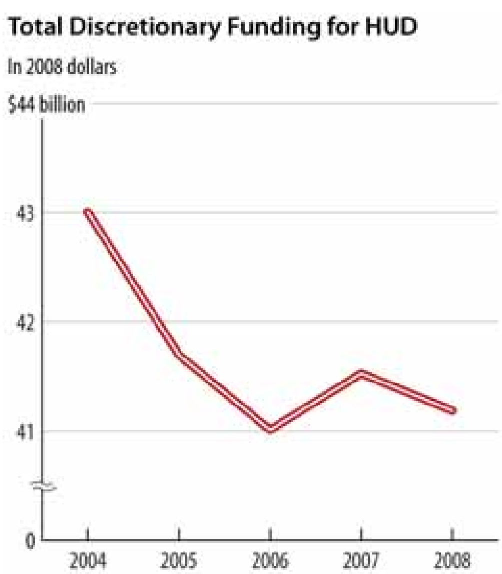
III. During Bush Administration, Unbalanced Priorities Weakened Housing Programs

Over the past eight years, unbalanced federal budget priorities have placed pressure on low-income housing programs. The Bush Administration's annual budgets accorded priority to tax cuts and large funding increases for defense and homeland security. When sizeable federal budget deficits emerged in 2003 and 2004, caused in part by the deep tax cuts, the Administration and Congress began to squeeze domestic discretionary funding.[29]

Low-income housing programs were among those affected. Following cuts in 2005 and 2006, total discretionary funding for HUD rose in 2007 but fell again in 2008 to a level $1.8 billion (or 4.2 percent) below the 2004 level, adjusted for inflation.[30] (See Figure 8.) Figure 2 above shows the impact of this reduction on the major federal low-income housing assistance programs. For some programs, such as public housing, these cuts came on top of funding reductions made prior to 2004.

FIGURE 8:

$1.8 Billion Was Cut from HUD Programs, 2004 to 2008



Source: OMB Public Budget Database for 2001-2007.

As explained below in more detail, these funding cuts have reduced the number of low-income families receiving housing assistance and increased the risk that large numbers of public and private assisted housing units will be lost in coming years due to physical deterioration or owners' decisions to remove developments from the assisted stock.

Indeed, these reductions undercut one of the Bush Administration's few priorities in the housing arena: reducing chronic homelessness. After endorsing the goal of ending chronic homelessness in 2001, the Bush Administration aggressively encouraged state and local governments to develop detailed plans to end homelessness; it also consistently supported funding increases for homeless assistance. But while these efforts have had positive impacts, they have been undercut by simultaneous losses of funding for other low-income housing programs that also are important to preventing and ending homelessness.[31]

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[29] For an analysis of the effect of the tax cuts on the federal budget, see Kogan and Brunet (2008).

[30] CBPP analysis of data from the OMB Public Budget Database. Figures are for discretionary budget authority, except for Section 8, where outlays were used to eliminate distortions due to rescissions, expiration of long-term contracts, timing shifts, and policy changes.

[31] See Rice and Sard (2007).

The following sections outline the impact of these cuts on the federal government's three largest low-income rental assistance programs. Together, these three programs serve about 90 percent of the low-income families that receive federal rental assistance.

Vouchers: Funding Cuts Contributed to Unprecedented Loss of Assistance

The Housing Choice Voucher Program is the federal government's largest housing assistance program for low-income families and is widely regarded as one of its most successful.[32] Approximately 2 million low-income families use vouchers to rent decent homes in the private market at a cost they can afford. More than half of these families have children in the household. Nearly a third are headed by people who are elderly or have disabilities.[33]

In the late 1990s, following a decade in which the number of low-income families with severe housing affordability problems was rising steadily, Congress and HUD extended voucher assistance to more families, funding almost 300,000 new vouchers between 1998 and 2002.[34] They also encouraged state and local housing agencies to make better use of the vouchers they were authorized to administer, as significant numbers of authorized vouchers were going unused in the late 1990s. Taken together, these actions were successful: the number of authorized vouchers went up by about one-fifth, and by late 2003 some 96 percent of the more than 2 million authorized vouchers were in use.[35]

Yet this success was short-lived. Congress soon reversed course, in part because of its desire to produce annual appropriations bills that met the Bush Administration's overall discretionary funding levels. In an attempt to reduce program costs, Congress initiated a series of changes in 2004-2006 in the way HUD funds the housing agencies that administer vouchers. These changes, combined with Congress's failure in 2005 to provide sufficient funding to renew all vouchers in use, created funding disruptions at many agencies.[36]

A number of housing agencies were compelled to take dramatic steps to address immediate funding shortfalls or reduce the risk of future shortfalls. Many reduced the maximum voucher subsidy they were willing to pay, denied rent increases to landlords, or prohibited families from

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[32] The bipartisan, congressionally chartered Millennial Housing Commission strongly endorsed the voucher program in its 2002 report, describing the program as "flexible, cost-effective, and successful in its mission," and called for a substantial increase in the number of vouchers. The Bush Administration's 2009 budget describes it "as one of [HUD's] and the Federal Government's most effective programs" and notes that the program "is widely recognized as a cost-effective means for delivering decent, safe, and sanitary housing to low-income families."

[33] For more information on the voucher program, see the appendix and "Introduction to the Housing Voucher Program," http://www.centeronbudget.org/5-15-03hous.htm.

[34] "New" vouchers referred to here include so-called "incremental" vouchers, as well as additional vouchers funded for the Family Unification Program and for people with disabilities, but exclude vouchers funded during this time period to replace other forms of federal housing assistance.

[35] This percentage includes vouchers administered by housing agencies participating in the Moving to Work demonstration. HUD's *Performance and Accountability Report, FY 2004* reports that voucher utilization between mid-2003 and mid-2004 averaged over 98 percent. That figure is based, however, on a definition of "utilization" that combines measures of voucher utilization and funds utilization. It may also assume that MTW agencies utilize 100 percent of their voucher funding, even if such agencies actually spend a lower percentage of their annual funding.

[36] For discussions of these events and their impact, see Sard and Fischer (2004) and Sard et al. (2005).

moving with their vouchers to neighborhoods with more jobs and less crime but higher rents. Many agencies also removed vouchers from circulation as families left the program, rather than reissuing them to families on waiting lists, thereby reducing the total number of families served. In a few cases, agencies terminated assistance to some families participating in the program.

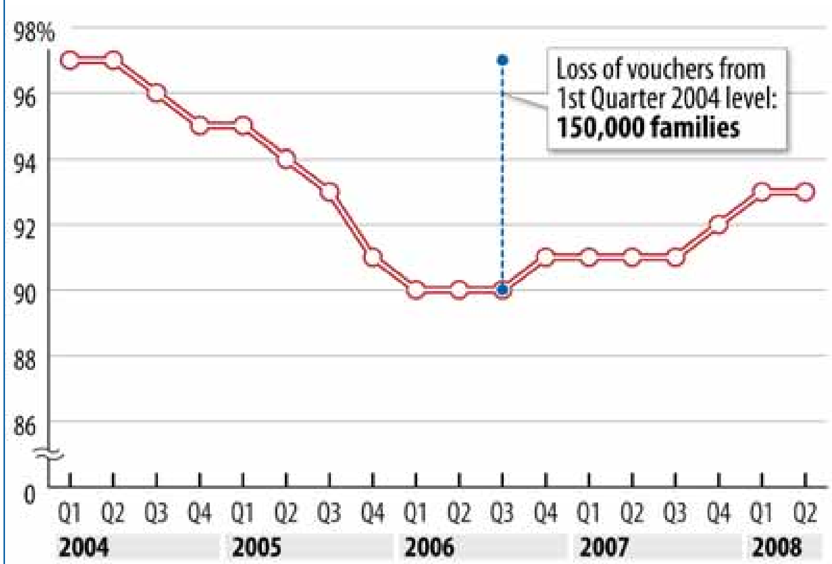
As a result, voucher assistance for approximately 150,000 low-income families was eliminated over a period extending from the first quarter of 2004 to the third quarter of 2006, even as the number of families with severe housing affordability problems continued to rise and most housing agencies had long waiting lists for vouchers.

These developments have had other troubling effects, as well. Funding instability discourages landlords — whose support is critical to the program's success — from participating in the program by raising questions about whether they will be fully paid if they rent units to voucher holders. Cutting maximum voucher subsidies effectively shrinks the number of apartments that families can afford, making it more difficult for them to move to areas with greater economic opportunities. This undermines one of the voucher program's basic purposes: helping low-income families improve their lives by expanding their choices of where to live.

FIGURE 9:

Housing Vouchers for 150,000 Families Were Eliminated, 2004 to 2006

Percentage of Authorized Vouchers in Use



Source: CBPP analysis of HUD data.

Fortunately, Congress corrected course in 2007 and 2008, implementing a more effective funding formula for agencies and providing each agency — for the first time since 2004 — with sufficient funding to renew every voucher in use. Congress also gave agencies new incentives to serve more families with the funds they receive. As a result, agencies have begun to restore vouchers to use, assisting more low-families. As of mid-2008, about 92 percent of authorized vouchers were in use, a substantial improvement over 2006 but still well below the level in early 2004.

Public Housing: Severe Funding Shortfalls Risks Loss of Many Units[37]

[37] For a fuller discussion of the issues raised in this section, see Sard and Fischer (2008).

Some 2.3 million vulnerable Americans live in public housing. Nearly two-thirds of all households in public housing include a person who is elderly or has a disability. (As the number of seniors in the United States doubles over the next two decades, affordable housing for seniors will become even more important.) Public housing also provides stable homes for more than 400,000 low-income families with children, the majority of them working families.

Most public housing developments have never fit the negative stereotypes often attached to the program, and many of the developments that did face serious problems have been demolished or rehabilitated over the past 15 years. The public housing stock as a whole has seen significant improvements as well: the overwhelming majority of public housing developments are in good physical condition, and the share of them located in high-poverty neighborhoods has declined by 40 percent since 1995. While some of this improvement reflects larger social and economic trends, it is also due in part to federal policy changes, such as demolishing the most distressed projects and facilitating the use of private financing to rehabilitate and modernize public housing units.

In the past several years, however, the federal government's failure to provide sufficient funding to cover the costs of operating and maintaining public housing threatens to compromise the progress that has been made. Indeed, the financial pressures placed on public housing agencies have substantially increased the risk that agencies will demolish or sell many viable developments in the years ahead.

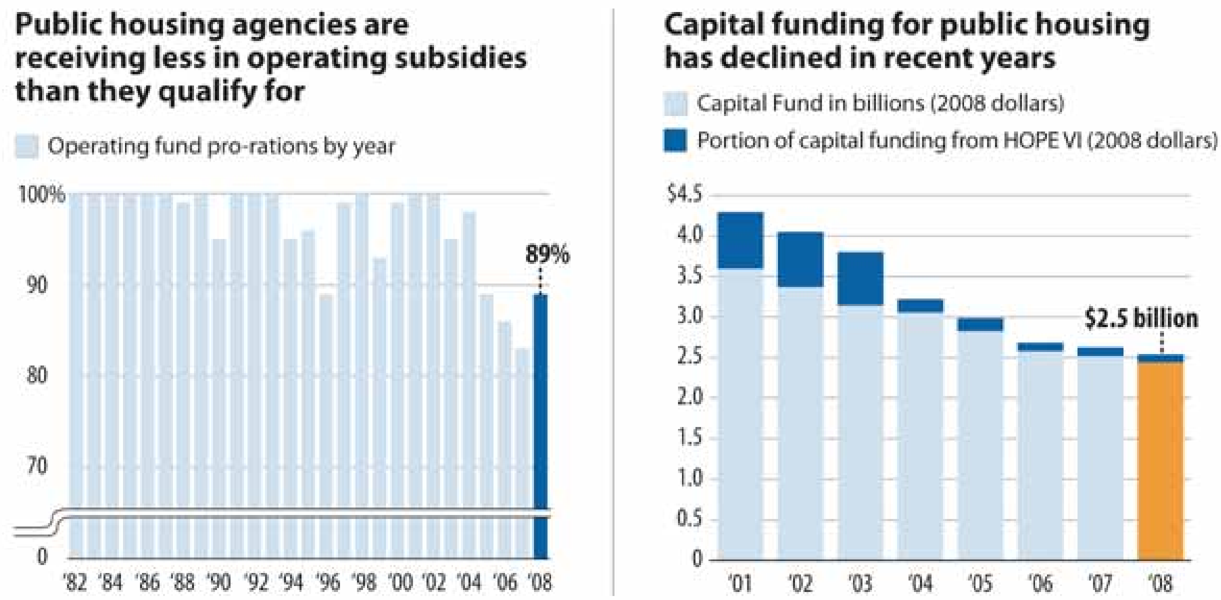
Federal law requires housing agencies to rent public housing to low-income families at rents they can afford. Yet such rents are usually inadequate to cover the operating costs of public housing (such as maintenance, security, and utilities), let alone the periodic capital improvements needed to keep the projects in good condition. Accordingly, the federal government provides subsidies through the Public Housing Operating and Capital Funds to fill the gaps that exist between these costs and the tenant rent payments. (Some distressed public housing developments also receive grants from the HOPE VI program.)

The Public Housing Operating and Capital Funds have been underfunded in recent years. With respect to the Operating Fund, a federal formula determines the amount of funding each agency is eligible to receive. Prior to 2003, agencies typically received the amount of operating funding they were due under the formula. (Shortfalls did occur, but they were intermittent and usually shallow.) Since 2002, however, operating funding has fallen below the formula amount for six consecutive years, and for each of the past four years, agencies have received less than 90 cents for every dollar they are due under the formula.

Funding for the Capital Fund has also fallen well short of need. While the great majority of public housing developments are in good condition, most were built decades ago, and many have substantial capital repair needs. Based on the most recent data available, the Center estimates that the existing capital repair needs total $22 billion to $32 billion.[38]

FIGURE 10:
Underfunding Public Housing

[38] The higher figure in the range assumes that some of the units with capital repair needs are replaced rather than rehabilitated. See Sard and Fischer (2008).



Source: HUD.

As Figure 10 shows, the annual capital funding for public housing (including funding for HOPE VI, as well as the Capital Fund) has declined substantially since 2001. In 2008, Congress provided $2.4 billion for the Capital Fund, 32 percent less than the 2001 funding level, adjusted for inflation. This amount is insufficient to cover the new capital needs that are likely to accumulate in public housing developments over the course of a year. As a result, few agencies will be able to use these funds to address the backlog of repair needs. Funding for HOPE VI, which has been used primarily to demolish and replace the small share of public housing units that were the most distressed, has also declined sharply since 2001.

Chronic and deep funding shortfalls have had adverse effects on public housing and the low-income seniors, people with disabilities, and families with children it serves. Housing agencies can cope with temporary or occasional funding shortfalls by drawing on reserves or reducing administrative costs. But as shortfalls deepen and extend over many years, agencies are forced to take much more damaging steps, such as increasing costs for tenants, delaying basic maintenance, or cutting back on security.

An increasing number of agencies appear to have concluded that they can no longer sustain all of their developments and are moving to demolish, sell, or otherwise remove developments from the public housing program. Agencies in Salt Lake City, Columbus, and Las Vegas have announced, for example, that they are considering plans to remove substantial numbers of units from public housing. Already, about 165,000 units of public housing have been lost since 1995 and have not been replaced. Continued underfunding of public housing, on top of the chronic shortfalls under the Bush Administration, could accelerate such losses.

Assisted Private Housing: Federal Funding Disruptions Hindering Preservation of Units

The Section 8 Project-Based Rental Assistance (PBRA) program is a successful public-private partnership in which private owners enter into rental assistance contracts with HUD to provide affordable homes to nearly 1.3 million low-income families. The great majority of families living in Section 8 apartments have very low incomes (less than half of the area median income). Three-quarters are headed by people who are elderly or have disabilities.

When the program was created in the 1970s, owners were enticed to participate by the promise of secure and stable rental assistance contracts that extended for 20 to 40 years and were fully funded by budget authority approved up front by Congress. As those contracts began to expire in the 1990s, however, Congress replaced them with contracts funded on an annual appropriations cycle. Roughly 80 percent of Section 8 apartments now receive rental assistance funded by annual appropriations; the remaining 20 percent are funded with budget authority Congress approved decades ago.

The great majority of project-based Section 8 housing is in good condition, but as with public housing, considerable challenges must be overcome to keep the stock viable and affordable over the long term. Most of the properties were constructed decades ago, and many will need rehabilitation to remain in good condition. In addition, some properties have appreciated greatly in value since the owners first agreed to participate in the program, and market rents in the neighborhoods surrounding Section 8 housing may now be well above the assisted rents that owners receive. As a result, some owners face (or will face when the economy improves) strong financial incentives to convert their units to private-market use.

Acknowledging these challenges, Congress and HUD have adopted a number of initiatives since 1987 to preserve privately owned project-based housing.[39] These initiatives have helped to preserve hundreds of thousands of affordable apartments. Nevertheless, about 360,000 units of assisted housing have been lost since 1995, mostly as owners have opted to exit the program.[40]

Recent Actions Diminished Owner Confidence

The success of Section 8 project-based rental assistance depends on the readiness of private property owners to participate in the program. Yet changes in funding policy and poor administration by HUD have generated a host of problems for owners, including widespread and lengthy delays in housing assistance payments and growing uncertainty about the financial risks

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[39] Legislative initiatives include: 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 that live in project-based housing that is converted to private-market use. Another goal that has been central to some of these reforms is reducing 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.

[40] This estimate is based on National Housing Trust (2004), updated by CBPP to account for losses incurred since 2003, as indicated by HUD reports of tenant protection vouchers issued to replace lost units. The loss figure includes the loss of some units subsidized under the Rent Supplement, Rental Assistance Payment, and Section 236 programs, as well units funded under Section 8 project-based rental assistance.

associated with Section 8 contracts. As a result, property owners' confidence in the program has fallen, increasing the risk that many will leave the program when their contracts expire.

For the Section 8 contracts that receive annual funding renewals, HUD renews them on a rolling basis throughout the fiscal year according to each contract's anniversary date. Since annual renewals were first implemented in the 1990s, property owners have believed — and the text of Section 8 contracts could reasonably be understood to imply — that HUD was committing 12 months of funding for each contract upon renewal.

Unbeknownst to property owners, however, a few years ago HUD implemented a practice of "short-funding" Section 8 contracts — that is, committing *less than* 12 months of funding at renewal, then covering the remaining assistance payments with additional funding made available by Congress in the following fiscal year. While the practice does not change actual program expenditures (or outlays), short-funding a contract produces a one-time reduction in the amount of new funding (or budget authority) required, by shifting funding needs from one fiscal year into the next.[41]

This practice had little impact on the program as long as owners (and their lenders and investors) were unaware of it and HUD continued to make monthly assistance payments on time. This unraveled in 2007, however, when appropriations attorneys at HUD determined that under the existing Section 8 contracts, HUD was in fact committed to providing 12 months of assistance payments at renewal and that the practice of short-funding contracts was inconsistent with this commitment.[42] This determination created an immediate budgetary shortfall in the program. Since the President's budget request for 2007 had assumed that a considerable share of Section 8 contract renewals could be short-funded, HUD had insufficient funds available to meet its commitments in full.

Rather than request additional funding from Congress to fill the shortfall, HUD scraped together available budget authority from other sources to fulfill its immediate Section 8 needs.[43] HUD also revised the terms of Section 8 contracts to make them consistent with the policy of short-funding. In particular, since the final quarter of 2007, HUD has issued revised Section 8 contracts to owners that specify the exact amount of funding that is being committed at renewal — and, in every case, the amounts made it explicit that HUD was no longer committing to a full year of payments at renewal. Finally, while executing these budgetary maneuvers, HUD ceased making housing assistance payments to most owners in the final quarter of 2007, and payments on many properties were delayed for months.

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[41] Of course, additional savings may be achieved in later years if additional Section 8 contracts are short funded in those years. According to HUD, this practice was introduced on a limited basis in the late 1990s to address unanticipated budget shortfalls. Yet the Bush Administration appears to have implemented the practice systematically, to the point where its budget requests assumed it.

[42] The HUD attorneys also expressed concern that HUD's actions may have violated the Anti-Deficiency Act. This would occur if, by renewing a Section 8 contract, HUD committed itself to make assistance payments for which insufficient funds had been appropriated.

[43] For instance, HUD re-estimated the amount of funding that must be set aside to meet its remaining obligations to Section 8 properties that are still funded under long-term contracts, extracting the resulting "excess" budget authority to make current Section 8 assistance payments.

These developments badly damaged property owners' confidence in the program. In hearings before Congress, owner representatives testified that late payments and short-funding generated numerous difficulties in managing their properties, increased the costs of operations, and made it more difficult and expensive to raise the capital from lenders and investors needed to rehabilitate and improve their properties.[44]

Already, 10,000 – 15,000 units of affordable Section 8 housing are lost every year as owners leave the program. If owners continue to lack confidence in the program's financial stability and continue to have trouble raising the funds needed to modernize their properties, many more will be encouraged to quit. Owners with properties in strong rental markets — where the needs for affordable housing among low-income families are often the most severe — have particularly powerful financial incentives to exit the program. At greatest risk of loss are more than 150,000 rental units with Section 8 rents that are well below market levels.[45]

Ironically, the recent collapse of the housing and credit markets has reduced the likelihood that large numbers of owners will choose to exit the Section 8 program in the short term. However, the chilling effect of the collapse is temporary, and the confidence of owners, investors, and lenders must be restored soon to avoid the loss of significant numbers of affordable housing units in the near future.

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[44] See testimony presented by owner representatives at hearings before the House Financial Services Subcommittee on Housing and Community Opportunity on October 17, 2007 and before the House Appropriations Subcommittee for Transportation-HUD on April 23, 2008.

[45] Figure cited by Michael Bodaken of the National Housing Trust in testimony presented on October 17, 2007 before the House Financial Services Subcommittee on Housing and Community Opportunity.