailed information and sources.

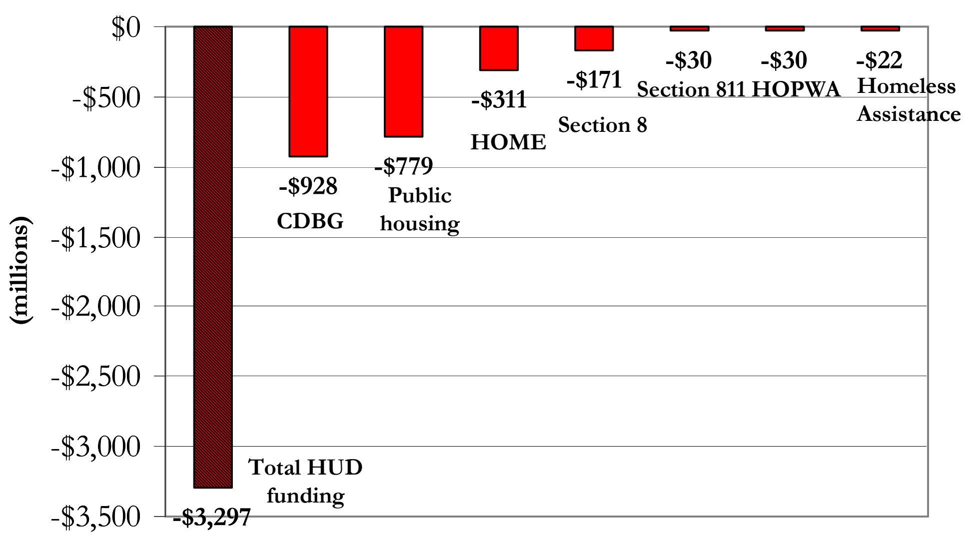
[3] The term "cost of legislation" refers to the cost of tax and spending bills as estimated by the Congressional Budget Office and the Congressional Joint Committee on Taxation, relative to the budget baseline.

health care expenditures (and to a lesser degree, Social Security costs) swell in response to both the rising numbers of retired Americans and the relentless rise in health care costs in the U.S. health care system, and as the tax cuts enacted earlier in this decade — some of which are still phasing in — take full effect. The result will be large federal budget deficits that, if not addressed, will ultimately cause serious damage to the economy.

This reemergence of large, persistent budget deficits, combined with efforts by the Administration and many in Congress to make most or all of the recent tax cuts permanent despite their large costs, is creating mounting pressure to cut domestic programs, including housing assistance for low-income families. Beginning in fiscal year 2005, the President has proposed, and Congress has enacted, significant cuts in low-income housing assistance. For fiscal year 2006, the amount of funding approved by Congress for affordable housing and community development programs in HUD was nearly $3.3 billion (or 8 percent) below the 2004 level, adjusted for inflation.[4]

**FIGURE 1**

**Change in Funding for Selected Low-Income Housing Assistance Programs, Fiscal Year 2004 to Fiscal Year 2006 (2006 dollars)**




Sources: *The Budget of the U.S. Government, Fiscal Year 2007*, with inflation adjustments by CBPP. In the chart, "Section 8" combines the Tenant-Based and Project-Based Rental Assistance programs.

- **These cuts are being made at a time when increases in funding for some low-income housing assistance programs are needed simply to avoid cuts in the number of low-income families served.** Over the past six years, Congress has cancelled nearly $13 billion of previously appropriated but unspent HUD funds and has recycled the funding back into HUD

[4] In addition, the President had proposed additional cuts in funding for HUD programs in 2007. As this paper goes to press, Congress is considering final legislation to fund HUD and most other federal agencies for 2007. Indications are that Congress will provide substantial increases in funding for Section 8 and public housing, though most other HUD programs will be funded at 2006 levels – and below those levels, once inflation is taken into account.

programs. This has significantly reduced the amount of *new* appropriations that the housing programs have needed. There is reason to believe, however, that unspent funds available for recycling are drying up. If so, Congress soon will have to start providing significantly more new funding for the programs each year (by raising the annual appropriations levels for the programs significantly) just to keep the total amount of funds available for the programs from shrinking.

Funding increases also will be needed in the years ahead to renew long-term contracts HUD has signed with the private owners of approximately 300,000 housing units (mostly through the project-based Section 8 program) to make these units affordable to low-income tenants. In the past, Congress provided upfront all of the financing needed to fund these rental assistance contracts throughout their full duration, which for most of these contracts was 20 to 40 years. As a result, no new funding for these contracts has been needed in annual HUD appropriations bills. But nearly half of these long-term contracts are slated to expire over the next five years, and renewing them will require approximately $2 billion in new appropriations over the coming five years. (If some owners choose not to renew their federal rental assistance contracts, a similar amount of funding will be required to provide vouchers to households that otherwise could lose their homes.)

- **Funding cuts already are affecting low-income families and threatening to compromise major housing policy goals.** Since early 2004, funding shortfalls and policy changes in the Section 8 tenant-based voucher program have contributed to the loss of more than 150,000 vouchers, a loss unprecedented in the program's history. Moreover, steps taken by state and local housing agencies to adjust to these funding shortfalls have limited the housing choices available to many families with vouchers, compromising one of the program's basic goals.

  Recent funding cuts also are undermining other housing policy goals, such as the preservation of the public housing stock, which remains an important source of affordable housing to families with very low incomes. Over the past decade, the nation has experienced a net loss of approximately 170,000 public housing units to deterioration and decay, and much of the remaining public housing stock has substantial repair and rehabilitation needs that must be met if public housing is to be revitalized and preserved. Efforts to meet this goal are being hindered, however, by a steep decline in funding for public housing; annual funding for public housing operating and capital costs fell by 25 percent between 1999 and 2006, after adjusting for inflation. Without an infusion of new resources, the remaining 1.2 million public housing units, about half of which are home to people who are elderly or have serious disabilities, will continue to deteriorate.

  The 1.4 million units of *privately* owned housing supported by federal subsidies also face preservation challenges. Roughly 300,000 units have already been lost over the past decade, mostly because owners decided not to renew contracts with HUD to provide units at rents affordable to low-income households. Also, as noted above, about $2 billion in new appropriations will be required over the next five years to renew long-term contracts that cover an additional 300,000 units and are slated to expire during this period; it is unclear whether Congress and the President will provide these funds.

Meeting the housing needs of low-income families in the face of the long-term fiscal problems the nation faces will be a challenging task. Doing so will require placing *all* of the budget — including tax cuts, special-interest tax breaks, and various spending programs that are protected by powerful constituencies — on the table, and reaching bipartisan agreement on a balanced mix of reductions in projected spending *and* increases in revenues. Doing so also will require adherence to a principle espoused by David Stockman, President Reagan's first budget director, in the 1980s: Mr. Stockman said that when seeking to reduce the deficit, policymakers should go after "weak claims" that have been made on the federal Treasury, including weak claims made by powerful interests and constituencies, rather than politically "weak clients." Those who are weak politically include the low-income families assisted by the federal housing programs.

A balanced approach to deficit reduction is not foreign to American political culture. It was successfully followed in the first half of the 1990s, for example. The landmark deficit-reduction packages enacted in 1990 and 1993 each contained a mix of spending reductions and tax increases. Moreover, those measures packaged spending reductions and revenue-raising measures together with *increases* in key anti-poverty initiatives. The result was legislation that reduced deficits *and poverty* at the same time. (The 1990 and 1993 legislation demonstrated that when all of the budget is put on the table, it is possible to secure sufficient savings to achieve large-scale deficit reduction, while reinvesting a portion of the savings in policies to reduce poverty.)

This model needs to be followed in the future as well. Those who are concerned with equity in our society and with the needs of low-income families in areas such as housing and health care will need to be involved in efforts to bring this about.

## I. Large and Growing Numbers of Families Face Unaffordable Housing Costs

For most Americans, the private housing market works well. Housing costs are affordable, and housing quality is good. The rate of homeownership, which is the most significant source of wealth for most families, is near an all-time high.

Yet for a sizeable minority of Americans — especially low-income renters — the private market fails to meet their needs. One fifth of all American households are renters with low incomes, and a large share of these families have acute housing affordability problems. Recent Census data indicate that 8.8 million low-income renter households pay more than half of their income for housing, a burden that far exceeds federal standards of affordability.[5] Over 70 percent of these families have "extremely low incomes" (i.e., below 30 percent of the state median income).[6] As Figure 2 shows, two-thirds of low-income households with severe housing-cost burdens include children or people who are elderly or have disabilities. Severe housing-cost burdens fall disproportionately on the poorest and most vulnerable families.

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[5] Unless otherwise noted, all housing cost burden data are based on CBPP tabulations from the 2005 American Community Survey, which is administered by the U.S. Census Bureau. Under federal standards, housing is unaffordable if costs exceed 30 percent of household income. "Low income" is defined here as income below 80 percent of the state median income, which is similar to the definition used by HUD.

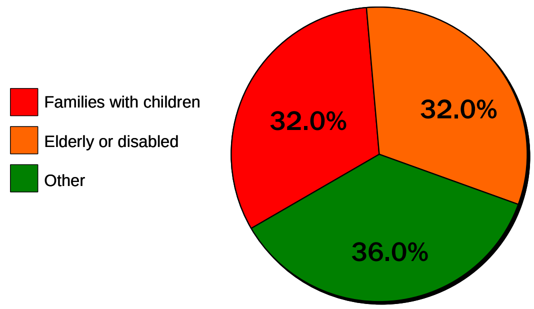
[6] For a rough comparison, national median income for a household of three in 2005 was $58,917; 30 percent of this amount is $17,675. These figures are from the Census Bureau's Current Population Survey for 2005. The federal poverty line for a family of three was $16,090 in 2005.

Housing affordability problems affect large numbers of low-income renters in every state. Depending on the state, anywhere from more than one-fifth (in North Dakota) to nearly one-half (in the District of Columbia) of low-income renter households spend more than 50 percent of their income on housing. (See Appendix A.)

Working does not inoculate low-income families against severe housing problems. Three-quarters of low-income households that have housing affordability problems and do not include elderly or disabled adults are *working* households, most of which earn at least as much as a full-time, minimum-wage worker.[7]

**FIGURE 2**

**Two-Thirds of Low-Income Households with Severe Housing Affordability Problems Have Children Or Are Elderly or Disabled**




Source: CBPP tabulations of data from the American Community Survey, 2005. "Low-income" is defined as income that does not exceed 80 percent of state median income. A household has "severe affordability problems" if its housing costs exceed 50 percent of household income.

It is not surprising that so many working families face severe housing-cost burdens. Wages, especially at the lower end of the pay scale, have stagnated in recent years, while housing costs for renters have risen faster than the overall inflation rate. Since 1995, the income of the average household in the bottom 20 percent of the income spectrum has *fallen* 0.4 percent in real (i.e., inflation-adjusted) terms. Yet over this period, rents and utility costs have *increased* 7.5 and 12.9 percent, respectively, in real terms.[8] Recent studies also show that there is no community in the country in which the rent for a modest one-bedroom apartment is affordable for an individual or family living on full-time, minimum-wage employment.[9]

Moreover, evidence suggests that housing affordability problems among low-income families have worsened since the beginning of the decade. Census data show that the number of low-income families that pay over 50 percent of their income for housing increased by 33 percent, or nearly 2.2 million, between 2000 and 2005.[10]

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[7] Based on CBPP tabulations of data from the 2005 American Community Survey. Households with annual earned income equal to at least the amount earned by a worker working 20 hours per week at the federal minimum wage are considered "working" here. Households with "housing affordability problems" are those paying more than 30 percent of their income for housing costs.

[8] Income changes reflect the change in the average income of households in the bottom income quintile, as reported in the historical tables of the 2005 Current Population Survey and adjusted by CBPP for inflation. Rent and utility cost changes reflect changes in the CPI indices for residential rents and fuels and utilities through 2005, adjusted for inflation.

[9] In other words, there is no community in which HUD's "Fair Market Rent" level for a one-bedroom apartment does not consume more than 30 percent of the income of an individual or family that is living on full-time, minimum-wage earnings. See National Low Income Housing Coalition, *Out of Reach, 2005*. Available at: http://www.nlihc.org/oor2005/.

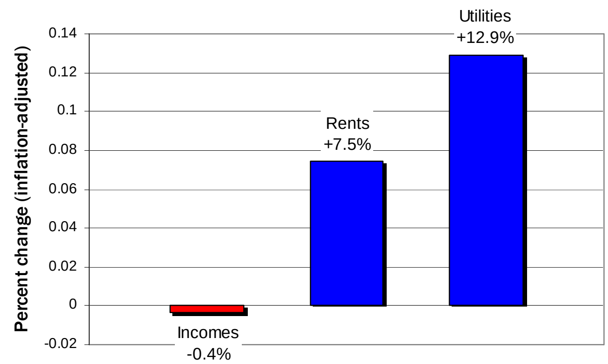
[10] Source is CBPP tabulations of 2000 and 2005 data from the American Community Survey. The figures are for renter households with incomes below 80 percent of the state median income and that pay more than 50 percent of their income for housing.

In a recent analysis, Harvard researchers predict that affordability pressures on renters will continue to worsen over the coming decade as rental demand rises and 200,000 rental housing units continue to be lost every year through a variety of market forces. In the absence of policies that increase the incomes of low-income renters or expand the supply of affordable housing, the deepening crunch is likely to hit the lowest-income renters especially hard.[11]

**FIGURE 3**

**Incomes of Lower-Income Families Have Not Kept Pace with Housing Costs**

**Changes in rents, utility costs, and average incomes for households in the bottom income quintile, 1995-2005**




Sources: Bureau of Labor Statistics, Consumer Price Index for residential rent and fuels and utilities; 2005 Current Population Survey.

## Severe Housing-Cost Burdens Have Harmful Consequences for Low-Income Families

Housing affordability problems are most common, and most damaging, among the poorest families, who often are forced to cut back on food, clothing, transportation, prescription drugs, medical care, and other essential items. Among the 25 percent of families with children that spend the least (in dollar terms), those families that have severe housing-cost burdens typically spend 31 percent less on food, 70 percent less on transportation, and 47 percent less on clothing than the families in the bottom expenditure quartile that do not have high housing-cost burdens.[12] Such reductions in expenditures can affect children's nutrition and health and make it more difficult for parents to secure reliable transportation to work.

Severe housing-cost burdens also contribute to housing instability and homelessness, which in turn can have cascading effects on the well-being of children and other family members. The most comprehensive and reliable survey of homeless populations suggests that 5 percent to 10 percent of people living in poverty experience at least one period of homelessness in any given year.[13] Homeless persons cited problems paying rent and job loss as the two most common reasons for their loss of housing.[14] In addition, numerous studies have linked housing instability and homelessness to a variety of developmental and health problems in children.[15]

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[11] *America's Rental Housing: Homes for a Diverse Nation* (Joint Center for Housing Studies of Harvard University, 2006), p. 3.

[12] Families in the bottom expenditure quartile that have severe housing-cost burdens also spend less on basic necessities than severely burdened families in the second expenditure quartile. Source: *State of the Nation's Housing, 2006*, Table A-7.

[13] Burt *et al., Helping America's Homeless* (Urban Institute, 2001), pp. 49-50.

[14] Burt *et al., Helping America's Homeless* (Urban Institute, 2001), table 3.3, p. 67.

[15] There are many studies linking housing instability and homelessness to a variety of health, developmental, and educational problems in adults and children. See, for example, Better Homes Fund, *America's Homeless Children: New Outcasts*, 1999; Weinreb *et al.,* "Determinants of health and service use patterns in homeless and low-income housed children," *Pediatrics, 102(3)*; and Children's Sentinel Nutrition Assessment Program, "The Safety Net in Action: Protecting the Health and Nutrition of Young American Children," 2004.

The private housing market alone will not provide housing that families living in poverty can afford. The average poor family can afford to pay roughly $230 per month (30 percent of its income) for rent and utilities. This is well below the typical monthly operating cost for rental housing, and even further below the cost of rents charged by for-profit landlords or the cost of buying a home.[16] Policies that increase disposable income, such as increasing the federal minimum wage, will help close the affordability gap but are unlikely to be sufficient. Federal housing assistance programs have an important role to play in covering the difference between the rents that low-income families can afford and the cost of rental housing, as well as in supporting the construction or rehabilitation of affordable rental housing.

## II. Federal Low-Income Housing Assistance Makes Housing Affordable for Many

When one hears the term "federal housing assistance," one typically thinks of the low-income housing programs operated by HUD. Yet the cost of these programs is dwarfed by the tax deductions and credits that the federal government provides each year to owners and builders of housing. The four largest housing-related tax breaks for homeowners will cost $157 billion in 2006, more than three times the total expenditures for all HUD programs in that year.[17]

Most of the benefits of these tax breaks go to high-income households. One analysis showed that in 2004, some 61 percent of the assistance the federal government provided through either housing programs or housing-related tax breaks went to households in the two highest income quintiles, where incomes averaged over $100,000 per year. (Households in the lowest income quintile received 20 percent of all federal housing assistance.)[18] In addition, as Figure 4 shows, high-income households receive much larger federal housing benefits on average than low-income households.[19]

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[16] According to the Census Bureau's 2005 Current Population Survey, the average annual income of a household living below the federal poverty line was $9,376 in 2005.

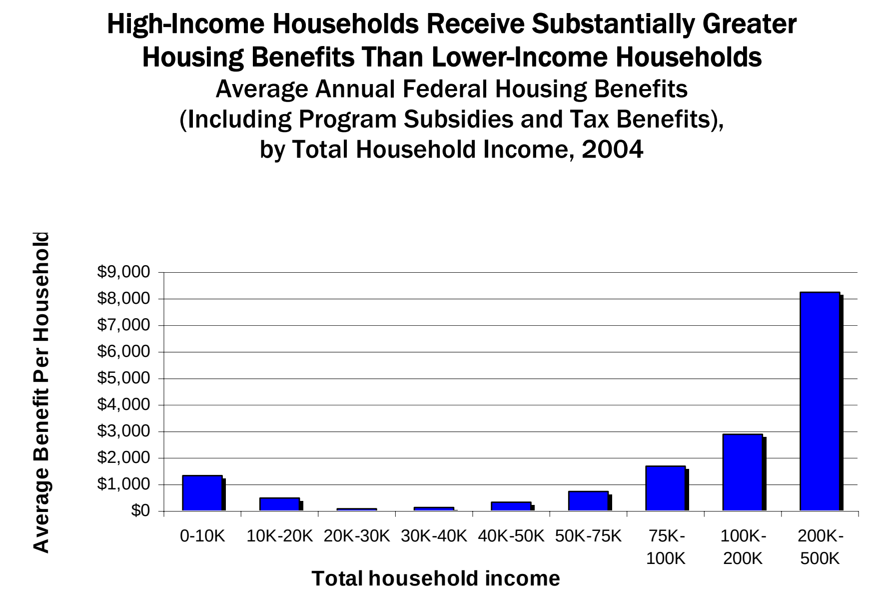
[17] Office of Management and Budget, *Analytical Perspectives, Budget of the U.S. Government, FY 2007*, Table 19-1. The four largest such housing tax breaks are the home mortgage interest deduction, the deduction for property taxes, the capital gains exclusion for home sales, and the exclusion of net imputed rental income.

[18] Dolbeare *et al., Changing Priorities: The Federal Budget and Housing Assistance, 1976 – 2005* (National Low Income Housing Coalition, 2005), Graph 6.

[19] This analysis captures the benefits from four of the largest sources of federal housing assistance: the Section 8 voucher program, public housing, the home mortgage interest deduction, and property tax deductions. The first two are the largest low-income housing assistance programs; the latter two are among the largest housing tax benefits for homeowners. Source: Carasso *et al.,* "How to Better Encourage Homeownership" (Urban Institute-Brookings Institution Tax Policy Center, 2005).

Low-income housing assistance thus constitutes a modest part of the total federal housing benefits bestowed on households across the income spectrum. It also is a modest part of the overall federal budget, accounting for less than 2 percent of all federal expenditures in fiscal year 2006.[20]

FIGURE 4




Sources: Carasso *et al.,* "How to Better Encourage Homeownership" (Urban Institute-Brookings Institution Tax Policy Center, 2005). This analysis captures the benefits from four of the largest sources of federal housing assistance: the Section 8 voucher program, public housing, the home mortgage interest deduction, and property tax deductions.

## Most Forms of Federal Low-Income Rental Assistance Make Housing Affordable Even for Very-Low-Income Families

Approximately 5 million low-income families use federal rental assistance to secure decent, affordable housing. Nevertheless, housing assistance is not an entitlement, and most communities have long waiting lists for assistance. Under existing funding levels, federal programs can assist only about one-quarter of the low-income families eligible for assistance.[21]

The great majority of low-income households receiving assistance are helped by one of four programs: the Housing Choice ("Section 8") Voucher Program, public housing, project-based Section 8 rental assistance, or USDA's Section 515 rural rental housing program.[22] Public housing and the two Section 8 programs provide rental assistance that reduces families' housing costs to roughly 30 percent of their income (HUD's standard threshold of affordability). The Section 515

[20] This figure is calculated from 2006 outlay figures for programs administered by HUD and the Rural Housing Service of the U.S. Department of Agriculture, as provided in the Administration's fiscal year 2007 budget.

program provides low-interest loans to developers of affordable housing; three-quarters of families living in Section 515 units also receive rental assistance (mostly through USDA's Section 521 Rental Assistance Program) to ensure that their rents will be affordable.

The remaining federal low-income housing assistance programs either serve significantly fewer people or provide smaller subsidies. Among the programs that serve many fewer people (but provide substantial subsidies) are the supportive housing programs for low-income people who are elderly or have disabilities. These programs combine construction grants to non-profit developers of affordable housing with project-based rental assistance that is designed to reduce rental charges to levels that tenants with very low incomes can afford.

Among the programs that provide smaller subsidies for needy households is the Low-Income Housing Tax Credit (LIHTC). The credit, which provides capital that can be used to defray a portion of a unit's construction or rehabilitation costs, has become the largest source of federal funding for the production of affordable rental housing. LIHTC is a prime example of a "shallow" subsidy program, meaning that poor tenants may still have to pay considerably more than 30 percent of their income for housing. By law, the rents of LIHTC units must be affordable to households with incomes below *60 percent* of the area median income, but these rent levels are rarely affordable for families with incomes below *30 percent* of the area median unless additional subsidies — such as Section 8 vouchers — are also provided.[23]

Most of the forms of federal low-income housing assistance considered here, in contrast, provide "deep" subsidies that allow even households with extremely low incomes to afford decent housing. This improves such families' housing stability by reducing the likelihood that they will be forced to move because they cannot pay their housing costs. It also frees up income that families can use for basic food, medical care, transportation, and other items that can have positive impacts on health and employment.

There is also evidence that housing programs, when integrated with well-designed work supports, can help families increase their employment and earnings. One such program is HUD's Family Self-Sufficiency (FSS) Program, through which families receive savings incentives and case-management services in combination with housing assistance. HUD's evaluation of FSS found that families with vouchers that participated in the program increased their income by 72 percent over a four-year

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[21] This is necessarily a rough estimate compiled from different sources. According to HUD's 2005 *Performance and Accountability Report*, approximately 4.8 million households and housing units receive rental assistance from HUD programs. In addition, about 260,000 families receive rental assistance under USDA's Section 521 Rental Assistance Program in combination with assistance under the Section 515 Rural Rental Housing Program (this figure excludes Section 515 units that receive no rental assistance and units that are cross-subsidized by HUD rental assistance programs). According to 2005 Census data from the American Community Survey, 15.5 million low-income households have unaffordable housing costs (i.e., they pay more than 30 percent of their income for housing). Assuming that the households now receiving housing assistance would otherwise have housing affordability or other serious housing problems, only about one-quarter of the need for assistance among low-income families is being met.

[22] Brief descriptions of the major federal rental assistance programs are provided in Appendix B.

[23] See Abt Associates, "Assessment of the Economic and Social Characteristics of LIHTC Residents and Neighborhoods," Department of Housing and Urban Development, 2000. This report concludes that half of LIHTC residents have rent burdens that exceed the federal affordability standards (i.e., exceed 30 percent of their income), while the majority of residents with affordable rents receive rental assistance such as Section 8 vouchers.

period, twice the increase experienced by a comparison group.[24] Similarly, a major pilot project — the Jobs-Plus public housing demonstration — revealed strong income gains at sites where financial incentives, employment services, and other supports were successfully integrated with housing assistance.[25]

## III. The Nation Faces Serious Budget Challenges

Despite their effectiveness, low-income housing programs are threatened by significant funding cuts due to the serious budget problems the nation faces. Over the past five years, the federal budget picture has changed sharply, with the budget moving from substantial surpluses to substantial deficits. In January 2001, the nonpartisan Congressional Budget Office (CBO) forecast $5.6 trillion in budget surpluses over the coming ten years (2002-2011), if policies remained unchanged.[26] Today, CBO projections show $3.2 trillion in *deficits* over the same 2002-2011 period. Thus, there has been a negative swing over this ten-year period of more than $8 trillion in the nation's fiscal outlook.

Congress and the President bear responsibility for most of this change: more than two-thirds of the budget deterioration since 2001 has been due to legislation enacted by Congress and the White House. (The rest is due to changes in economic or technical factors not controlled by policymakers.) Nearly 85 percent of the added costs that have resulted from legislation have come from either tax cuts or increases in defense and homeland security spending. The tax cuts have been the single largest contributor to the budget deterioration, accounting for nearly half of the cost of all legislation enacted since the start of 2001. Increases in domestic appropriations — the part of the budget through which most housing programs are funded — have contributed little to the increase in deficits, as Figure 5 shows.

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[24] See Ficke and Piesse, *Evaluation of the Family Self-Sufficiency Program, Retrospective Analysis, 1996 to 2000* (HUD, 2005).

[25] Bloom *et al., Promoting Work in Public Housing: The Effectiveness of Jobs-Plus*, (MDRC, 2005). Overall, research has shown mixed results on the link between housing assistance and improvements in employment and income. The distinctly positive results obtained in some rigorous studies, however, suggest that the right mix of support services and housing may be quite effective in achieving gains. A recent report by the Low Income Investment Fund provides a good short review of research on the impacts of housing assistance on low-income families. See *Report to the Community June 2005 - Literature Review: Impact of Affordable Housing on Individuals and Families* (Low Income Investment Fund, 2005); available at: http://www.liifund.org/assets/documents/section_press/Housing_Report_pdf.pdf.

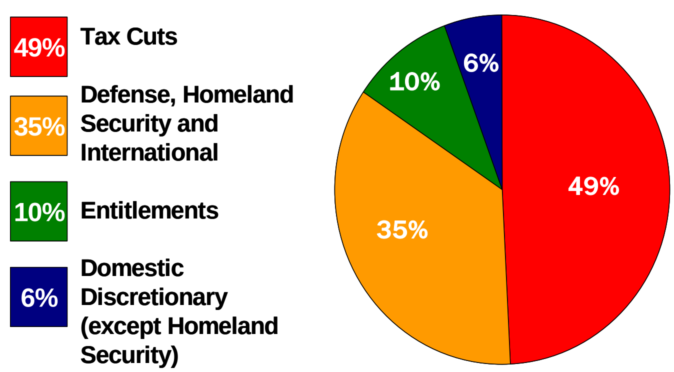
[26] This assumes that the President's tax cuts enacted in 2001 and 2003, which are scheduled to expire at the end of 2010, are extended, that relief from the Alternative Minimum Tax is continued, that the number of American troops in Iraq is gradually reduced, and that the President's proposed defense buildup is funded. The estimate is based on the baseline projections in CBO's August 2006 *Budget And Economic Outlook: An Update,* the cost of alternative policies shown in Table 1-8 of that document, and the estimate of the defense buildup proposed in the President's Fiscal Year 2007 Budget that was included in CBO's March 2006 *An Analysis of the President's Budgetary Proposals* for Fiscal Year 2007. Note that CBPP will update these estimates in early February 2007, following the release of CBO's revised estimates.

The budgetary outlook will grow markedly worse after the current decade. Social Security and federal health-care expenditures will rise substantially as the baby-boom generation retires and health care costs continue to mount, and projected federal revenues — weakened by the tax cuts — will fall far short of covering these costs. The federal government faces persistent budget deficits that, if not addressed, eventually are likely to cause significant damage to the economy.

**FIGURE 5**

**Tax Cuts Are the Single Largest Cause of the Return to Deficits**

**Cost in 2002-2011 of Policy Changes Enacted Since 2001**




Note: These estimates include the cost of extending expiring tax cuts enacted in 2001 and 2003, extending relief from the Alternative Minimum Tax, funding for the Iraq war assuming a gradual drawdown of troop levels, and the defense buildup proposed in the President's Fiscal Year 2007 Budget. See footnote 25 for sources.

Yet rather than helping to prepare for these coming challenges, in part by shoring up the nation's revenue base, Congress and the President have enacted tax cuts in the last five years that have significantly eroded that base, as well as a costly new prescription drug benefit that will add heavily to Medicare costs. In neither case did Congress make other changes to offset the new costs. To put the size of the tax cuts in perspective, consider that when fully in effect, the annual tax cuts just for the top 1 percent of taxpayers (people with incomes exceeding $402,000 in 2006) will cost *nearly twice as much as HUD's entire budget*. In addition, the tax cuts for households at all income levels will, when fully in effect, cost more than the budgets of the Departments of Education, Energy, Homeland Security, State, Veterans Affairs, and HUD *combined*.[27]

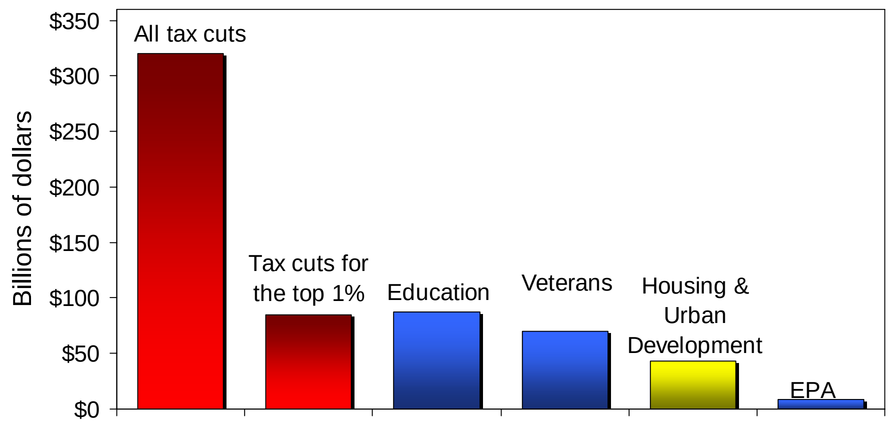
Most of the tax cuts enacted in 2001 and 2003 are slated to expire by the end of 2010. If the tax cuts are extended and made permanent, federal programs will be placed on even more of a collision course with one another. Steep budget cuts will become unavoidable, since the federal government will have vastly insufficient revenue to cover its costs. If, on the other hand, policymakers decide that the nation cannot afford to make the tax cuts permanent — *or* if they raise other revenues to cover the costs of making various components of the tax cuts permanent — a more balanced approach to deficit reduction will be possible and the needed program cuts, while still substantial, will not be as severe.

[27] These tax-cut figures represent the annual cost of the 2001 and 2003 tax cuts when fully in effect (including relief from the Alternative Minimum Tax), adjusted to reflect the size of the economy in 2006. The figures for agency budgets represent estimates of the amount spent by each agency in 2006.

In addition, Congress may make changes in the way that federal budget decisions are made. Some recently proposed changes would help to facilitate balanced, even-handed deficit reduction; such approaches would not favor one part of the budget over another. Other proposed changes, however, would force deep cuts in domestic programs while exempting tax cuts entirely from budget discipline.

FIGURE 6

Tax Cuts for the Top 1 Percent Cost More Than HUD Budget




Source: CBPP calculations based on Congressional Budget Office, Joint Committee on Taxation, and Urban Institute-Brookings Institution Tax Policy Center data.

One example of the even-handed approach is a proposal to reinstitute the "pay-as-you-go" rules that were in effect for much of the 1990s. Under these rules, Congress was required to offset the costs of entitlement increases and tax cuts so that such measures did not add to the deficit. The pay-as-you-go rules worked effectively for most of the 1990s, and most budget experts concur that reinstating them would have salutary effects on the budget today.

Under the pay-as-you-go rules, for example, either the tax cuts slated to expire by the end of 2010 would be allowed to end or the cost of extending them would be offset (through other revenue-raising measures or reductions in entitlement programs). Doing so would close as much as 60 percent of the large budgetary imbalances projected through 2050.[28]

Other budget-process changes, however, would have very different effects. Proposals advanced in the last Congress by members of the House Republican Study Committee, for example, would place austere funding caps on discretionary programs and likely force large cuts over time in education, housing, health care, and other domestic programs, while shielding tax cuts from comparable fiscal discipline.

How Congress ultimately addresses the budgetary effects of an aging population and rising health care costs — and the decisions that it makes on whether to extend the tax cuts — will have a profound impact on whether our nation provides sufficient resources to maintain and build upon its commitment to affordable housing or whether the low-income housing programs are cut deeply over time.

[28] See Richard Kogan *et al.*, "The Long-Term Fiscal Outlook Is Bleak: Restoring Fiscal Sustainability Will Require Major Changes to Programs, Revenues, and the Nation's Health Care System," January 29, 2007; available at http://www.cbpp.org/1-29-07bud.htm.

## IV. The Federal Budget Squeeze Already Has Led to Cuts in Low-Income Housing Assistance and Is Threatening to Compromise Major Housing Policy Goals

The squeeze on federal domestic spending has already led to sizeable cuts in low-income housing assistance. Partly as a result, the number of low-income families receiving such assistance has declined since 2004, despite the large and growing number of low-income families with severe housing-cost burdens.

Cuts in housing assistance also threaten to compromise major federal housing policy goals established by Congress over the past 20 years. During the 1990s, it was widely acknowledged that the three largest federal low-income housing assistance programs — public housing, the project-based Section 8 program, and (to a lesser extent) the tenant-based Section 8 program — faced considerable challenges. Congress responded with new initiatives to revitalize public housing and place it on a more sustainable path, to preserve the large stock of privately owned housing with project-based assistance, and to increase housing opportunities for low-income families by reforming and expanding the tenant-based Section 8 program.

These initiatives have met with some success, but significant challenges remain. For example, tens of thousands of the most dilapidated public housing units have been demolished, and plans are in place — and some of the work begun — to replace some of the lost units with new housing affordable for poor families and located in more sustainable communities. Even so, the public housing system confronts billions of dollars in unmet capital repair needs, and since 1995, about 170,000 units have been lost to decay and other factors and not been rebuilt.[29]

With respect to private project-based units, about 1 million units affordable to families with very low incomes have been preserved, at least for the near future. But approximately 300,000 units have been lost to private-market conversion, and the fate of at least another 300,000 units remains uncertain — the contracts under which Section 8 rental assistance is provided on behalf of those units will soon expire for the first time, and Section 8 assistance will end unless the contracts are renewed.

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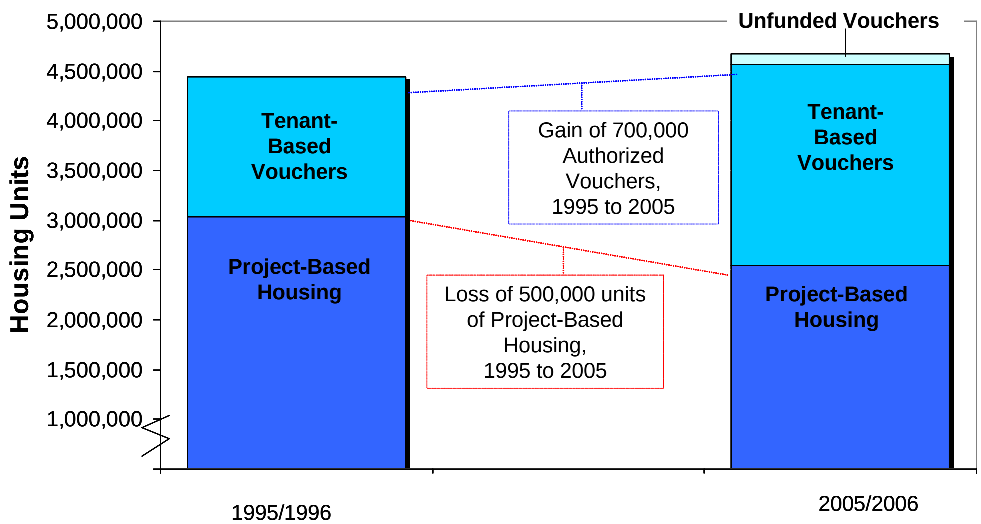
[29] Reliable, publicly available time-series data on the number of available public housing units are difficult to obtain, and our estimate that 170,000 public housing units were lost from 1995 to 2005 is necessarily rough. It is based on comparisons of data from two sources: HUD's *Performance and Accountability Report* (PAR) for 2005 and 2000 (the latter of which contains public housing counts from 1997 through 2000); and Edgar O. Olson, "Housing Programs for Low-Income Households" (National Bureau of Economic Research, 2001), which contain public housing unit counts for 1976-1998 provided by the Congressional Budget Office. HUD's 2005 PAR indicates the availability of 1,162,808 public housing units in 2005 (see Appendix 2 of the report). According to CBO (via Olson), 1,397,205 public housing units were available in 1995, which implies that the public housing system experienced a loss of 234,397 units over the 1995-2005 period. Incidentally, the CBO data for 1997 and 1998 match the data presented in the HUD 2000 PAR for these years, which suggests the two sets are based on the same ultimate source, and that the CBO figures for earlier years are therefore likely to be comparable to HUD PAR data. However, the CBO data (as well as the figures in the HUD 2000 PAR) also show a decline of more than 76,000 public housing units between 1997 and 1998. We estimate that the bulk of this decline — more than 65,000 units — was due to a shift of units from public housing accounts to the newly created Native American Block Grant account in 1998. Therefore, the actual loss of public housing units appears to be about 170,000 over the full 1995-2005 period.

## FIGURE 7

**Most of the Gain in Tenant-Based Vouchers Has Simply Offset Losses of Project-Based Housing**




Counts of lost "project-based" housing units include public housing units as well privately owned housing receiving project-based subsidies (in particular, project-based Section 8, Section 8 Moderate Rehabilitation, or Section 236 subsidies). Figures do not include counts of new Section 202 or 811 units. Sources: HUD's *Performance and Accountability Report, 2005*; National Housing Trust, "Changes to Project-Based Multifamily Units in HUD's Inventory, 1995 to 2003"; updated data on project-based Section 8 units provided by the National Housing Trust; CBPP analysis of data from HUD's Voucher Management System; and Edgar Olson, "Housing Programs for Low-Income Households," National Bureau of Economic Research, 2001.

In the tenant-based Section 8 program, reforms in voucher administration facilitated by Congress and HUD helped raise the voucher utilization rate (the percentage of authorized vouchers that actually are in use) to 98.5 percent in the reporting period ending in mid-2004, essentially the highest rate that is achievable.[30] In addition, the number of authorized vouchers grew by more than 700,000 over the past ten years. Yet on a national basis, most of the growth in vouchers has simply offset the losses in public housing units and in privately owned units with project-based subsidies, as Figure 7 shows. Moreover, some local communities have experienced significant net losses of affordable housing resources.[31]

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[30] See HUD's *Performance and Accountability Report, FY 2004*, pp. 2-44 – 2-45. According to HUD, this utilization figure is for the four quarters ending June 30, 2004, and relies on the measure of voucher utilization in the Section 8 Management Assessment Program (SEMAP). For further discussion of the figure, see the Technical Appendix in Barbara Sard and Martha Coven, "Fixing the Housing Voucher Formula: A No-Cost Way to Strengthen the 'Section 8' Program," October 31, 2006, available at: http://www.cbpp.org/11-1-06hous-app.pdf.

[31] Communities suffering losses of assisted units do not always receive sufficient numbers of replacement vouchers as compensation. About half of the new vouchers authorized since 1995 have been replacement vouchers (so-called "tenant-protection" vouchers); the other half have been new, "incremental" vouchers (including vouchers designated for special populations such as people with disabilities) that have been distributed without consideration of which

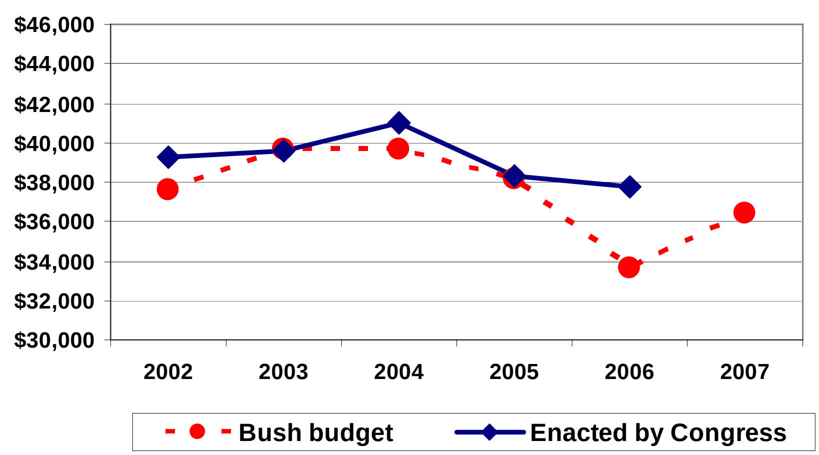
Moreover, recent cuts in federal low-income housing assistance have begun to undermine the limited progress these initiatives have made. Most strikingly, funding instability and shortfalls in the voucher program have caused voucher utilization rates to fall sharply since early 2004, and cost-cutting actions by local housing agencies in response to federal funding shortfalls have limited the housing choices available to families with vouchers.

### Funding for Low-Income Housing Assistance Has Been Declining Since 2004

Following the return of large budget deficits in fiscal years 2003 and 2004, caused in part by the 2001 and 2003 tax cuts, the Administration proposed to sharply reduce funding for HUD programs in fiscal years 2005 and 2006. Congress is not bound to adhere to the Administration's budget and typically exercises discretion in setting funding levels for specific programs. Nevertheless, in recent years, Congress has chosen to remain close to the President's *overall* funding targets, which makes it difficult to provide any large program with substantially more funding than the President has requested.

FIGURE 8

**Enacted HUD Funding Declined in FY 2005 and FY 2006 (millions of 2006 dollars)**




Figures based on HUD budget documents, FY 2002 – FY 2007, adjusted for inflation by CBPP. The fact that the fiscal year 2007 requested funding level appears to be significantly above the level requested in fiscal year 2006 is the result of the Administration's fiscal year 2006 proposal to eliminate funding through HUD for the Community Development Block Grant.

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communities had recently lost assisted units. As explained below, since fiscal year 2002, Congress has not funded all authorized vouchers, which has reduced their value as compensation for lost public and project-based units.

As a result, Congress has reduced overall HUD funding each year since 2004, even as it has tempered some of the Administration's recommended cuts. (Congress rejected the Administration proposal to eliminate the Community Development Block Grant in 2006, for instance.) For 2006, the amount of funding that Congress provided to HUD for discretionary (i.e., non-entitlement programs) was nearly $3.3 billion (or 8 percent) below the 2004 level, adjusted for inflation.[32]

This trend is likely to continue in fiscal year 2007. The Administration's 2007 funding request for HUD discretionary programs is $1.3 billion (or 3 percent) below the level enacted by Congress for 2006, adjusted for inflation, and $4.6 billion (or 11 percent) below the level enacted for 2004, adjusted for inflation.[33] The programs hardest hit by these cuts would be public housing, the Community Development Block Grant, and housing programs for the elderly and people with disabilities. Other programs, such as the HOME Investment Partnerships program and housing programs for Native Americans, also would be funded well below the inflation-adjusted 2004 levels.

### Fiscal Pressure on Low-Income Housing Assistance Likely to Continue Building

The Administration's 2007 budget includes agency-level spending targets for 2008 through 2011. Under these spending targets, HUD expenditures in 2011 would be 28 percent (or $12.9 billion) below the 2006 level, after adjusting for inflation. Total expenditures for HUD housing programs would be reduced to their lowest level in more than a decade in inflation-adjusted terms.

These targets are not binding. But they portend real risks for low-income housing assistance programs. As noted above, Congress has not gone far above the Administration's overall funding targets for discretionary programs in recent years. As a result, if Congress were inclined to protect low-income housing programs from the Administration's planned five-year cuts while adhering to the Administration's overall targets for domestic discretionary spending, it could do so only by shifting money from elsewhere in the budget, such as from defense or education programs. Many in Congress would be reluctant to take such a step. (It remains to be seen whether the new Congress that takes office in January 2007 will seek to change course and to set overall funding levels for domestic discretionary programs at somewhat higher levels than the Administration favors. The new Congress is likely to seek to produce a budget in which deficits are the same or lower than the deficits that would result from the budget the Bush Administration will submit in February 2007.)[34]

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[32] Nearly all HUD programs are "discretionary," which means that Congress sets their funding levels on an annual basis through appropriations legislation. Only a handful of Federal Housing Administration credit programs are considered "mandatory" (or entitlement) programs, and they make up a very small share of HUD's budget (about 5 percent in fiscal year 2006). The figures in this paragraph are for gross discretionary budget authority for HUD programs, prior to the application of rescissions, receipts, and other offsets. The use of "gross" budget authority figures rather than "net" figures provides a more accurate picture of the funding available to HUD programs. ("Net" budget authority figures are calculated by subtracting rescissions, receipts, and other offsets to the gross figures.) All figures are taken from HUD and OMB budget documents and are adjusted for inflation.

[33] These figures are for gross discretionary budget authority.

[34] As this paper went to press, Democrats had regained control of both chambers of Congress in the mid-term elections of 2006. While this political change is likely to moderate the pressure to reduce spending on low-income housing assistance, it will not eliminate the pressure entirely. For one, the federal budget outlook has not changed, and Democrats have pledged to be fiscally responsible and to reduce the deficit over coming years. Moreover, as explained below, low-income housing assistance programs will require substantial additional funding in coming years merely to continue to assist the same number of families. For these reasons, fiscal pressure on low-income housing assistance programs is likely to continue.

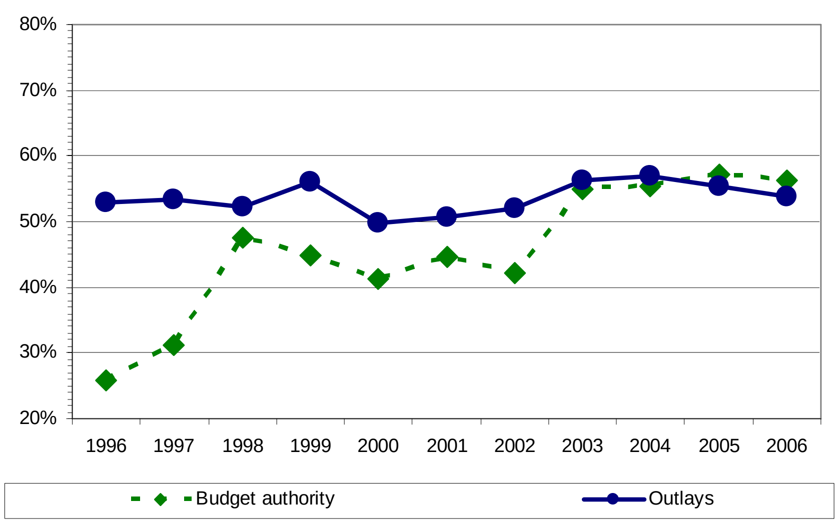
## Claims That Voucher Program Is Consuming the HUD Budget Are Incorrect

The Administration has argued that rapid increases in Section 8 costs are threatening to consume the HUD budget. This argument has been made in support of two related claims: that the funding cuts proposed for other HUD programs are a result of continued large increases in Section 8 costs, and that the Administration's radical proposal to convert Section 8 voucher into a block grant is necessary to bring the program's costs under control.

These arguments are misleading in two basic ways. First, the arguments rely on deceptive "budget authority" figures rather than on data on actual expenditures. "Budget authority" refers to the amount of new funding that Congress appropriates for a program for a given year. Since the mid-1990s, the growth in Section 8 budget authority has been sizeable. However, this growth is in large part an artifact of the structure of Section 8 funding. Most Section 8 units — tenant-based and project-based — were initially funded in the 1970s and 1980s through long-term contracts for which Congress provided upfront *all* of the budget authority expected to be needed to support the units during the entire multi-year term of the contracts, which often was for a period of several decades. Beginning in the mid-1990s, these long-term contracts started to expire, and Congress began to provide funding for these units on an *annual* rather than a multi-year basis. As a result, the amount of new budget authority needed to support the existing Section 8 units each year grew at a substantial clip. But this increase in budget authority *did not reflect an increase in program costs* or in the level of assistance provided.

It is actual program expenditures (or "outlays") that determine a program's cost and its impact on federal budget surpluses or deficits. Data on expenditures therefore are the only accurate measure of increases in Section 8 costs or of the share of HUD spending that is accounted for by Section 8. Expenditures for Section 8 units are recorded each year as they occur, regardless of whether the unit is under a long-term contract or a one-year contract. Since 1996, Section 8 expenditures have remained fairly stable as a share of total HUD expenditures, fluctuating between 52 and 57 percent.*

**Section 8 Has Remained a Stable Share of the HUD Discretionary Budget***




Claims that Section 8 costs are the cause of enacted and proposed funding cuts in other housing programs also ignore the fact that the cuts are much greater in size than the increases in Section 8 funding. Under the Administration's budget for fiscal year 2007, total discretionary funding (i.e., total new budget authority) for HUD programs would be $4.6 billion below the funding levels for fiscal year 2004, adjusted for inflation. Over the same period, Section 8 funding would rise by $382 million (or 1.3 percent), in inflation-adjusted terms. The cuts in funding for public housing, community development, and other housing programs far exceed the modest rise in funding for Section 8.

*Data are from the OMB Public Budget Database. Figures combine outlays for project-based and tenant-based Section 8 assistance, as well as for the Section 8 Moderate Rehabilitation program. Budget authority figures are gross figures with no netting of rescissions, and exclude emergency supplemental budget authority (which was approved during fiscal years 2001, 2002, 2005, and 2006). A recent report by the Government Accountability Office (GAO) also provided data on outlays for Section 8, 1998-2004. While GAO's data are somewhat different from those in the OMB public database, they support the general conclusion drawn here. See GAO, "Rental Housing Assistance: Policy Decisions and Market Factors Explain Changes in the Costs of the Section 8 Programs," April 2006 (GAO Report No. GAO-06-405).

*Low-Income Housing Programs Will Need Substantial New Funding Just to "Stay Even"*

The increasing squeeze on domestic discretionary funding is not the only source of fiscal pressure on low-income housing programs. Congress will need to increase funding (that is, to provide additional funding above the levels needed to keep pace with inflation) merely to sustain these programs at current service levels, for at least three reasons:

- **The amount of funds available for "recycling" is expected to diminish.** In coming years, Congress will be less and less able to recycle previously appropriated but unspent funds to meet the current costs of HUD programs. Over the past six years, Congress has rescinded nearly $13 billion in prior-year HUD appropriations and plowed most of these funds back into HUD programs, thereby reducing the amount of new funding needed by over $2 billion per year, on average. The great majority of these rescinded funds have been unused project-based Section 8 funds that were committed decades ago to long-term contracts but turned out not to be needed. There is growing concern that this source of funds will soon run dry, as the number of expiring long-term contracts dwindles. If so, Congress will be forced to increase the amount of new funding that it appropriates each year just to compensate for the loss of these recycled funds.

- **New funds will be needed to renew expiring long-term rental assistance contracts.** Long-term rental assistance contracts, which are essential to a number of housing programs that serve poor families, will require new funding when they expire. The largest of these programs is the project-based Section 8 program, which provides rental assistance for about 1.3 million units of housing. This assistance was originally administered under 20- to 40-year contracts that were funded upfront with budget authority provided by Congress. The contracts for more than 1 million such units already have expired; most of these contracts have been renewed and funded with annual appropriations. Contracts supporting the remaining approximately 300,000 units will expire after 2007 and need to be renewed.

  Similar needs exist in other, smaller housing programs that also provide rental assistance under multi-year contracts. One example is the McKinney-Vento supportive housing programs, which provide rental assistance and other forms of assistance to help formerly homeless individuals and their families to live in housing integrated with services such as case management and mental health treatment.

- **Replacement vouchers will likely cost more than the assistance they replace.** Tens of thousands of assisted housing units — both publicly and privately owned — will be demolished or converted to private market housing in coming years. To avert a reduction in the affordable housing stock, the lost units will need to be replaced with new vouchers. Doing so is likely to raise HUD's costs, for four reasons:

  First, voucher subsidies must be pegged to market rents or private owners will not accept them. In many areas, market rents are significantly higher than the operating costs of the public housing that is being lost, so the voucher subsidies will be more expensive to HUD than the public housing units the vouchers will replace.

Second, the contracts on many privately owned project-based units have required owners to keep rents below market levels. When these contracts expire, owners are free to raise rents, and federal policy requires that the subsidy levels on vouchers issued to tenants who remain in these units be large enough to enable these tenants to meet the new rents (if the rents are reasonable in the market), even if the payments exceed what vouchers would normally provide.

Third, federal policy requires the issuance of "tenant-protection" vouchers to households in some units with only shallow mortgage subsidies when the units' owners end their participation in federal assistance programs. In these cases, the per-unit increase in federal costs can be substantial.

Finally, most of the households that are now on waiting lists for vouchers and enter the voucher program when vouchers become available are families with children. They generally need apartments with more bedrooms — and hence larger rent subsidies — than the households that initially receive replacement vouchers, most of whom are elderly tenants of privately owned housing.

In short, substantial new funding will be needed simply to continue assisting the same number of low-income households. Because these needs will coincide with mounting pressure to *reduce* funding for domestic programs generally, including low-income housing programs, there is considerable risk that the recent cutbacks in low-income housing assistance could turn into significantly deeper cuts in the years ahead.

## Funding Cuts Have Weakened the Voucher Program and Threaten Efforts to Revitalize Project-Based Assisted Housing

As noted above, HUD programs have already lost $3.3 billion in funding in inflation-adjusted terms since fiscal year 2004. While the deepest cuts have been made in public housing and community development funding, various other programs have also been squeezed, including the Section 8 voucher program and the supportive housing programs for the elderly and people with disabilities. These cuts have reduced the number of families receiving federal housing assistance and threaten to reverse the progress made in revitalizing public housing and project-based assisted housing.

### *150,000 Vouchers Lost in Past Two Years*

In early 2004, approximately 2,002,000 families received tenant-based voucher assistance, according to HUD data. Two and a half years later, only 1,912,000 families were receiving voucher assistance — a decline of 90,000 families — despite the awarding during this period of more than 60,000 additional vouchers to assist families that had lost other forms of federal housing assistance, such as families being displaced from public housing that was being demolished.[35] This means that about 150,000 vouchers formerly in use have been lost.

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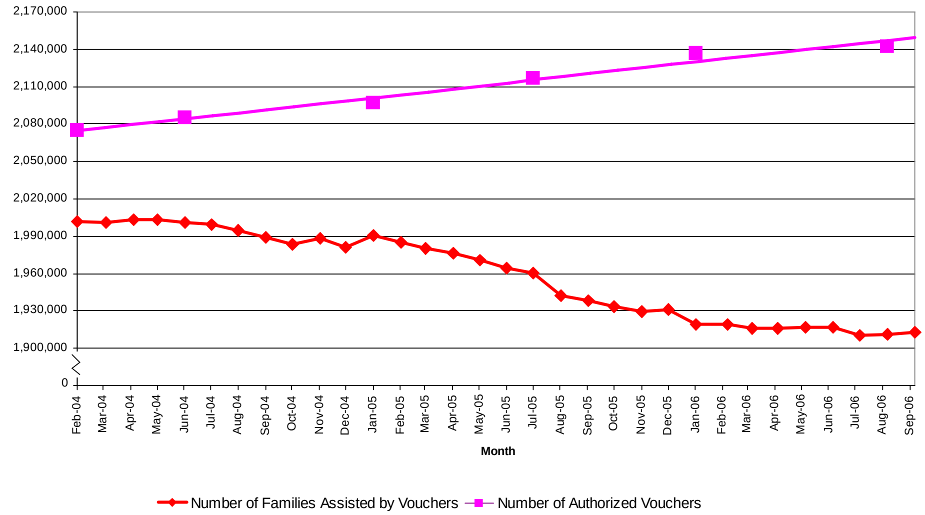
[35] Voucher decline figures were calculated by CBPP based on data from HUD's Voucher Management System. Figures do not include data for 12 agencies that administer 2,008 vouchers. Agencies that administer about 30,000 vouchers did not report data for January 2006; about half of these vouchers are administered by Louisiana agencies severely affected by the 2005 Gulf Coast hurricanes. For agencies that did not report, we used the latest available data, and estimated a

FIGURE 9

**Decline in Number of Families Assisted Even as Vouchers Have Been Added to Replace Other Types of Housing Assistance: More Than 150,000 Vouchers Lost Since Early 2004**




Note: Increases in authorized vouchers are due to vouchers replacing other types of federal housing assistance. Calculations by CBPP based on HUD data. Data were unavailable for 15 agencies that administer 2,568 vouchers. Post-hurricane changes in leasing among 14 Gulf Coast agencies affected by hurricanes of 2005 were excluded from the data.

This unprecedented loss of 150,000 vouchers represents a substantial drop in the share of authorized vouchers that are in use. Only 92.5 percent of authorized vouchers are estimated to be in use in 2006, well below the 98.5 percent utilization rate achieved in 2004 after persistent efforts by HUD and state and local housing agencies to improve voucher utilization.

A number of factors have contributed to this decline, including actions taken by HUD. In April 2004, relying on ambiguous language in the 2004 HUD appropriations law, HUD unexpectedly modified the formula that determines how voucher funds are distributed among housing agencies. The new formula was poorly designed and did not allocate funding in accordance with recent changes in local costs and voucher utilization rates. As a result, some agencies received more funding than they needed to renew all of their vouchers in use, while other agencies faced immediate funding shortages.

In addition, in fiscal year 2005, Congress failed — for the first time in the voucher program's history — to provide sufficient funding to renew all vouchers in use in the previous year. Also, in both 2005 and 2006 Congress modified the funding formula again, making it even less efficient for distributing funds among agencies and removing incentives for agencies to fully use their funding.[36]

change in leasing at the same rate as for other agencies with complete data. Thus, our estimate of vouchers lost is adjusted for the effects of the hurricanes.

[36] For discussions of these events and their impact, see Barbara Sard, Peter Lawrence, and Will Fischer, "Appropriations Shortfall Cuts Funding for 80,000 Housing Vouchers This Year; Congress Rejected Deeper Reduction Sought by Administration," February 11, 2005, available at: http://www.cbpp.org/2-11-05hous.htm; Barbara Sard and Will

These events drove many local agencies to take steps to reduce costs in order to address existing funding shortfalls or guard against future shortfalls. In some communities, agencies reduced the maximum voucher subsidy, denied rent increases to landlords, or prohibited families from moving with their vouchers to neighborhoods that were safer and had better job opportunities but somewhat higher rents. In a few cases, agencies terminated assistance to families participating in the program. Many more agencies removed vouchers from circulation as families left the program, rather than reissuing the vouchers promptly to families on waiting lists.

Beyond reducing the number of vouchers in use, these developments have had other troubling effects. In particular, they have raised concerns among landlords, developers, and state and local officials about the future reliability of voucher funds. Many state and local governments have, for example, developed plans to end homelessness that depend upon the availability of Section 8 vouchers for formerly homeless individuals and families. Decisions by local housing agencies not to reissue vouchers as they become available could compel state and local officials to delay or scale back these plans. Funding instability also can discourage landlords, whose support is critical to the program's success, from participating in the program, by raising questions about whether they can be assured of being fully paid if they rent units to voucher holders.

The steps taken by housing agencies to adjust to funding shortfalls also can limit families' housing choices. Reducing the maximum voucher subsidy effectively shrinks the number of apartments that families can afford with their vouchers. Similarly, restricting families from moving to better neighborhoods with their vouchers limits their ability to improve their lives and those of their children by moving to areas with more job opportunities, better schools, and less crime. Such actions compromise one of the voucher program's basic purposes: to improve the opportunities for low-income families by expanding their choices of where to live.

*Public Housing Is Being Starved of Resources Despite Substantial Capital Repair Needs*

By the late 1980s, five decades after the first public housing developments were built, it was widely acknowledged that many developments had become severely dilapidated, while others were suffering from deterioration. In response, Congress initiated a series of reforms — notably the creation of the HOPE VI program in 1992 and passage of the Quality Housing and Work Responsibility Act of 1998 — with the goals of demolishing and replacing the most severely distressed developments and setting the remaining facilities on a more sustainable course. A study commissioned by HUD concluded that these goals would require substantial investments: nearly $22 billion to restore run-down public housing, plus an ongoing investment of about $2 billion annually for repairs and replacement beyond routine maintenance, based on the condition of the public housing stock in 1998.[37]

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Fischer, "Further Action by HUD Needed to Halt Cuts in Housing Assistance for Low-Income Families," July 11, 2004, available at http://www.centeronbudget.org/4-26-04hous.htm; Barbara Sard and Will Fischer, "Local Consequences of HUD's FY 2004 Voucher Funding Policy," July 15, 2004, available at http://www.cbpp.org/7-15-04hous.htm; and Barbara Sard, "Funding Instability Threatens to Erode Business Community's Confidence in the Housing Voucher Program," October 14, 2004, available at http://www.cbpp.org/10-14-04hous.htm.

[37] Abt Associates, *Capital Needs of the Public Housing Stock in 1998*, 2000.

A portion of these needs has been met by HOPE VI, which was created to demolish about 100,000 of the most severely distressed public housing units and replace them with mixed-income housing that would help to improve the living environment for residents, revitalize neighboring communities, and reduce concentrations of poverty. As of 2003, public housing projects containing approximately 94,000 units had received HOPE VI grants for demolition or revitalization, and plans called for about half of these units to be replaced by housing that would be affordable to families with very low incomes.[38]

In its budget request for 2004, however, the Bush Administration proposed to eliminate HOPE VI, arguing that it had achieved its purpose and that remaining rehabilitation needs could be better met by other means. Congress has kept the program alive, but annual funding for HOPE VI has plummeted from $570 million in fiscal year 2003 to $99 million in 2006.

Without large HOPE VI grants for rebuilding and revitalizing individual developments, housing agencies must rely on funds appropriated through the Public Housing Capital Fund and the Public Housing Operating Fund in order to restore and maintain public housing. The amounts appropriated for both of these funds, however, have been cut significantly.[39] Between 1999 and 2006, funding for the Public Housing Capital Fund, which helps cover agencies' costs for substantial repairs and modernization of deteriorated public housing, dropped by 33 percent, after adjusting for inflation. The 2006 funding level of $2.4 billion is slightly below the amount HUD estimates is required just to meet new capital repair needs that arise each year, without taking into account the substantial funding needed to address the $22 billion backlog of needed capital repairs.

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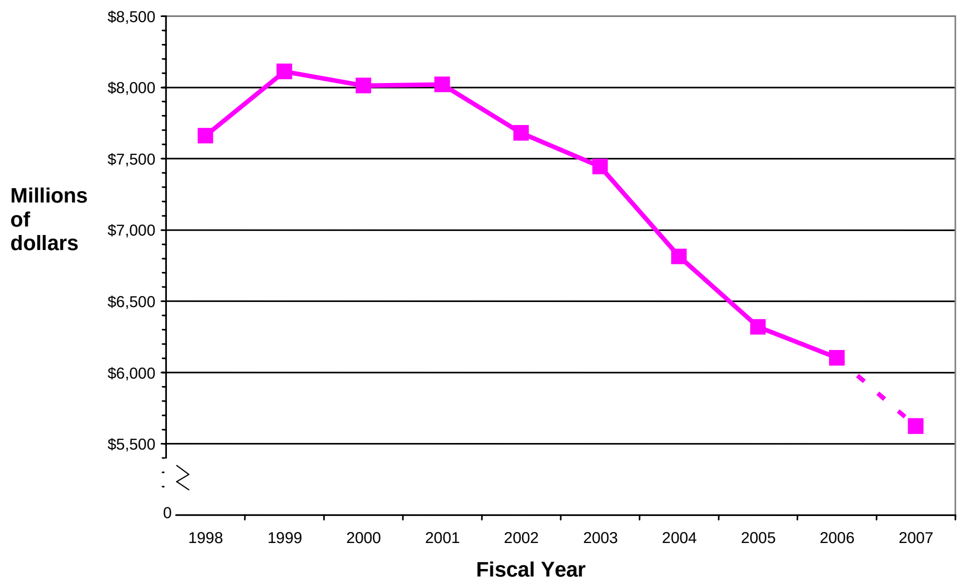
[38] See Popkin *et al., A Decade of HOPE VI: Research Findings and Policy Challenges*, Urban Institute, 2003. A portion of the demolished units are replaced by market-rate or other housing that is not affordable to typical public housing tenants. In theory, units that are not rebuilt are replaced by housing vouchers, but this policy has not been followed consistently.

[39] The housing reforms enacted in 1998 did authorize local housing agencies to use public funds to leverage private investments so agencies could obtain additional capital funding to rehabilitate their housing stock, but HUD's delays in issuing the relevant regulations have impeded agencies from using this authority to obtain more funding. See Rod Solomon, "Public Housing Reform and Voucher Success," Brookings Institution, 2004, for a discussion of HUD's implementation of this aspect of QHWRA.

## FIGURE 10

**Public Housing Funding Has Declined by One-Quarter Since 1999[1]**
(2006 dollars)




Source: Figures includes funding for the Public Housing Capital and Operating Funds, HOPE VI, and the Drug Elimination Grants program. Data for all public housing accounts were obtained from the OMB public use database; the 2005 data have been adjusted by CBPP for inflation and revised to account for calendar-year conversion. Final 2006 funding calculations were made by CBPP, including the 1 percent across-the-board rescission. A $99 million HOPE VI rescission of 2006 funds proposed in the President's 2007 budget proposal is not subtracted from the 2006 total. Data for 2007 are based on the President's FY 2007 budget proposal without the proposed HOPE VI rescission.

The Public Housing Operating Fund, which helps housing agencies cover the cost of operating public housing developments (including routine repairs and maintenance) has been shrinking as well. Fiscal year 2007 is likely to be the fifth year in a row that agencies will receive less operating funding than HUD's own operating cost formula indicates they need. If so, this will be the longest duration of funding shortfalls since the federal government began to provide these operating subsidies to local agencies more than 30 years ago.[40] Under the Administration's 2007 budget request, housing agencies would receive only 79 percent of the funding they need under the HUD formula to operate their public housing programs and perform routine maintenance, the lowest such percentage ever provided.[41]

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[40] While the 1998 law established the Public Housing Capital and Operating Funds, the "new" programs represented revamped versions of public housing subsidy programs that had been established decades earlier and modified a number of times since.

[41] Funding shortfalls of this magnitude also can force agencies to take immediate steps that adversely affect poor families. To reduce the gap between revenues and costs, for example, some agencies have decided to lease fewer units to poorer families, while other agencies have taken actions that effectively shift a larger share of utility costs onto low-income residents. For a fuller discussion of the attrition of operating funding for public housing, see Will Fischer,

Funding reductions in the Public Housing Capital and Operating Funds are compelling agencies to delay maintenance and major repairs. The director of the Boulder, Colorado housing authority recently testified before Congress, for example, that a shortage of capital funds has forced her agency to defer close to $1 million in repairs and improvements each year.[42] Press reports indicate that many other agencies are in a similar position.

Cutbacks in maintenance and repairs can have harmful consequences.[43] Safety hazards such as defective locks or broken heating or fire protection systems may go unaddressed for extended periods of time. The St. Paul Housing Agency, for example, has deferred the installation of automatic 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, reduced maintenance and repairs can raise costs over the long term. Delayed repairs to roofing or plumbing, for example, can result in more serious damage that is more expensive to fix at a later time. 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 reduces the agency's rent revenues.

Finally, chronic shortages of funding to pay for operating costs and capital repairs increase the likelihood that housing agencies will ultimately decide they can no longer afford to maintain in good condition all of the housing developments they operate and will choose to demolish units or sell developments to private developers (who may not allow existing low-income tenants to remain in the units). According to press reports, for example, the Salt Lake City Housing Authority has announced plans to sell more than one-third of its housing units because, in the words of one official, "We're just not willing to watch our beautiful housing stock deteriorate."

Since 1995, approximately 170,000 public housing units have become uninhabitable due to deterioration and decay or have been demolished without being rebuilt. Chronic funding shortfalls for public housing are likely to worsen this trend, placing at risk a significant share of the 1.2 million remaining public housing units, which are home to some of the nation's poorest families.

*Preservation of Federally Assisted Private Housing Likely to Be Hindered by Federal Funding Constraints*

Much of the *privately owned* assisted housing stock was built in the 1960s and 1970s with the help of FHA-insured mortgages and various types of federal loan subsidies. The private owners were

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"Public Housing Squeezed Between Higher Utility Costs and Stagnant Funding," available at: http://www.cbpp.org/10-11-06hous.htm.

[42] Testimony of Betsey Martens, Co-Executive Director of Boulder Housing Partners, before the House Government Reform Committee, May 10, 2006.

[43] The following paragraphs outline only the impact of funding reductions on the condition and viability of public housing properties. Funding cutbacks also have a range of adverse consequences for tenant families. Many public housing agencies respond to funding shortfalls, for example, by renting fewer units to poorer households, raising minimum rents, or passing additional utility costs onto tenants. Staff reductions, e.g., cutbacks in security personnel, can also impact the well-being of tenants. For a fuller discussion of these effects, see Will Fischer, "Public Housing Squeezed Between Higher Utility Costs and Stagnant Funding," October 11, 2006; available at: http://www.cbpp.org/10-11-06hous.htm.

required to charge affordable rents in return for receiving federal mortgage subsidies. Owners could, however, prepay their mortgages after 20 years and thereby release themselves from their contract with the federal government.

In the mid-1970s, Congress authorized a new type of subsidy for privately owned affordable housing — project-based Section 8 rental assistance — as part of a larger revamping of federal housing policy. Under project-based Section 8, owners agree to build or rehabilitate multifamily developments and lease a portion of the units at rents affordable to families with very low incomes; in return, they receive long-term contracts for rent subsidies.[44]

By the mid-1990s, about 1.7 million low-income families were living in these federally assisted, privately owned developments, most of which were receiving project-based Section 8 assistance.[45] By virtue of the Section 8 rental assistance, rents on these units generally are well below market rents and are affordable even to households with extremely low incomes. A large percentage of the households living in these units include people who are elderly or have disabilities.

Like public housing, the stock of privately owned assisted housing faces considerable preservation challenges. Since 1987, Congress has approved at least four major pieces of legislation to preserve privately owned project-based housing for low-income families.[46] These initiatives have helped to preserve hundreds of thousands of assisted units. Nevertheless, about 300,000 units of privately owned assisted housing have been lost over the past decade, mostly as owners either have prepaid their federally subsidized mortgages and exited the program or have declined to renew their project-based Section 8 contracts when they expired.[47]

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[44] The project-based Section 8 program included no mortgage or capital subsidies, although properties benefiting from the older loan subsidy programs were eligible to receive project-based assistance as a means of bolstering their economic viability and ensuring that rents would remain affordable to households with very low incomes.

[45] These figures include units with subsidies from the Section 8 Project-Based Rental Assistance, Section 8 Moderate Rehabilitation, and Section 236 programs. A small number of units receiving assistance from the Rental Assistance Program (RAP) and Rent Supplement Program are also included. See National Housing Trust, *Changes to Project-Based Multifamily Units in HUD's Inventory Between 1995 and 2003*; available at:
http://www.nhtinc.org/documents/PB_Inventory.pdf. An additional 414,000 households live in privately owned housing assisted through the Rural Housing Services' Section 515 and 521 programs. About three-quarters of these units come with rent subsidies, including about 55,000 that receive rental assistance through the Section 8 project-based or voucher programs. See the 2006 Rural Development Multi-Family Housing Annual Occupancy Report, which is based on data from the USDA's Multi-Family Information System.

[46] This legislation includes: The Emergency Low Income Housing Preservation Act of 1987 (ELIHPA); the Low Income Housing Preservation and Resident Homeownership Act of 1990 (LIHPRHA); and the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRAA). In 1996, Congress also authorized a new type of "preservation" or "enhanced" vouchers for tenants living in project-based housing that is converted to private-market use.

Another goal that has been central to some of these reforms has been a reduction in the costs and fiscal risks to the U.S. Treasury that the assisted housing programs can pose. This goal was explicit, for example, in the creation of the Mark-to-Market Program, which requires owners with above-market rents to accept reduced rent subsidies, sometimes in conjunction with the restructuring of their debt to ensure that the property remains viable.

[47] See National Housing Trust report, n. 41.

For the reasons listed below, the increasing squeeze on federal funds for low-income housing assistance is likely to make it more difficult to preserve the remaining 1.4 million privately owned, HUD-assisted units.[48]

- **The renewal of expiring Section 8 contracts will require substantial increases in new budget authority.** As noted above, nearly 300,000 long-term, project-based Section 8 rental assistance contracts will expire and need to be renewed after 2007. (Contracts on the other 1 million units are already renewed on an annual basis.) To preserve the affordability of these units, Congress must provide adequate funds to renew the expiring contracts. Roughly $2 billion in new appropriations will be needed for this purpose over the next five years; additional funding will be required in the years after 2011.[49]

- **The preservation of many assisted units will succeed only if owners have help defraying rehabilitation costs.** Any property, no matter how well maintained, requires rehabilitation after decades of use. However, Section 8 and other project-based assistance programs typically did not "build in" replacement reserves sufficient to pay for major rehabilitation, such as new heating systems, roofs, or siding. Owners may not be able to borrow the needed funds or may need to raise rents to repay their loans. Federal aid to help with rehabilitation costs can provide an important inducement to owners, who otherwise have many incentives to convert assisted units to private market rents rather than to renew their Section 8 contracts.

  Some tools already exist to assist owners with the costs of substantial rehabilitation, but more are needed and the existing tools should be preserved.[50] One such tool is the Upfront Rehabilitation Grant Program, which provides rehabilitation grants to purchasers of certain FHA-insured properties if they agree to maintain affordable rents for at least 20 years. This program has played a key role in preserving thousands of affordable apartments each year. Unfortunately, Congress agreed in early 2006 to an Administration proposal to eliminate mandatory spending authority for the program and to place the program under the annual discretionary appropriations process; Congress then failed to appropriate any funding for the program for 2006. Moreover, the Administration has failed to request any funds for the program for 2007.[51]

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[48] The squeeze may also affect tens of thousands of units subsidized through USDA-administered programs that could be lost if Congress or the courts allow owners to prepay their mortgages and raise rents.

[49] This $2 billion amount includes funding only for about 145,000 units that have long-term contracts expiring for the first time over the next five years, according to a HUD contract expiration schedule from 2004. (The remaining 155,000 long-term contracts are expected to expire after 2011.) It does not include the costs of continuing rental assistance for the roughly 1 million units that are already being funded under annual appropriations. Projected per-unit costs that were calculated by the Congressional Budget Office were used to estimate the five-year cost. Because both the expiration schedule and the projected per-unit costs contain a fair amount of uncertainty, this cost estimate is necessarily rough.

[50] For instance, the Mark-to-Market program provides various means by which owners may access rehabilitation capital as part of the restructuring of their federal subsidies. The authority to operate Mark-to-Market technically expired September 30, 2006, but has been extended temporarily by the Continuing Resolution that extends funding for most federal programs through February 15, 2006. The authorization is likely to be extended again when the final HUD appropriations bill for fiscal year 2007 is eventually passed.

[51] When it proposed this change, the Administration estimated that it would save $460 million over the next five years. This amount provides a rough estimate of the amount of funding for rehabilitation that will be lost if Congress fails to appropriate any discretionary funding for these grants.

- **Federal incentives are needed to encourage owners to renew Section 8 contracts, especially in high-cost markets.** Local housing markets have changed markedly in many areas since owners first agreed to participate in Section 8 or other project-based assistance programs. Some properties have appreciated greatly in value, and market rents in the area may now be well above the current assisted rents that the owners receive.

  In such cases, owners have strong incentives to prepay federally subsidized loans or to decline to renew expiring Section 8 contracts. After all, most owners of assisted housing are profit-motivated investors. Other owners who wish to sell their properties may feel compelled to seek the highest price they can get, rather than to agree to a reduced price that would enable a non-profit or other potential owner to maintain the units' affordability.

  Therefore, incentives are needed to encourage owners to continue to participate in Section 8 and related programs or to dispose of their properties in a manner that will preserve the housing for low-income families. A good example of such an incentive is "exit tax relief," which would exempt sellers of federally assisted housing from some or all federal taxes on their profit from the sale if the property is sold to a buyer who commits to preserving the affordability of the rental units. Like upfront grants, however, exit tax relief would require the dedication of new federal resources.[52]

*New Vouchers Unlikely to Offset Future Losses of Public and Project-Based Housing*

Approximately 500,000 units of public and project-based housing have been lost since the mid-1990s, while the number of Housing Choice Vouchers has increased by about 700,000 during this period through the addition of both replacement vouchers and new "incremental" vouchers. It is uncertain, however, whether losses of public housing or project-based Section 8 housing that occur in the years ahead will be similarly offset by increased voucher assistance.

There are several reasons for such uncertainty. First, while increases in the number of vouchers have offset the loss of units on a *national* basis in recent years, this has not necessarily occurred at local levels. Some communities have lost thousands of affordable housing units without full compensation in the form of vouchers.

Second, Congress's commitment to vouchers has weakened in recent years. In 2003, Congress ended its policy of providing funding for all authorized vouchers, and Congress has failed to fund thousands of authorized vouchers in the years since then. In 2005, more than 100,000 authorized vouchers went unfunded. In addition, Congress implemented a voucher funding formula in 2005 that reduces incentives for public housing agencies to fully utilize the voucher funds they receive, resulting in fewer vouchers being made available to families who need them.[53] Moreover, Congress

[52] In the 109th Congress, Representatives Jim Ramstad and Ben Cardin introduced legislation, The Affordable Housing Preservation Tax Relief Act of 2005 (H.R. 3715), to provide exit tax relief for owners of project-based housing. A companion bill (S. 3616) has been sponsored in the Senate by a bipartisan group of senators led by Senator Charles Schumer. Congress took no action on these bills. They are expected to be refiled in the next Congress.

[53] See Barbara Sard and Martha Coven, "Fixing the Housing Voucher Formula: A No-Cost Way to Strengthen the 'Section 8' Program," October 31, 2006, available at: http://www.cbpp.org/11-1-06hous.htm.

has not authorized any new incremental vouchers since 2002, and in the current federal budget environment, it is unlikely to do so for the foreseeable future.

Finally, the Administration has proposed — and is attempting to implement administratively — policy changes that would significantly reduce the number of tenant-protection vouchers issued in communities where public housing is being demolished or where Section 8 project-based housing is being converted to private-market uses. Under the proposed policy, HUD would issue tenant-protection vouchers only for units that were occupied immediately before demolition or conversion to private-market use.

Such a change would reverse a decade of written policy and established practice. Units may be vacant prior to demolition or conversion for a number of reasons, including poor maintenance that has made the units uninhabitable, decisions by tenants to move out in advance of the planned demolition, and actions by private owners to leave units vacant so they will quickly be available for tenants with higher incomes once the project-based subsidy contract ends. Without evidence that a community does not need affordable housing resources — such as the absence of a waiting list for vouchers — there is no sound reason for this policy shift, which would permanently reduce the amount of housing assistance available in various communities.[54]

## V. Conclusion

At a time when a rapidly growing number of low-income families face severe housing affordability problems, the federal budget squeeze is producing pressure to reduce federal funding for programs that alleviate these burdens. Low-income families are already feeling the impact of these cuts, as fewer families are receiving the housing assistance they need. If the cuts continue, major goals of federal housing policy — such as improving housing opportunities for low-income families and preserving the remaining stock of federally assisted housing — will be further compromised.

Policymakers can meet the housing needs of low-income families while also addressing the long-term fiscal imbalances confronting our nation. To do so, they must address the budget deficits in an evenhanded manner. This means placing *all* of the budget — including tax cuts, special-interest tax breaks, and various programs that are protected by powerful constituencies — on the table, and reaching bipartisan agreement on a balanced mix of reductions in projected spending *and* increases in revenues. A guiding principle should be the one articulated in the 1980s by David Stockman, President Reagan's first budget director: when seeking to reduce the deficit, policymakers should target "weak claims" made on the federal Treasury, including weak claims made by powerful interests and constituencies, rather than politically "weak clients." The politically weak include the low-income families that are assisted by federal housing programs.

This approach has been followed successfully before. Landmark deficit reduction packages enacted in 1990 and 1993, for example, each contained a mix of spending reductions and tax increases. Moreover, those spending reductions and revenue-raising measures were combined with

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[54] For a fuller discussion of this policy change, see Barbara Sard and Douglas Rice, "President's 2007 Budget Renews Same Number of Housing Vouchers Funded in 2006, But Many Local Programs Could Face Cuts Due to Flawed Funding Formula," April 25, 2006. Available at: http://www.cbpp.org/3-13-06hous.htm.

*increases* in key anti-poverty programs. The result was legislation that reduced deficits *and poverty* at the same time.

This model should be followed in the future as well. And those who are concerned with equity in our society and with the housing needs of low-income families will need to be involved in efforts to achieve these changes.

# APPENDIX A

## Table 1: Federally-Assisted Housing Units and Unmet Need for Low-Income Housing Assistance, by State

| State | Families Assisted by Housing Choice (Section 8) Vouchers, 2005[a] | Project-Based Section 8 Housing Units, 2005[b] | Public Housing Units, 2005[c] | Section 515 Units, 2005[d] | Total Section 8, Public Housing, and Section 515 Units, 2005[e] | Unmet Need: Low-Income Families with Unaffordable Housing-Cost Burdens, 2005[f] |
|---|---|---|---|---|---|---|
| Alabama | 26,875 | 16,478 | 46,103 | 15,916 | 105,372 | 203,485 |
| Alaska | 3,744 | 1,447 | 1,308 | 938 | 7,437 | 28,430 |
| Arizona | 18,966 | 11,061 | 6,816 | 3,736 | 40,579 | 286,173 |
| Arkansas | 20,724 | 8,219 | 14,863 | 10,186 | 53,992 | 133,070 |
| California | 285,702 | 104,115 | 43,432 | 18,710 | 451,959 | 2,262,193 |
| Colorado | 26,925 | 16,329 | 8,629 | 3,426 | 55,309 | 249,700 |
| Connecticut | 31,890 | 24,075 | 16,372 | 2,482 | 74,819 | 167,124 |
| Delaware | 4,129 | 4,883 | 2,957 | 1,622 | 13,591 | 33,553 |
| District of Columbia | 10,964 | 11,387 | 9,297 | | 31,648 | 59,400 |
| Florida | 84,031 | 42,943 | 38,805 | 16,631 | 182,410 | 944,692 |
| Georgia | 45,272 | 29,206 | 51,213 | 16,231 | 141,922 | 463,842 |
| Hawaii | 9,756 | 3,185 | 5,502 | 897 | 19,340 | 64,853 |
| Idaho | 6,109 | 3,860 | 831 | 4,316 | 15,116 | 60,335 |
| Illinois | 74,502 | 64,200 | 63,726 | 10,945 | 213,373 | 622,372 |
| Indiana | 33,300 | 30,202 | 16,929 | 14,354 | 94,785 | 283,441 |
| Iowa | 20,130 | 12,340 | 4,518 | 10,928 | 47,916 | 128,391 |
| Kansas | 10,329 | 11,719 | 9,053 | 6,603 | 37,704 | 121,505 |
| Kentucky | 29,594 | 23,612 | 24,230 | 12,280 | 89,716 | 185,768 |
| Louisiana | 33,972 | 13,214 | 26,405 | 12,671 | 86,262 | 229,415 |
| Maine | 11,742 | 8,244 | 4,080 | 8,186 | 32,252 | 56,729 |
| Maryland | 37,202 | 26,929 | 22,404 | 5,326 | 91,861 | 278,922 |
| Massachusetts | 68,468 | 59,752 | 33,378 | 1,996 | 163,594 | 375,153 |
| Michigan | 43,996 | 58,257 | 23,783 | 18,667 | 144,703 | 453,388 |
| Minnesota | 28,871 | 31,279 | 21,290 | 11,782 | 93,222 | 205,563 |
| Mississippi | 16,232 | 17,070 | 14,433 | 15,439 | 63,174 | 127,920 |
| Missouri | 37,215 | 26,462 | 18,725 | 19,602 | 102,004 | 271,238 |
| Montana | 5,423 | 4,407 | 2,041 | 2,653 | 14,524 | 38,882 |
| Nebraska | 10,618 | 7,010 | 7,351 | 3,775 | 28,754 | 78,813 |
| Nevada | 11,606 | 3,925 | 4,031 | 2,089 | 21,651 | 150,808 |
| New Hampshire | 8,809 | 5,847 | 4,328 | 2,528 | 21,512 | 54,791 |
| New Jersey | 60,198 | 49,608 | 40,807 | 3,311 | 153,924 | 458,618 |
| New Mexico | 12,863 | 5,503 | 4,746 | 3,946 | 27,058 | 92,056 |
| New York | 196,712 | 119,698 | 195,638 | 13,371 | 525,419 | 1,350,491 |
| North Carolina | 52,137 | 25,464 | 37,051 | 22,455 | 137,107 | 442,278 |
| North Dakota | 7,099 | 3,509 | 1,863 | 3,263 | 15,734 | 25,769 |

| State | Families Assisted by Housing Choice (Section 8) Vouchers, 2005[a] | Project-Based Section 8 Housing Units, 2005[b] | Public Housing Units, 2005[c] | Section 515 Units, 2005[d] | Total Section 8, Public Housing, and Section 515 Units, 2005[e] | Unmet Need: Low-Income Families with Unaffordable Housing-Cost Burdens, 2005[f] |
|---|---|---|---|---|---|---|
| Ohio | 82,407 | 73,146 | 49,663 | 14,686 | 219,902 | 591,578 |
| Oklahoma | 21,533 | 13,934 | 13,039 | 8,177 | 56,683 | 171,892 |
| Oregon | 29,450 | 10,255 | 5,664 | 5,642 | 51,011 | 227,910 |
| Pennsylvania | 74,953 | 61,074 | 69,825 | 10,355 | 216,207 | 552,860 |
| Rhode Island | 7,923 | 15,496 | 9,736 | 421 | 33,576 | 63,320 |
| South Carolina | 22,580 | 18,161 | 14,865 | 12,242 | 67,848 | 195,208 |
| South Dakota | 5,307 | 6,154 | 1,666 | 6,745 | 19,872 | 32,863 |
| Tennessee | 28,779 | 31,660 | 37,014 | 13,047 | 110,500 | 286,841 |
| Texas | 131,249 | 52,883 | 61,039 | 24,964 | 270,135 | 1,201,913 |
| Utah | 9,830 | 3,976 | 2,204 | 2,105 | 18,115 | 93,191 |
| Vermont | 5,524 | 3,442 | 1,832 | 1,497 | 12,295 | 31,557 |
| Virginia | 39,877 | 30,825 | 20,569 | 10,248 | 101,519 | 335,388 |
| Washington | 42,377 | 17,247 | 15,378 | 8,794 | 83,796 | 370,783 |
| West Virginia | 13,405 | 10,877 | 6,790 | 7,127 | 38,199 | 70,834 |
| Wisconsin | 25,912 | 32,032 | 13,302 | 10,492 | 81,738 | 270,871 |
| Wyoming | 1,979 | 2,152 | 716 | 1,551 | 6,398 | 17,932 |
| **Total** | **1,960,651** | **1,293,871** | **1,211,109** | **446,115** | **4,911,746** | **15,504,102** |

[a] Voucher figures represent the average number of vouchers leased per month during calendar year 2005. The total includes data from the 50 states, the District of Columbia, Puerto Rico, Guam, the Marianas Islands, and the Virgin Islands. The data source is CBPP tabulations of HUD Voucher Management System data. Congress provided funding for about 2 million vouchers in 2005. See also note 34 regarding adjustments for agencies that did not submit data.

[b] The data are from HUD's Multifamily Assistance and Section 8 Contracts Database, as of January 2006, tabulated by the National Housing Trust. The figures include about 36,000 units supported by rental assistance from the Rent Supplement Program or the Rental Assistance Payment Program. The total includes units located in 50 states and the five territories.

[c] Public housing unit data are based on the number of units reported in the HUD Resident Characteristic Reports under Annual Contributions Contract (ACC), downloaded in June 2006. The total includes data from the five territories. These figures may reflect some units that are no longer available for use, which could account for the difference between the total unit count here and that provided in HUD's *Performance and Accountability Report for Fiscal Year 2005* (see note 28).

[d] The figures are total Section 515 units as reported for January 2006 in USDA, "2006 Rural Development Multi-Family Housing (MFH) Annual Occupancy Report". The total includes data from territories.

[e] The totals in this column are sums of the figures in the previous three columns.

[f] The data on unmet need for low-income housing assistance were tabulated by CBPP from the 2005 American Community Survey. "Low-income" is defined as renter households with incomes below 80 percent of the *state* median household income, adjusted for household size. Eligibility for HUD low-income housing assistance programs is restricted to households with incomes below 80 percent of *area* median income, a similar but not identical standard. "Unaffordable housing-cost burden" is defined as housing costs that exceed 30 percent of household income. This definition conforms to federal standards of affordability. Table 2 in this Appendix provides demographic data on the key groups of these households.

# Table 2: Selected Characteristics of Low-Income Renter Families With Unaffordable Housing-Cost Burdens, by State

| State | Total Low-Income Renter Households[a] | Low-Income Renter Households with Severe Housing-Cost Burdens, 2005[a, b] | Low-Income Renter Households with Unaffordable Housing-Cost Burdens, 2005[a, c] | | | |
|---|---|---|---|---|---|---|
| | | | Percent that Are Elderly[d] | Percent that Are Disabled[e] | Percent that Are Families with Children[f] | Percent that are Working[g] |
| Alabama | 349,654 | 119,279 | 14.9% | 16.3% | 36.9% | 67.9% |
| Alaska | 51,650 | 14,221 | 11.8% | 17.0% | 31.9% | 86.2% |
| Arizona | 410,040 | 161,674 | 12.5% | 11.2% | 37.0% | 78.1% |
| Arkansas | 222,313 | 71,939 | 13.6% | 18.5% | 36.6% | 71.4% |
| California | 2,913,859 | 1,313,834 | 17.1% | 10.3% | 39.3% | 80.1% |
| Colorado | 383,384 | 138,291 | 13.5% | 10.4% | 30.8% | 82.5% |
| Connecticut | 272,478 | 95,131 | 21.1% | 14.2% | 32.2% | 78.1% |
| Delaware | 55,094 | 17,999 | 17.6% | 11.8% | 39.8% | 86.7% |
| District of Columbia | 75,587 | 36,170 | 20.2% | 11.1% | 24.9% | 61.3% |
| Florida | 1,197,942 | 544,445 | 17.6% | 10.9% | 35.7% | 79.9% |
| Georgia | 681,524 | 258,428 | 12.0% | 12.8% | 38.5% | 72.3% |
| Hawaii | 97,777 | 37,504 | 18.5% | 8.4% | 34.1% | 81.9% |
| Idaho | 96,965 | 30,184 | 13.0% | 16.4% | 31.8% | 83.5% |
| Illinois | 941,093 | 374,529 | 18.5% | 11.2% | 33.2% | 71.6% |
| Indiana | 454,748 | 162,843 | 15.1% | 16.5% | 30.7% | 69.5% |
| Iowa | 218,955 | 68,792 | 20.3% | 12.1% | 25.9% | 70.2% |
| Kansas | 216,637 | 66,601 | 16.1% | 13.3% | 26.7% | 75.3% |
| Kentucky | 312,823 | 105,446 | 16.5% | 21.6% | 28.4% | 67.0% |
| Louisiana | 353,481 | 133,272 | 14.3% | 12.1% | 37.3% | 66.7% |
| Maine | 97,740 | 28,969 | 17.9% | 24.9% | 22.1% | 77.4% |
| Maryland | 433,889 | 141,475 | 19.5% | 9.2% | 33.1% | 81.2% |
| Massachusetts | 577,882 | 218,614 | 22.8% | 12.7% | 28.3% | 72.9% |
| Michigan | 690,139 | 270,610 | 17.3% | 14.3% | 29.3% | 70.9% |
| Minnesota | 341,786 | 102,223 | 23.5% | 11.0% | 26.3% | 78.6% |
| Mississippi | 200,914 | 77,351 | 12.2% | 19.1% | 40.4% | 61.5% |
| Missouri | 448,701 | 147,505 | 16.4% | 18.0% | 32.7% | 73.9% |
| Montana | 67,845 | 20,325 | 15.8% | 11.7% | 28.4% | 74.7% |
| Nebraska | 151,025 | 41,604 | 17.7% | 14.7% | 30.5% | 71.8% |
| Nevada | 199,267 | 79,366 | 17.7% | 8.6% | 33.9% | 83.0% |
| New Hampshire | 84,095 | 26,330 | 21.1% | 14.0% | 25.2% | 81.7% |
| New Jersey | 678,696 | 258,891 | 25.3% | 8.4% | 34.5% | 80.8% |
| New Mexico | 133,467 | 49,348 | 12.3% | 14.6% | 34.1% | 70.6% |
| New York | 1,877,092 | 835,969 | 25.3% | 11.6% | 31.8% | 71.5% |
| North Carolina | 684,623 | 249,558 | 12.2% | 14.2% | 35.8% | 74.4% |
| North Dakota | 56,104 | 12,463 | 25.7% | 10.5% | 17.5% | 77.7% |
| Ohio | 916,493 | 340,219 | 17.6% | 17.3% | 31.7% | 69.0% |
| Oklahoma | 279,472 | 98,714 | 12.8% | 17.8% | 32.8% | 73.1% |
| Oregon | 325,504 | 132,034 | 15.5% | 14.9% | 29.0% | 74.9% |
| Pennsylvania | 902,703 | 319,402 | 24.5% | 15.3% | 25.7% | 67.0% |

| State | Total Low-Income Renter Households[a] | Low-Income Renter Households with Severe Housing-Cost Burdens, 2005[a, b] | Low-Income Renter Households with Unaffordable Housing-Cost Burdens, 2005[a, c] | | | |
|---|---|---|---|---|---|---|
| | | | Percent that Are Elderly[d] | Percent that Are Disabled[e] | Percent that Are Families with Children[f] | Percent that are Working[g] |
| Rhode Island | 105,120 | 35,112 | 19.7% | 16.6% | 29.1% | 76.6% |
| South Carolina | 305,698 | 112,142 | 14.3% | 13.6% | 37.4% | 66.8% |
| South Dakota | 67,877 | 15,616 | 26.5% | 7.8% | 26.0% | 65.9% |
| Tennessee | 467,409 | 163,925 | 12.7% | 18.3% | 31.6% | 72.0% |
| Texas | 1,713,821 | 653,356 | 11.6% | 9.6% | 40.7% | 76.4% |
| Utah | 151,220 | 46,823 | 8.3% | 12.7% | 38.3% | 83.2% |
| Vermont | 47,002 | 17,511 | 15.8% | 19.0% | 20.5% | 82.9% |
| Virginia | 539,844 | 179,597 | 15.0% | 13.3% | 32.2% | 80.0% |
| Washington | 553,300 | 202,070 | 15.7% | 16.0% | 29.6% | 79.7% |
| West Virginia | 123,429 | 38,457 | 14.9% | 24.1% | 26.4% | 59.5% |
| Wisconsin | 447,950 | 148,282 | 22.6% | 13.0% | 27.3% | 77.1% |
| Wyoming | 36,141 | 9,022 | 16.5% | 20.8% | 22.0% | 77.6% |
| **Total** | 23,012,252 | 8,814,443 | 17.5% | 12.8% | 33.8% | 75.2% |

Source: Tabulations of data from the 2005 American Community Survey (ACS) were created by Arloc Sherman at CBPP. We gratefully acknowledge the assistance of Danilo Pelletiere and Keith Wardrip at the National Low Income Housing Coalition, who provided useful information.

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[a] "Low-income" refers here to households with incomes below 80 percent of state median income.

[b] A household has a "severe housing-cost burden" if its housing costs exceed 50 percent of household income.

[c] A household has an "unaffordable housing-cost burden" if its housing costs exceed 30 percent of household income. The figures in this column include households with incomes below 80 percent of state median income that pay more than 50 percent of their income for housing costs.

[d] A household is "elderly" if the head of household or spouse is 62 years or older. This is the definition generally used in federal housing programs.

[e] For this column, a household is counted as "disabled" if it includes a non-elderly adult with disabilities. The ACS uses six criteria to categorize a person as having a disability. The data presented here include only those who meet the criterion of having employment limitations. For more information on the broader range of factors counted as disabilities under the 2005 ACS, see the ACS 2005 Subject Definitions, available at: http://www.census.gov/acs/www/Downloads/2005/usedata/Subject_Definitions.pdf.

[f] "Families with children" include households that do not meet the definitions of "elderly" or "disabled" and have at least one member under the age of 18. A portion of the households categorized as "elderly" or "disabled" also have minor children.

[g] This column shows the percentage of households that are working among non-elderly, non-disabled households that have low incomes and unaffordable housing-cost burdens. For the purpose of this table, a household is counted as "working" if its annual earnings are equal to or greater than the earnings of a person working 20 hours per week throughout the year at the federal minimum wage.

# APPENDIX B

# DESCRIPTION OF MAJOR FEDERAL LOW-INCOME HOUSING ASSISTANCE PROGRAMS

Over the past 70 years, the federal government has implemented a wide variety of programs designed to help low-income households secure decent, affordable housing. The two tables below summarize the major programs that provide the great majority of federal housing assistance to low-income renters.

The first table lists the five largest rental assistance programs. Generally, tenant rents under these programs are limited to 30 percent of household income, which ensures housing affordability for tenants, including those with the lowest incomes.

The second table lists important housing assistance programs that provide a range of subsidies and incentives for the construction, rehabilitation, and operation of affordable housing for low-income families.

## Table 1: Major Rental Assistance Programs

| | **Housing Choice (Section 8) Voucher Program** | **Project-Based Section 8 Program** | **Public Housing** | **Section 515 Rural Rental Housing Program and Section 521 Rental Assistance Program** | **Section 202 and Section 811 Supportive Housing Programs** |
|---|---|---|---|---|---|
| **Enactment** | Housing and Community Development of 1974, as amended by the Quality Housing and Work Responsibility Act of 1998 | Housing and Community Development Act of 1974 | U.S. Housing Act of 1937 | U.S. Housing Act of 1949 | Cranston-Gonzalez National Affordable Housing Act of 1990 |
| **Program description** | Low-income individuals and families use Housing | Project-based Section 8 rental assistance subsidizes | Public housing consists of rental units owned and | The Section 515 Rural Rental Housing Program | As revamped in 1990, these programs provide |

| | Housing Choice (Section 8) Voucher Program | Project-Based Section 8 Program | Public Housing | Section 515 Rural Rental Housing Program and Section 521 Rental Assistance Program | Section 202 and Section 811 Supportive Housing Programs |
|---|---|---|---|---|---|
| | Choice vouchers to rent moderate-cost housing in the private market. The voucher subsidy, which is paid directly to the landlord by one of the 2,400 state or local public housing agencies (PHAs) that administer the program, covers the difference between the tenant's contribution (see below) and the PHA's maximum payment or actual rental charge (whichever is lower). | new or rehabilitated rental units in buildings that are owned and operated by private owners. The owners, who may be either for-profit or nonprofit entities, contract directly with HUD or through an intermediary such as a state housing finance agency to receive rental assistance in exchange for abiding by rent restrictions and other provisions of the program.<br><br>Included under the project-based Section 8 umbrella are the Section 8 New Construction and Substantial Rehabilitation Program, the Section 8 Moderate Rehabilitation Program, and the Section 8 Loan Management, Property Disposition, and Conversion Programs. | operated by public housing agencies (PHAs), which are public or quasi-public entities. Tenant rental payments go to the PHA and are used to help meet the operating and maintenance costs of providing the housing. Federal subsidies paid through the Public Housing Capital and Operating Funds cover the bulk of PHA costs. | provides low-interest loans directly to private owners to acquire, rehabilitate, or construct rental housing in rural areas.<br><br>Three-quarters of households living in Section 515 units also receive rental assistance, most of which is provided under the USDA Section 521 Rental Assistance Program. | direct grants and project-based rental assistance to nonprofit developers of affordable rental housing for the elderly and people with disabilities. Section 811 also funds tenant-based rental assistance for people with disabilities. |
| **Number of units, 2005** | 2.1 million vouchers are authorized by Congress. | 1.3 million units available. | 1.16 million units available. | 446,000 units available.<br><br>Three-quarters of the | 120,000 units available. |

| | Housing Choice (Section 8) Voucher Program | Project-Based Section 8 Program | Public Housing | Section 515 Rural Rental Housing Program and Section 521 Rental Assistance Program | Section 202 and Section 811 Supportive Housing Programs |
|---|---|---|---|---|---|
| | | | | occupied units include rental assistance. | |
| **Current status** | Congress increased the number of authorized housing vouchers by roughly 50 percent from 1995 to 2005. As a result of funding policy changes, however, the number of families actually assisted by vouchers has declined since early 2004. | No new units have been added since the mid-1980s, except for a small number of units set aside for the homeless. The total number of project-based Section 8 units has been declining, as owners have prepaid their mortgages or chosen not to renew expiring Section 8 contracts. (Some units receive temporary Section 8 Property Disposition contracts in the period between HUD foreclosure and resale.) | No additional public housing units have been added for more than 10 years, and the total number of available public housing units has declined by about 170,000 since the mid-1990s. | In recent years, very few new units have been produced, and there has been a net loss of units as owners have exited the program. | In recent years, the programs have funded an average of about 8,000 additional units of housing each year. |
| **Rent policy** | Rents are based on tenant income; tenant rent is generally limited to 30 percent of household income. However, tenants may pay more to rent higher-priced units. | Rents are based on tenant income; tenant rent is generally limited to 30 percent of household income. | Rents are based on tenant income; tenant rent is generally limited to 30 percent of household income. | Under Section 515, tenants generally either pay "basic rent" or contribute 30 percent of household income, whichever is greater. "Basic rent' is calculated roughly as the amount required to cover operating costs, debt | Rents are based on tenant income; tenant rent is generally limited to 30 percent of household income. |

| | Housing Choice (Section 8) Voucher Program | Project-Based Section 8 Program | Public Housing | Section 515 Rural Rental Housing Program and Section 521 Rental Assistance Program | Section 202 and Section 811 Supportive Housing Programs |
|---|---|---|---|---|---|
| | | | | service, and the allowable return on equity.<br><br>When Section 521 or other rental assistance is available, tenant rent is generally limited to 30 percent of household income. | |
| **Initial eligibility** | 75 percent of new program participants annually must be families with extremely low incomes (incomes below 30 percent of area median income). The remaining new households may have incomes up to 80 percent of area median income. | 40 percent of new households admitted annually must be extremely low income (below 30 percent of area median income); 15 – 25 percent of new households (depending on the year the project was completed) may have incomes between 50 and 80 percent of area median income. | 40 percent of new households admitted annually must have incomes below 30 percent of area median income; the remaining new tenants may have incomes up to 80 percent of area median. | Depending on whether a project is new or existing, 95 percent or 75 percent of newly admitted households, respectively, must have incomes below 50 percent of area median income; the remaining new households may have incomes that are low (up to 80 percent of area median income) or moderate (up to $5,500 a year above the low-income limit). | Only households with very low incomes (incomes below 50 percent of area median income) are eligible to be admitted. |
| **Tenant demographics** | About 30 percent of vouchers are used by elderly households and people with disabilities; 60 | About 30 percent of project-based Section 8 tenant households are families with children. The | More than half of public housing households are elderly or disabled; one third are families with | Nearly 60 percent of Section 515 households are elderly or disabled.[57] | 100 percent are elderly (Section 202) or disabled (Section 811). |

| | Housing Choice (Section 8) Voucher Program | Project-Based Section 8 Program | Public Housing | Section 515 Rural Rental Housing Program and Section 521 Rental Assistance Program | Section 202 and Section 811 Supportive Housing Programs |
|---|---|---|---|---|---|
| | percent are used by families with children.[55] | remainder are seniors, people with disabilities, or individuals or couples without minor children | children.[56] | | |
| **Funding 2005 (new budget authority)[58]** | $14.8 billion | $5.3 billion<br>(About one quarter of project-based Section 8 units are funded out of previously appropriated budget authority.) | $5.2 billion | $100 million<br>(Section 515 loans)<br><br>$592 million<br>(Section 521 rental assistance) | $979 million |

[55] Data on housing voucher tenants is based on HUD data from 2000. See "Introduction to the Housing Choice Voucher Program," Center on Budget and Policy Priorities; available at: http://www.centeronbudget.org/5-15-03hous.htm.

[56] HUD's Resident Characteristics Report, available at: http://www.hud.gov/offices/pih/systems/pic/50058/rcr/. Data were downloaded in October 2006.

[57] USDA's "2006 Rural Development Multifamily Annual Occupancy Report," January 2006.

[58] Budget authority rather than outlays were included here because it is difficult to separate outlays for the two Section 8 accounts. This difficulty is due to the fact that the two accounts were combined at one time into a single account (the Housing Certificate Fund), and the original account still issued outlays in 2005.

# Table 2: Other Low-Income Housing Assistance Programs

| | Low-Income Housing Tax Credit | HOME Investment Partnerships Program | McKinney-Vento Homeless Assistance Program |
|---|---|---|---|
| **Enactment** | Tax Reform Act of 1986 | Cranston-Gonzalez National Affordable Housing Act of 1990 | McKinney-Vento Homeless Assistance Act of 1987 |
| **Program description** | Provides ten-year tax credits that developers may use to raise capital for the acquisition, construction, or rehabilitation of affordable housing for low-income families. In most cases, LIHTCs are allocated and administered by state housing finance agencies. | Provides block grant funding to states and localities that may be used for acquisition, rehabilitation, and new construction of rental housing; development of homeownerships units and assistance to homebuyers; and tenant-based rental assistance. | Includes a number of programs to provide transitional and permanent housing (Supportive Housing Program (SHP), the Shelter Plus Care (SPC) Program, the Section 8 Moderate Rehabilitation for Single-Room Occupancy Program, and the Safe Havens for Homeless Individuals Demonstration Program), as well as the Emergency Shelter formula grant to states and localities.<br><br>The transitional and permanent housing programs are administered by HUD as competitive grants to local Continuums of Care (which are consortia of public and private |

| | Low-Income Housing Tax Credit | HOME Investment Partnerships Program | McKinney-Vento Homeless Assistance Program |
|---|---|---|---|
| | | | providers of homeless assistance). |
| **Number of units, 2005** | About 1.5 million units financed by LIHTCs have been placed into service since 1987.[59] | As of 2005, HOME funding has facilitated the development of 232,000 rental housing units, of which 33,612 were completed in 2005. In 2005, 20,554 households received HOME-funded tenant-based rental assistance.[60] | About 135,000 emergency shelter, transitional housing and permanent housing beds were funded in 2005.[61] |
| **Current status** | The LIHTC program has provided funding in recent years for about 100,000 affordable units per year. Currently, each state receives $1.75 per capita in LIHTCs annually. | Over the past four years, HOME has contributed to the creation of about 50,000 rental housing units per year, on average, including 18,000 units with tenant-based rental assistance.[62] | 10,000 to 15,000 new beds are funded annually (most of these are permanent supportive housing), although renewals consume a growing share of the McKinney budget. |
| **Rent policy** | Rents are not based on tenant income. Rather, rent limits are set based on the mix of units in the development. In LIHTC developments, either 20 percent of units must be affordable to households with incomes below 50 percent of the area median income | Under HOME, rents are not based on tenant household income but may not exceed specific rent limits. Rents for most (90 percent of) HOME-assisted units must be set at a level that is affordable to | The McKinney transitional and permanent housing programs use rent rules similar to those used in the HUD programs, as described in Appendix B. Typically, tenants contribute 30 percent of their |

[59]Are States Using the Low Income Housing Tax Credit to Enable Families with Children to Live in Low Poverty and Racially Integrated Neighborhoods?" July 2006, available at http://www.prrac.org/pdf/LIHTC_report_2006.pdf.

[60] U.S. Department of Housing and Urban Development, "HOME Program National Production Report," September 2005; and HUD, "FY 2006 Performance and Accountability Report," p. 134..

[61] Source for McKinney unit figures is HUD budget documents supplied as part of the *Budget of the U.S. Government, Fiscal Year 2007I.*

[62] See HUD's *Performance and Accountability Report, Fiscal Year 2006*, p. 370.

| | Low-Income Housing Tax Credit | HOME Investment Partnerships Program | McKinney-Vento Homeless Assistance Program |
|---|---|---|---|
| | or 40 percent of units must be affordable to households with incomes below 60 percent of the area median. Rents in tax credit units thus may not exceed levels affordable to households earning either 50 or 60 percent of the area median income.<br><br>Rent burdens among LIHTC residents are high. According to one study, half of LIHTC residents report that their housing costs exceed 30 percent of their income, thereby exceeding federal standards of affordability. The majority of LIHTC tenants with affordable rent burdens are receiving rental assistance from another source, such as Section 8 vouchers.[63] | households earning 65 percent of the area median income. In multifamily developments of at least 5 units, 20 percent of the HOME-assisted units must have rents affordable to households with incomes no greater than 50 percent of the area median income.<br><br>Rent burdens among HOME tenants are reportedly high, especially for those receiving no rental assistance. For HOME tenants receiving no rental assistance, housing costs eat up 44 percent of their income, on average, and the burden rises to 69 percent of income for HOME-assisted households with extremely low incomes who do not receive rental assistance.[64] | income for housing costs. |
| **Initial eligibility** | Tenant income may not exceed 60 percent of the area median income. | Incomes of households admitted to HOME-assisted units may not exceed 80 percent of the area median income.<br><br>Rental housing: 90 percent of | Placement in McKinney-funded developments is restricted to individuals and families who are homeless. Permanent supportive housing, Shelter Plus Care, and Section 8 Moderate Rehabilitation |

[63] See Abt Associates, "Assessment of the Social and Economic Characteristics of LIHTC Residents and Their Neighborhood," U.S. Department of Housing and Urban Development, 2000.

[64] See Christopher Herbert et al., "Study of the Ongoing Affordability of HOME Rents," U.S. Department of Housing and Urban Development, 2001, p. vff.

| | Low-Income Housing Tax Credit | HOME Investment Partnerships Program | McKinney-Vento Homeless Assistance Program |
|---|---|---|---|
| | | tenants receiving rental assistance must have incomes below 60 percent of the area median income. | units are restricted to individuals with disabilities and their families. |
| **Tenant demographics** | Nearly 70 percent of LIHTC households include members who work. Of the remaining 30 percent of households, many are elderly or disabled.[65] | NA | The majority of households living in *transitional* housing funded by SHP are families with children. SHP *permanent* supportive housing, SPC, and Section 8 Moderate Rehabilitation units are restricted to individuals with disabilities and, in some cases, their families. |
| **Funding 2005** | $3.9 billion (tax expenditures in 2005) | $1.8 billion (historically, less than 4 percent of HOME funds have been used for tenant-based rental assistance)[66] | $1.2 billion |

[65] Abt Associates, "Assessment of the Economic and Social Characteristics of LIHTC Residents and Neighborhoods," U.S. Department of Housing and Urban Development, 2000.

[66] U.S. Department of Housing and Urban Development, "HOME Program National Production Report," September 2005.