

#### IV. New Resources and Policy Improvements Needed to Address Growing Housing Needs

Preserving and expanding housing assistance for low-income families should be a major component of federal strategies to alleviate poverty and help poor families improve their lives.<sup>46</sup> As explained above, unbalanced federal budget priorities and funding reductions have weakened federal low-income rental housing programs in recent years. As a result, the nation has lost ground in helping low-income families to live in decent and stable homes.

To restore the lost ground and to make progress in reducing the incidence and severity of housing affordability problems among poor families, Congress and the Administration should commit new resources to the problem, as well as continue to make policy improvements in key programs. Additional resources are needed to promote three important policy goals: preserving existing public and private assisted housing, fully utilizing the Housing Choice vouchers Congress has already authorized, and extending assistance to more low-income families that need it. The following sections of this paper discuss these goals.

##### Preventing Further Losses of Public and Private Assisted Housing

The vast majority of public and private assisted housing developments are in good physical condition, but most are decades old, and many will need rehabilitation. As noted, many private owners also have powerful financial incentives to convert affordable assisted housing into market-rate rentals.

In recent years, the federal government has failed to provide reliable and adequate funding to sustain these critical housing resources. If this failure is not corrected, the nation stands to lose hundreds of thousands more units of affordable housing at a time when the need for such housing is continuing to increase.

Some observers argue that federal policy should seek not to *preserve* public and private assisted housing but instead to *replace* it with housing vouchers. While housing vouchers are a highly effective form of housing assistance, however, it would be unwise to replace development-based assistance indiscriminately with housing vouchers, for several reasons:

- **Some people are better served by development-based assistance.** A substantial majority of people served by public and private assisted housing are elderly or have disabilities. Because of mobility limitations and other factors, these groups can have difficulty finding suitable housing on their own that they can rent with vouchers. Some public and private assisted housing developments also are configured specifically to accommodate residents with mobility impairments and other needs. Moreover, since the number of seniors is expected to double over the next two decades, it would be prudent to preserve existing housing that is suitable and affordable for vulnerable seniors.
- **Some public and private assisted housing developments are located in neighborhoods where it can be difficult to use vouchers (or to develop new affordable housing).** Most

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<sup>46</sup> See Sharon Parrott, "Reducing Poverty: Four Key Areas that Need More Policy and Foundation Attention," Center on Budget and Policy Priorities, September 5, 2008, [http://www.brookings.edu/events/2008/~/\\_media/Files/events/2008/0929\\_poverty/parrott\\_paper.pdf](http://www.brookings.edu/events/2008/~/_media/Files/events/2008/0929_poverty/parrott_paper.pdf).

often, this is because the local supply of moderately priced rental units is limited or local building restrictions inhibit the development of new rental housing.

- **While it generally costs less to provide new vouchers than to develop new affordable housing, it can be even more cost effective to preserve existing public and private assisted housing.** The cost of rehabilitating and sustaining existing public housing over the next 30 years, for example, would be 8 percent less than the average annual cost of converting these units to vouchers, according to Center estimates.<sup>47</sup>

Hence, there are sound policy grounds for preserving public and private assisted housing, and the federal government should develop and implement comprehensive plans to do so. To be viable, any comprehensive plan must include new resources to meet the following goals:

- **Restore full operating subsidies for public housing.** Congress and HUD have sponsored much work in recent years to determine the amount of operating subsidies necessary to sustain public housing developments. The result of this work is HUD's operating cost formula, which estimates each agency's operating costs and allocates funding among agencies. We recommend that the Administration request, and Congress approve, funding sufficient to cover the full amount required under the formula. For fiscal year 2010, this would require \$5.3 billion, according to Center estimates, an increase of \$1.1 billion above the 2008 level.<sup>48</sup>
- **Address the backlog of capital repairs to public housing.** The Center estimates that it would cost about \$22 billion to fully rehabilitate existing public housing units (or \$32 billion if 100,000 units with the most severe capital repair needs are replaced with new units rather than repaired). There are a number of ways to approach this problem; all of them would require significant investments by the federal government.<sup>49</sup> The just-enacted American Recovery and Reinvestment Act of 2009 (ARRA) includes \$4 billion for capital repair needs for public housing, which would provide a substantial infusion of funds to begin to reduce this backlog.
- **Restore reliable renewal funding for project-based Section 8 contracts,** making it clear to property owners and tenants that the federal government will honor its commitments. ARRA provides \$2 billion in one-time supplemental funding to eliminate the "short funding" of Section 8 contracts and restore full, 12-month renewals. This should help to reassure property owners that the federal government intends to meet its commitments under the program. In addition, it will be important to provide sufficient renewal funding in the regular appropriations bills for 2009 and 2010.
- **Provide incentives and assistance to encourage private owners to renew Section 8 project-based rental assistance.** Wherever Section 8 apartments have appreciated substantially in value or need fresh capital for rehabilitation, owners have strong financial

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<sup>47</sup> Sard and Fischer (2008) and GAO (2002).

<sup>48</sup> Over the longer term, a comprehensive federal plan is needed to preserve public housing. Under such a plan, it would be wise to restructure the funding streams for public housing to make them more efficient and better address existing needs. While the current operating fund formula should remain the basis of future operating subsidies, such restructuring would affect the amount of funding required in future years. See Sard and Fischer (2008).

<sup>49</sup> For a more detailed discussion of public housing preservation issues, see Sard and Fischer (2008).

incentives to opt out of federal affordability requirements. Both new resources and policy reforms are needed to counter these incentives and encourage the long-term preservation of these affordable units. (Rep. Barney Frank, chair of the House Committee on Financial Services, has indicated that comprehensive legislation to promote the preservation of the private assisted stock will be a priority in 2009.)

- **Improve energy efficiency in public and private assisted housing.** Utility prices have risen by over 7 percent per year during the last five years, more than double the overall inflation rate. While energy prices have fallen recently, resumption of this trend would increase the amount of funding needed in the federally assisted housing programs. These added costs could be partly offset through energy efficiency improvements that reduce consumption in public and private assisted housing. Such improvements would also produce environmental benefits by reducing emissions of greenhouse gases and other pollutants. Federal investments are needed to bring about such “greening.” ARRA allocates \$250 million to provide loans and grants to owners of federally assisted housing for energy retrofits and other green investments. However, while important, this funding will meet only a portion of the need.

### Utilizing Authorized Vouchers More Fully

The federal government currently authorizes housing agencies to administer 2.2 million Housing Choice vouchers. As explained above, however, a significantly smaller share of authorized vouchers is being used today than was used in 2004, due mostly to voucher funding policy changes made by Congress and the Bush Administration.

Voucher utilization has improved since Congress established a more effective funding policy in 2007 and 2008. However, 175,000 housing vouchers, or about 8 percent of the vouchers authorized, were still not being used as of mid-2008 — a level of program performance that remains well below the 2003 and 2004 levels. And even if voucher usage improves modestly in 2009, as expected, a significant share of authorized vouchers will remain unused. It should not be acceptable for so many vouchers to go unused while most communities have long waiting lists for assistance.<sup>50</sup>

One low-cost way to extend voucher assistance to more low-income families would be to enact the funding policy provisions of the Section 8 Voucher Reform Act (SEVRA), which the House passed on a strong bipartisan basis in 2007.<sup>51</sup> SEVRA would reallocate agencies’ excess unspent funds to other agencies that have used their voucher funds most effectively in assisting families. Other SEVRA provisions would enhance agencies’ funding stability, further strengthen agency incentives to assist more families, and remove the limitation on the number of vouchers each agency is allowed to use.<sup>52</sup> If SEVRA were enacted, it would result in more efficient use of voucher funds and a substantial increase in the number of families receiving assistance.

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<sup>50</sup> Congress and the Administration made a concerted — and successful — effort to encourage housing agencies to increase voucher utilization at the end of the 1990s and in the early years of the current decade, following reports of low voucher utilization — and large rescissions of voucher funds that remained unspent.

<sup>51</sup> The Senate did not act on its version of the bill, S. 2684. It is expected that the SEVRA bills will be introduced shortly in both the House and the Senate.

<sup>52</sup> The House and Senate bills introduced in the 110<sup>th</sup> Congress would employ somewhat different mechanisms to achieve these purposes, but the overall effects on agencies would be similar. For a discussion of the SEVRA legislation, see Fischer and Sard (2008).

## Reaching More Low-Income Families

The recommendations above are critical to preserving existing affordable housing resources at a time when such resources are scarce and the need for affordable housing is growing. Yet, even if the above recommendations are implemented, federal housing assistance will still reach only a small fraction of eligible low-income families.

To make real progress in reducing housing instability and homelessness, and in bringing decent rental homes within the reach of more low-income families, the federal government will need to do more. One potentially important step forward is the newly created federal Housing Trust Fund, authorized as part of the Housing and Economic Recovery Act of 2008. The Housing Trust Fund is supposed to provide grants to states for the production, rehabilitation and preservation, and operation of rental housing that is affordable for low-income families.<sup>53</sup> Such development-based subsidies would help both to meet the needs of low-income people who are elderly or have disabilities and to create or preserve affordable rental housing in neighborhoods where job opportunities are better but little affordable rental housing currently exists.

As with Low-Income Housing Tax Credits, however, the Housing Trust Fund in most cases will be able to assist poor families only if the funds are *supplemented* with ongoing rental assistance from other sources.<sup>54</sup> In general, subsidies for the production of affordable housing can increase the supply and reduce the cost of rental housing, but such changes alone will not drive housing costs down to a level that is affordable for poor families. In 2007, the average family in the lowest-income fifth of households could afford to pay only \$289 per month (30 percent of its income) for rent and basic utilities. This is well below the typical operating cost for rental housing, and even further below the rents typically charged by for-profit landlords.<sup>55</sup>

Policies that increase disposable income (such as by raising the federal minimum wage) can narrow the affordability gap somewhat but will not close it. Federal rental assistance programs that fill the gap between what low-income families can afford and the actual cost of rental housing — including housing built or rehabilitated with the help of production subsidies — will need to play an

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<sup>53</sup> Under the Housing Trust Fund (HTF), funding is to be distributed to states in accord with a formula that takes into account shortages in affordable rental housing, the amount of housing of substandard quality, and other factors. States are to grant the funds to organizations and agencies to develop affordable rental housing. A portion of the funds may be used in support of homeownership development.

Funding for the new HTF, however, remains an unsettled issue. Under the new law, the HTF is to be funded from contributions made by Fannie Mae and Freddie Mac, under a formula prescribed by the law, although the law leaves open the possibility of other sources of funding. Yet the recent collapse of the housing markets and the federal takeover of these two enterprises has raised major questions about their future role and structure, as well as their ability to supply funds for the HTF. (Even before these events, the formula would not have yielded more than a few hundred million dollars per year for the HTF). It will be important in coming years for Congress to take steps to ensure a reliable and substantial source of funding for the HTF.

<sup>54</sup> Funding from the Housing Trust Fund may be used for operating subsidies in buildings that also receive capital funding. However, only a small portion is likely to be used for that purpose, and it will not be sufficient to ensure that all rental housing developed with Trust Fund dollars is affordable to families with very low or extremely low incomes.

<sup>55</sup> According to the Census Bureau's Current Population Survey, the average annual income of a household in the bottom fifth of households was \$11,551 in 2007.

important role in any expansion of housing assistance for low-income families, especially for the poorest families.

*New Vouchers the Most Flexible and Cost-Effective Approach*

The most flexible, cost effective, and quickest way to expand rental assistance is to fund new, “incremental” housing vouchers.<sup>56</sup> As noted above, Congress funded nearly 300,000 new vouchers over a five-year period from 1998 and 2002, but funded no incremental vouchers during the subsequent five years, 2003 to 2007. (Congress did fund about 14,000 incremental vouchers in 2008.)

Like other forms of housing assistance, vouchers protect families from housing instability and homelessness, reduce poverty, free up income to meet other basic needs, and can promote work when combined with employment services and incentives.

In addition, because vouchers are portable, they expand the housing choices available to families. Research shows that vouchers can help families move from areas with high poverty rates to neighborhoods with less poverty, higher employment rates, and less crime, which can have a positive impact on family well-being. A 2002 report by the U.S. General Accountability Office also found that vouchers are more cost effective than federal programs that build affordable housing for low-income households (although this advantage exists only in areas where there is an adequate supply of rental housing in which vouchers may be used).<sup>57</sup>

The Administration and Congress should fund enough new vouchers to reduce by a significant share the number of low-income renters that face unaffordable housing costs or lack stable housing altogether. More specifically, funding 2 million new vouchers (by funding 200,000 new vouchers per year over ten years, for example) would increase the number of low-income families receiving federal rental assistance by 40 percent (assuming existing assisted units are preserved). Over ten years, this increase in vouchers would:

- *Help an estimated 3 million low-income households to secure decent, affordable homes.*<sup>58</sup>
- *Lift an estimated 3.3 million people, including 1.6 million children, out of poverty.*<sup>59</sup>
- *Prevent an estimated 230,000 people, including 110,000 children, from becoming homeless. At least an equal number of adults and children would avoid having to live in temporary, unstable*

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<sup>56</sup> Every year, Congress funds approximately 25,000 new “tenant protection” housing vouchers to replace public and private assisted housing that has been lost to demolition, conversion to market use, etc. In contrast, “incremental” vouchers increase the total number of families assisted rather than simply replacing other types of federal assistance.

<sup>57</sup> GAO (2002).

<sup>58</sup> HUD (2007b) provides data showing that, on average, 11 percent of families using vouchers leave the program every year, thereby allowing vouchers to be reissued to new families. Assuming this to be correct, we estimate that, if 200,000 incremental vouchers were funded annually over a ten-year period, 3 million additional families would receive voucher assistance over that period.

<sup>59</sup> These figures are based on the analysis described in note 19. We estimate that 44 percent of households receiving rental assistance in 2005 were lifted out of poverty by that assistance. The figures cited in the bullet are a rough estimate, based on the assumption that these outcomes would hold for the households receiving incremental vouchers.

accommodations such as motels or living "doubled up" with friends or extended family.<sup>60</sup>

The additional vouchers could be allocated through a formula based on relative local needs. Housing agencies and their local partners could decide how the vouchers they received would best be used. Congress and the Administration also could set aside new vouchers to advance federal policy priorities or initiatives that could have an important impact beyond expanding the number of low-income families with affordable housing. Following are three suggested federal priorities that would benefit from an allocation of new vouchers:

- **Preventing or alleviating homelessness.** Homelessness has remained a persistent problem for 25 years, and the deepening economic recession is certain to cause an increase in homelessness across the country, particularly among families with children.<sup>61</sup> Numerous studies have concluded that rental assistance such as vouchers is the most effective way to help families who are homeless or at risk of homelessness to obtain and remain in stable housing.<sup>62</sup> To maximize the impact on homelessness, new vouchers could be awarded to housing agencies that collaborate effectively with local governmental and non-profit agencies that provide services to families that are homeless or at risk of becoming homeless. This would ensure that families receive housing search assistance and other critical services, such as employment services, as well as rental assistance.
- **Promoting educational and economic opportunities for low-income families by expanding housing choice in high-opportunity areas where vouchers are difficult to use.** Too many families are locked in neighborhoods with failing schools, high crime rates, and limited access to job opportunities because of the high cost of housing. Unfortunately, rental housing is often scarce in neighborhoods where job opportunities are better, including neighborhoods where opportunities are improving due to redevelopment. New vouchers could be combined with production dollars (including funding from federal sources such as the Housing Trust Fund or Low-Income Housing Tax Credits) to develop new rental housing in high-opportunity areas where there is a shortage of units in which vouchers may be used. Vouchers could also be linked to subsidies for the rehabilitation of rental housing in neighborhoods that are being revitalized and are becoming gentrified. By tying voucher awards to the use of production and rehabilitation funding in this way, an incentive would be

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<sup>60</sup> These figures are imprecise estimates calculated in the following manner. HUD's annual collection of data from local agencies indicates that nearly 1.6 million people, including nearly 350,000 children living in families, spent at least part of a 12-month period in 2006/2007 in a homeless shelter or transitional housing facility (HUD, 2008). A comparison of these data to Census poverty data from 2007 suggests that slightly more than 4 percent of poor people experience homelessness in a given year. As the great majority of households receiving housing vouchers are poor, we assumed that roughly 4 percent of the households receiving vouchers would have become homeless if they had not received a voucher. We then estimated the number of voucher recipients that would be prevented from becoming homeless by applying the results of a study on the effects of housing vouchers on welfare families, which concluded that the incidence of homelessness is reduced by nearly 75 percent for families receiving vouchers (see Wood et al., 2008), compared to similar families that do not.

<sup>61</sup> While provisions included in the American Recovery and Reinvestment Act, which has just been signed into law by President Obama, will help to alleviate some homelessness, they will not be sufficient to meet the rising need. See Sard (2009) for a discussion of the need for additional rental assistance.

<sup>62</sup> Khadduri (2008), Shinn et al. (2001).

created to use more housing development funds in such areas. This would help address a significant weakness in federal housing production programs.<sup>63</sup>

- **Promoting transit-oriented development of affordable housing.** As part of a national plan to reduce energy consumption, new vouchers could be used as an incentive to encourage the development of affordable housing in areas with ready access to mass transit. As above, the vouchers would be coupled with additional subsidies for rental housing production or rehabilitation. Such a plan also could reduce transportation costs and improve access to jobs for low-income families.

To expand housing voucher assistance to 2 million new families by 2019 would require a substantial investment: roughly \$8,000 for each voucher in the first year, plus the cost of renewal of each voucher in subsequent years. This investment would pay considerable dividends, however, in terms of reduced poverty and homelessness, and better opportunities for families struggling to improve their lives while making ends meet.

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<sup>63</sup> A similar proposal was put forth by the Center for American Progress Task Force on Poverty, the recommendations of which form the basis of the Half-in-Ten campaign to reduce poverty. See Center for American Progress (2007).