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March 14, 2012

PRESIDENT'S BUDGET NOT SUFFICIENT TO RENEW RENTAL ASSISTANCE FULLY FOR LOW-INCOME HOUSEHOLDS

HUD Budget Also Includes Proposals that Could Cause Serious Hardship for Some of Nation's Poorest People

By Douglas Rice and Barbara Sard

Overview

The President's fiscal year 2013 budget request for the Department of Housing and Urban Development (HUD) is at least $1.7 billion below the amount needed to fully renew rental assistance provided this year under HUD's three major rental assistance programs for low-income households: the Housing Choice voucher, public housing, and Section 8 project-based rental assistance (PBRA) programs. Together, these programs assist approximately 4.5 million low-income families, more than half of which include seniors and people with disabilities (see Table 1).

The proposed renewal funding for Housing Choice vouchers could be as much as $440 million below the amount needed to renew all vouchers in use in 2012, risking the loss of voucher assistance for as many as 55,000 low-income families. The budget's funding for public housing falls well short of the amounts needed to cover agencies' operating and new capital repair expenses in 2013, let alone to begin to address the large backlog of unaddressed capital needs. And the budget's Section 8 PBRA funding is inadequate to provide a full 12 months of funding for all contracts with private owners.

Moreover, some of the policy changes that the budget proposes to help close these funding shortfalls are poorly designed or harmful to low-income families and should be rejected or modified. The most problematic of these would set a mandatory minimum rent of $75 for all HUD-assisted households. Half a million of the very poorest recipients of housing assistance would face rent increases that they would have difficulty affording; for the vast majority of these households, rents would increase by 50 percent or more. This policy change comes at the same time that a new study by leading poverty researchers finds that the number of American families and children living below a standard that the World

Bank uses to measure serious poverty in developing nations — living on less than $2 per person per day — has doubled since the mid-1990s, with the effects especially marked among the families most affected by cuts in basic government assistance.

In addition to their shortcomings on policy grounds, some of the proposed changes would likely generate smaller savings in 2013 than the budget assumes. The savings would shrink further if Congress makes modifications needed to mitigate serious harm to vulnerable low-income families.

In sum, Congress will have to provide significant additional funding for HUD to prevent sizeable reductions in rental assistance for low-income families. Due to a projected increase in offsetting receipts for the Federal Housing Administration (FHA) and other mortgage credit accounts, Congress could provide sufficient funding to renew rental assistance at adequate levels while still producing a budget that would shrink overall HUD funding to levels well below those of recent years.

Table 1

Who Is Served by HUD's Major Rental Assistance Programs?

Program	Number of Households	Average household income	Households headed by elderly	Households headed by non-elderly people with disabilities	Non-elderly, non-disabled households with children
Housing Choice Vouchers	2.2 million	$12,600	19%	28%	42%
Section 8 PBRA	1.2 million	$11,200	47%	17%	27%
Public Housing	1.1 million	$13,500	31%	21%	35%

Source: HUD administrative data for 2010.

In rolling out the budget, HUD Secretary Shaun Donovan articulated several principles that he said governed the Administration's decisions during a difficult budgeting process; these included protecting low-income families by prioritizing the renewal of rental assistance and embracing reforms that improve program effectiveness and reduce costs.[1] These are eminently laudable goals, which Congress can promote by increasing renewal funding and modifying several of the HUD budget's cost-saving proposals.

Voucher Renewal Shortfall Would Risk Loss of Assistance for Up to 55,000 Families

The Housing Choice ("Section 8") Voucher program will assist approximately 2.2 million low-income families in 2012, almost twice as many as the next-largest federal rental assistance program. Roughly half of these households are headed by seniors or people with

[1] See Secretary Donovan's presentation at the February 13 rollout of the HUD budget: http://portal.hud.gov/hudportal/documents/huddoc?id=FY13BudPresExternal.pdf. He cited two other principles: encouraging private capital to return to the mortgage market and making progress on HUD's "signature" initiatives, such as the Choice Neighborhoods and Sustainable Communities initiatives, as well as the Rental Assistance Demonstration authorized by Congress in 2012.

disabilities, and more than 40 percent are headed by non-elderly, non-disabled adults with children. Both rigorous research and surveys of local practitioners have confirmed that vouchers are highly effective at reducing homelessness.[2]

The President's 2013 budget provides $19.1 billion for Housing Choice Vouchers, including $17.2 billion (roughly the amount that Congress made available in 2012) for renewal of vouchers used by low-income families this year.[3] The request is likely insufficient to renew all vouchers in use — and thus risks forcing a reduction in the number of families receiving assistance — because of two factors:

- **Rental cost inflation.** After flattening in 2009 and 2010, private rental housing costs are rising again at an annual rate of more than 2 percent, according to the most recent CPI data. Because low-income families use vouchers to rent housing in the private market, inflation could add $250 – $400 million to the cost of voucher renewals in 2013.[4]

- **More vouchers needing renewal funding.** According to HUD budget documents, as many as 50,000 new housing vouchers were issued in 2011 or will be issued in 2012. These include 14,000 new "tenant protection" vouchers issued in 2011 — to replace public and other assisted housing that is no longer available to low-income families — and as many as 30,000 tenant protection vouchers that HUD expects to issue in 2012. In addition, HUD awarded more than 7,000 new "VASH" vouchers for homeless veterans in 2011. Funding for voucher renewals in 2012 did not reflect any of the costs of the new vouchers issued in 2012, and only a portion of the costs of those issued in 2011, because Congress funds new vouchers separately from renewals for the new vouchers' initial 12 months. To renew these vouchers fully in 2013, an additional $210 – $250 million in renewal funding will likely be needed, we estimate.

Thus, the cost of renewing housing vouchers will be $460 – $650 million higher in 2013 than in 2012, according to our preliminary estimates.[5]

Acknowledging the inadequacy of its renewal funding, the HUD budget proposes two steps to close the gap, at least in part. First, it proposes three changes in the authorizing statutes that HUD estimates would reduce voucher renewal costs by a total of $208 million in 2013. As explained below, however, the cost savings in the first year would likely be considerably less than HUD estimates. Moreover, as many as 1 million low-income households — including about 400,000 households using vouchers — would have to pay

[2] See Jill Khadduri, "Housing Vouchers Are Critical for Ending Family Homelessness," National Alliance to End Homelessness, January 29 2008, http://www.endhomelessness.org/content/article/detail/1875; and the U.S. Conference of Mayors, "Hunger and Homelessness Survey, a Status Report on Hunger and Homelessness in America's Cities," December 2011, p. 28, http://usmayors.org/pressreleases/uploads/2011-hhreport.pdf.

[3] The voucher budget also includes $1.58 billion to cover the administrative expenses of state and local housing agencies, $75 million for new tenant protection vouchers, $75 million for new vouchers for homeless veterans (VASH), and $111 million to renew Section 811 mainstream vouchers for people with disabilities.

[4] The cost range takes into account the facts that voucher costs typically lag changes in the private market and are also sensitive to changes in the incomes of assisted households.

[5] More precise estimates will be available later this year after HUD releases updated program cost data.

higher rental costs under two of the HUD proposals. For the reasons explained below, Congress should reject or modify these two proposals. Doing so would reduce the savings. So, while Congress should consider adopting (with appropriate modifications) a number of the HUD proposals, it would be unrealistic for the appropriations committees to anticipate significant voucher program savings in the first year (although some of the proposals would produce considerable savings in future years, with little harm to low-income tenants).

Second, HUD requests authority to offset the funding reserves that many state and local housing agencies have (that is, to reduce renewal funding for housing agencies that have "excess" funding reserves) under the assumption that agencies will use those reserves to help renew the vouchers in use.[6] This policy, which Congress authorized for the 2008, 2009, and 2012 voucher funding cycles, promotes a more efficient use of program funding and is generally sound. However, the amount of "excess" reserves available for use in this manner will be modest in 2013 — probably no more than roughly $200 million — because housing agencies already are being required to spend down $650 million in reserves to cover their voucher renewal costs in 2012.

If Congress enacted HUD's proposed policy changes *and* the cost savings assumed in the budget fully materialized, then the Administration's request *might* be close to sufficient to renew all vouchers in use, although it could still fall short by as much as $250 million at the higher end of our renewal cost projection. But if, for reasons explained below, the policy-related cost savings are considerably less than HUD estimates — or Congress modifies or fails to authorize HUD's requested policy changes — then the renewal funding shortfall could be as high as $440 million. As a result, housing vouchers for as many as 55,000 low-income families could be left without funding in 2013.

Underfunding of Voucher Administration Compounds Impact of Renewal Shortfall

The President's budget also provides $1.58 billion for voucher program administration in 2013. State and local housing agencies use these funds to verify tenants' income and eligibility, inspect housing to ensure that it meets federal quality standards, and perform other tasks necessary to ensure that federal funds are used efficiently and effectively. The request is a marked improvement over the 2012 enacted level, under which agencies will receive only 74 percent of the administrative fees they have earned under HUD's formula. Even so, it would cover only 81 percent of the amount that the formula for calculating administrative fees indicates that local agencies need and that they qualify for under the formula, according to HUD's estimates. As a result, 2013 would be the third consecutive year of major underfunding of voucher program administration.

Agencies may draw on fee reserves or reduce costs to address *temporary* shortfalls in administrative funding, but persistent, deep underfunding will likely result in fewer families receiving assistance. Shortfalls in administrative funding can lead to staff reductions that result in delays in processing new admissions, for example, or delays in performing the quality and safety inspections required before a family may use a voucher to lease a particular apartment.

[6] This policy is distinct from HUD's 2012 proposal, which Congress adopted, to offset funding for public housing operations in 2012 by the amount of agencies' excess public housing operating reserves.

Severe Underfunding of Public Housing Would Continue Under FY 2013 Request

Public housing provides affordable homes to 1.1 million of the nation's poorest residents. More than half of these households are headed by seniors or people with disabilities.

The budget requests $4.52 billion for the public housing *operating* fund in 2013, which HUD estimates would be about 10 percent less than the amount for which agencies will be eligible under HUD's cost formula, leaving a gap of about $500 million. This would be the second major funding shortfall in a row in the operating fund; the 2012 funding level is expected to fall close to $1 billion short of the amount agencies are due (though agencies will be able to meet a portion of the shortfall with existing reserves). Unlike the 2012 appropriations act, the 2013 budget does not propose to draw on agencies' operating reserves to offset the shortfall.

As in the voucher program, the budget's proposed legislative changes could increase rent revenues for public housing agencies and therefore reduce the amount of federal subsidy required to cover operating costs. As discussed below, however, even if Congress enacted these changes in 2012, the savings in 2013 would make up less than half of the estimated $500 million shortfall. Moreover, some of the proposed changes represent unwise policy.

The budget requests $2.07 billion for the public housing *capital* fund, which would increase funding for capital repairs by close to $200 million above the 2012 level. But it would still be far too little to cover the $3.4 billion in new renovation needs that a recent HUD study estimated accumulates in public housing each year, let alone address the program's estimated $26 billion backlog of unmet capital needs.

The budget also proposes a single-year legislative change to allow all housing agencies to blend the federal assistance they receive under the public housing operating and capital funds and use the funds for any purpose currently permitted under the rules for either funding source.[7] Such flexibility may enable some agencies to use their federal funds more effectively to preserve public housing developments in good condition. But, by blurring the separate rationales for capital and operating funds, it could result in deeper public housing cuts over time. In recent years, Congress has generally provided much more adequate and reliable funding for the operating fund than for the capital fund because agencies' eligibility for operating funds is determined by a HUD formula estimate of their operating costs, while capital fund eligibility is more arbitrary, similar to a block grant. If agencies had full fungibility in the use of funds from the two programs, it would become more difficult to defend funding for the operating fund — Congress could argue, for instance, that agencies could make up for any operating shortfalls by shifting capital funds.

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[7] This is similar to a proposal included in the Affordable Housing and Self-Sufficiency Improvement Act (AHSSIA), which the House Subcommittee on Insurance, Housing, and Community Opportunity (of the House Financial Services Committee) approved on February 7, except that the permanent AHSSIA provision would be limited to agencies that HUD has determined operate their public housing in "a safe, clean, and healthy condition" and that HUD hasn't designated as troubled, rather than to all local agencies.

Overall, therefore, the President's request for public housing is seriously inadequate. Coming on top of considerable reductions in capital funding for public housing over the past decade, the proposed funding levels would expose 1.1 million low-income households to deteriorating living conditions and potential safety hazards. It would likely also raise future federal costs by forcing agencies to delay modest repairs that would avert more costly damage in the future, such as fixing leaky roofs. Finally, if repairs continue to be deferred, housing agencies will eventually be compelled to demolish or sell developments — displacing families from their homes, eliminating needed affordable housing, and squandering decades of federal and local investments.[8]

HUD Would Reintroduce "Short-Funding" of Section 8 PBRA Contracts

The Section 8 Project-Based Rental Assistance (PBRA) program provides rental assistance payments to private owners of 1.2 million units of affordable housing. Two-thirds of the residents of PBRA housing are low-income seniors or people with disabilities.

The President's budget provides $8.7 billion for PBRA, including $8.4 billion for contract renewals and amendments, a reduction of $610 million below the 2012 renewal level. HUD budget documents acknowledge that the amount for renewals is inadequate, and HUD staff have indicated that the request is about $1.1 billion below the amount required in 2013 to provide a full 12 months of renewal funding for every Section 8 contract. As in the other two large rental assistance programs, the budget proposes to reduce renewal costs by implementing a series of policy changes, some of which would require congressional authorization. (The $1.1 billion shortfall figure provided above is net of HUD's assumed cost savings.) In addition, HUD intends to "short-fund" Section 8 PBRA renewals — that is, to shift a portion of the costs of renewing contracts expiring in fiscal year 2013 into the following fiscal year.

Under current policy, housing assistance payments made during a given fiscal year are funded partly from appropriations for the prior fiscal year and partly from appropriations for the given fiscal year. The Administration's proposal would shift the timing of a portion of the appropriations required to make payments in fiscal year 2014. Specifically, a smaller share of assistance payments in FY 2014 would be funded from the FY 2013 appropriation, and a proportionally larger share would have to be funded from the FY 2014 appropriation, requiring a large increase in the PBRA funding level in 2014 to avoid major cutbacks.

The policy should have no effect on the timing or amount of HUD payments to owners (or program outlays) in any year — if Congress provides an adequate appropriation for FY

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8 The Rental Assistance Demonstration (RAD) authorized by Congress in the 2012 appropriations law should enable approximately 5 percent of public housing units to be rehabilitated and preserved under a new project-based rental assistance contract model of funding. While the RAD model is promising, Congress should provide adequate funding to keep the remaining 95 percent of the public housing stock in adequate condition while the model is being tested.

2014.[9] While it temporarily reduces the amount of annual budget authority appropriated for Section 8 PBRA renewals, Congress will need to restore the amount of annual budget authority for renewals to its original level (with adjustments for inflation, the number of renewal units, etc.) in future years to avoid a substantial loss of assisted rental units and a substantial reduction in the number of low-income households assisted.[10]

Short-funding Section 8 PBRA renewals would almost certainly make owners, investors, and lenders nervous. Everyone is well aware of the enormous challenges confronting the federal budget. To some stakeholders, a decision by Congress to short-fund Section 8 renewals could signal a growing risk that Congress may decide in the near future that it will no longer fully fund contract renewals. Such fears could make it more difficult or expensive for owners to secure the capital they need to rehabilitate aging Section 8 properties. They could also discourage some owners from renewing their assistance contracts at expiration, thereby reducing the number of Section 8 PBRA units available to low-income families.

HUD Requests Rely on Unrealistic Savings Estimates and Some Unwise Policy Choices

As explained above, HUD's proposed budget would fail to renew Housing Choice vouchers for as many as 55,000 low-income families in 2013 and would make it considerably more difficult for public housing agencies and owners of Section 8 PBRA housing to sustain assistance for current families in 2013 and later years. The Administration intends to close a portion of these funding shortfalls by enacting four changes in authorizing law that would generate program savings in 2013 and later years:

1. Setting a mandatory minimum rent of $75 for all HUD-assisted households, thereby raising rents — in most cases, sharply — for a half a million of the poorest people served;

2. Raising the threshold for deductible medical expenses for seniors and people with disabilities, thereby raising rents for more than 700,000 low-income elderly and disabled people, many of whom have significant medical conditions;

3. Loosening the income targeting rules for the voucher program to enable agencies to assist more working-poor families; and

[9] The Bush Administration short-funded Section 8 PBRA renewals, and many stakeholders will associate short-funding with the serious problems that surfaced in 2007, when HUD found itself short of program funds and many Section 8 owners experienced lengthy delays in payments. According to HUD, however, the 2007 funding crisis was precipitated not by the short-funding policy itself but by a legal inconsistency between the policy and the existing Section 8 assistance contracts. HUD has since resolved this inconsistency by modifying the terms of the Section 8 contracts. For more information, see the testimony of HUD CFO John Cox before the House Subcommittee on Housing and Community Opportunity, October 17, 2007, http://democrats.financialservices.house.gov/hearing110/htcox101707.pdf.

[10] It may be possible to delay the restoration of funding to FY 2015 or perhaps even to FY 2016, but the size of the funding increase required to avoid severe cutbacks in the number of families assisted would grow considerably with each additional year of delay.

4. Requiring that agencies set flat rents or ceiling rents in public housing closer to market levels.[11]

The first-year cost savings from these proposals under realistic assumptions about the timing of enactment and implementation are likely to be considerably lower than HUD assumes. In addition, some of the proposals would sharply raise rents on the lowest-income tenants and should be rejected or modified.

Mandatory $75 Minimum Rent Would Increase Hardships for Poorest Households And Likely Yield Smaller 2013 Savings than HUD Anticipates

The budget proposes to increase the minimum rent for assisted families to $75 per month and eliminate public housing agency discretion to set the minimum rent below that cap. Under current law, agencies may (but are not required to) set a minimum rent of up to $50 per month for households in the public housing and housing voucher programs, and HUD has established a minimum rent of $25 for households in project-based section 8 units. Under a mandatory minimum rent of $75 per month, approximately 400,000 of the poorest recipients of housing assistance would experience rent increases of 50 percent or more, exposing them to considerable additional hardship. An additional 100,000 or more households with very low incomes would face somewhat smaller rent increases.

HUD estimates that the minimum rent policy would reduce program costs by slightly more than $150 million in 2013, with the savings divided roughly equally among the three large rental assistance programs. Yet HUD's estimates of the cost savings for the housing voucher and public housing programs are based on the implausible assumption that housing agencies would impose the minimum rent at the beginning of 2013 for every family now paying a lesser amount, rather than implement the change on a rolling basis at families' annual recertifications.[12] Even if Congress were to approve the policy, it would likely not enact the change until the end of 2012 at the earliest, which would make it extremely burdensome for housing agencies (and disruptive for assisted households) to implement the policy by January 2013. This is particularly true for the approximately 1,000 agencies that opt to set minimum rents *below* the current maximum limit of $50 per month.[13] Many of these agencies would find it impossible to adequately review requests for a hardship exemption (see the next paragraph) prior to the January 1 deadline.

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[11] The budget proposes additional measures to reduce renewal costs in the Section 8 PBRA program. While there are questions about the details of these policy proposals, they are likely to have little impact on residents and appear reasonable. HUD estimates that these proposals could yield program savings of approximately $370 million in 2013.

[12] That HUD's estimates are based on this assumption was confirmed by HUD staff during a stakeholder call on February 22. In the case of Section 8 PBRA, HUD apparently assumed that the policy would be phased in during 2013.

[13] Abt Associates et al, *Study of Rents and Rent Flexibility*, prepared for HUD Office of Public and Indian Housing, May 26, 2010, http://www.huduser.org/publications/pdf/Rent%20Study_Final%20Report_05-26-10.pdf. According to Abt's analysis, 26 percent of housing agencies set the minimum rent at less than $50 per month.

The basic policy is also unwise. HUD rules include a "hardship" exemption designed to protect many of the poorest households from unaffordable rents, but the criteria for such exemptions are vague, the existence of such exemptions is not widely known among tenants, and exemptions are rarely granted.[14]

Moreover, HUD's claim that the minimum rent should be raised to "keep pace with inflation" — the argument that House Republicans made in support of a similar but slightly less severe policy — is unpersuasive. The incomes of extremely poor families generally do *not* rise in tandem with inflation in rents or prices generally. For example, basic cash assistance levels under the Temporary Assistance for Needy Families program have fallen 25 percent in real dollars since 1996 in the median (or typical) state, and continue to fall farther behind inflation with each passing year. All but two states failed to keep these benefits up with inflation in 2011 — as 48 states either froze benefits or cut them in *nominal* terms.[15] Indeed, by 2011, the TANF benefit for a family of three with no other income fell below the Fair Market Rent for a 2-bedroom apartment in every state in the country, and below *half* of the Fair Market Rent in a majority of states. (In a majority of states, TANF cash assistance now fails to lift families with children even to 30 percent of the poverty line.)

In fact, a new study by poverty researchers finds that the number of U. S. families with children who live below a standard that the World Bank uses to measure severe poverty in developing countries — defined as living on less than $2 per person per day — has increased by 130 percent since the mid-1990s (which is roughly the same period that the $50 minimum rent policy has been in place).[16]

Raising rents on the poorest Americans as a way to cut programs and reduce deficits contradicts a core principle set forth in the report of fiscal commission co-chairs Erskine Bowles and Alan Simpson that deficit reduction should not increase poverty or make poor people even poorer.[17]

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[14] See Barbara Sard, Will Fischer, and Thyria Alvarez-Sanchez, "Proposed Change in HUD's Minimum Rent Policy Could Raise Rents For Several Hundred Thousand Poor Families," Center on Budget and Policy Priorities, November 28, 2011, http://www.cbpp.org/cms/index.cfm?fa=view&id=3607.

[15] The benefit levels referred to here are the levels for a family of three (a mother and two children) with no other income. See Ife Finch and Liz Schott, "TANF Benefits Fell Further in 2011 and Are Worth Much Less Than in 1996 in Most States," Center on Budget and Policy Priorities, November 21, 2011, http://www.cbpp.org/cms/index.cfm?fa=view&id=3625.

[16] H. Luke Shaefer and Kathryn Edin, "Extreme Poverty in the United States, 1996 to 2011," National Poverty Center Policy Brief #28, February 2012, http://npc.umich.edu/publications/policy_briefs/brief28/policybrief28.pdf. The authors found that about 300,000 of these extremely poor families with children had housing assistance in 2011; this nearly matches our estimate, based on HUD administrative data, that 330,000 very poor families with children would face rent increases under the proposal. See http://www.cbpp.org/files/2-3-12hous-minimum-rent-fact-sheet.pdf for a fact sheet on a similar but somewhat less severe proposal included in AHSSIA and state-by-state estimates of the number of families that would face rent increases under that proposal. About 15,000 more families would face rent increases under the Administration's proposal than under the proposal in the House legislation.

[17] See Alan Simpson and Erskine Bowles, "Our advice to the debt supercommittee: Go big, be bold, be smart," *Washington Post,* September 30, 2011, http://www.washingtonpost.com/opinions/our-advice-to-the-debt-supercommittee-go-big-be-bold-be-smart/2011/09/30/gIQAPzjBBL_story.html.

To Mitigate Harm to Seniors and People with Disabilities, Any Increase in Medical Deduction Threshold Should Be Combined with Other Changes

Under current law, unreimbursed medical and related expenses above 3 percent of income are deducted in determining the rent obligations of elderly and disabled households. The budget proposes to raise the threshold to 10 percent of income. When fully implemented, such a change could save more than $200 million per year in the major rental assistance programs, according to Congressional Budget Office estimates, by charging higher rents to many low-income elderly and disabled people with medical conditions. Since 2007, versions of the Section 8 Voucher Reform Act (SEVRA) have included this change. It also is in the Affordable Housing and Self-Sufficiency Improvement Act of 2011 (AHSSIA).

This change has broad support in Congress and among stakeholders as a way to reduce administrative burdens for agencies and private owners of assisted properties. Because the policy by itself would increase rent burdens on more than 700,000 low-income elderly and disabled individuals, however, previous proposals have *coupled* the change with two important related measures that would significantly mitigate the potential harm to vulnerable people. These two measures have been key to securing acceptance of the medical-deduction proposal among various stakeholders. The Administration's budget, however, *lacks both of the related measures to limit the harm to vulnerable people.*

First, the various versions of the SEVRA legislation balanced the rent increase imposed on many elderly and disabled households by raising the medical-deduction threshold with a rent *reduction* via an increase in the standard deduction that the rental assistance programs use — which made these policy changes close to revenue neutral as a package. The latest version of AHSSIA is tougher; it would raise the standard deduction from $400 per year to $525 per year, providing a small rent break of about $3 per month and offsetting about half (rather than nearly all) of the savings from the change in the medical deduction. In contrast, the Administration's budget would increase rents for the approximately one-fourth of elderly and disabled households with high out-of-pocket medical costs, with no offsetting rent relief for anyone.

Second, the SEVRA and AHSSIA provisions would not take effect immediately. Recognizing that the rent increases for some households would be substantial and that implementation will require complex system changes for agencies and owners, the recent authorizing bills have specified that the rent policy changes would not take effect until the calendar year after HUD has issued implementation policies. Such a grace period is important to permit affected low-income elderly and disabled people to investigate health care alternatives and adjust their budgets. The Administration's budget specifies no grace period, although HUD's cost saving estimates for 2013 are about one-third less than CBO's full-year savings estimate, indicating that HUD assumes a several-month delay in implementation.

Making the adjustments suggested above would significantly reduce the savings from these provisions in the first year. For instance, by implementing the increase in the medical deduction threshold on a rolling basis at each household's annual recertification, and coupling the change with the increase in the standard deduction for elderly/disabled households provided in AHSSIA, the savings likely would be reduced to approximately $50 million in the first year, about $90 million less than the HUD budget assumes.[18]

Modestly Easing Income Targeting Rules Is a Prudent Way to Assist More Working-Poor Families, But Savings in 2013 Are Uncertain

Under HUD rules, 75 percent of the new vouchers issued each year must serve "extremely low-income" (ELI) families, defined as those with incomes at or below 30 percent of the HUD-determined area median income, adjusted for household size. The Administration proposes changing the ELI definition to 30 percent of area median income *or* the federal poverty line, whichever is higher. In many areas, particularly non-metropolitan communities, the ELI level is below the federal poverty line for some or all family sizes. The proposed change would give housing agencies more flexibility to provide housing vouchers to working-poor families.

HUD estimates that the change would save $121 million in the Housing Choice Voucher program in 2013, which is consistent with previous CBO estimates of $118 million in savings in the first year and about $180 million in subsequent years. The savings are achieved because the additional working families served would have somewhat higher incomes — and therefore require lower rental subsidies — than the poorer families the program otherwise would serve. (No savings from this provision are expected in HUD's other rental assistance programs, as those programs already have less stringent income-targeting requirements.) This change has wide support and has been in every version of SEVRA that Congress has considered in the last five years. It also was included in the Senate version of the fiscal year 2012 HUD appropriations bill.

While the change would certainly reduce program costs in 2013, it is unclear how HUD could adjust local housing agencies' renewal funding allocations in anticipation of the expected savings. The magnitude of each agency's savings in 2013 would depend on numerous factors, including the composition of its waiting list and its policies concerning the targeting of vouchers to particular groups, such as homeless individuals and families. It thus would be very difficult for HUD to make reliable estimates on an agency–by-agency basis of the agency-level savings in 2013 (although any reduced costs in 2013 will surface in reduced renewal funding eligibility in 2014), and there would be significant risks that some local agencies would experience renewal-funding shortfalls if HUD attempted to do so. It would therefore be unwise for Congress to reduce renewal funding overall for 2013 in anticipation of such savings in the first year.

[18] Previous CBO cost estimates of similar provisions suggest that the standard deduction increase in AHSSIA would reduce the savings from the increase in the medical-deduction threshold by about half, while implementing the changes on a rolling basis would then reduce the remaining savings by half. Annual savings of approximately $200 million would thus be reduced to one-quarter of that amount, or about $50 million.

Requiring Flat or Ceiling Rents to Be Closer to Market Levels Is Good Policy, But Here, Too, Savings In the Initial Year Are Uncertain

To encourage a mixture of incomes among public housing residents, HUD rules permit residents to elect to pay a "flat rent" that the local housing authority sets, rather than having their rental charge set at 30 percent of their adjusted income. While any family can choose to pay a flat rent, families are more likely to select the option when the flat rent enables them to pay less than they otherwise would to live in public housing. This policy benefits public housing residents with the highest incomes, but has been considered reasonable because HUD rules require flat rents to be set at "the estimated rent for which the PHA [public housing agency] could promptly lease the public housing unit after preparation for occupancy"[19] — that is, at the approximate market rent for the units.

Data suggest, however, that existing flat rents are well below market rents. In New York City, for example, the average flat rent paid by families under the local policy was $513 per month in 2010, far below the average Fair Market Rent of $1,359 for a two-bedroom apartment. While low flat rents reduce revenues collected by public housing agencies, they also increase some agencies' eligibility for subsidies under the public housing operating fund, thereby increasing overall federal program costs and — in years when funding for the operating fund is insufficient — deepening shortfalls at other local housing agencies.

The Administration's budget would require public housing agencies to set flat rents at no lower than 80 percent of the HUD fair market rent for the area.[20] HUD estimates that the proposal would affect more than 160,000 households, more than one third of which are in New York City. More analysis is required to assess whether HUD has proposed the best available objective standard, but the ambiguity of current law and the very low flat rents that some agencies have adopted demand that HUD set a clear, easily enforced policy.

In contrast to its approach in the other policy proposals discussed above, HUD recognizes that it will take some time for agencies to implement an increase in flat rents and would not require full compliance until September 30, 2013, meaning that the additional rent revenues would largely be limited to amounts collected in the final quarter of the calendar year. (*Fiscal year* 2013 public housing operating subsidies cover the 2013 *calendar year*.) The budget also recognizes that abrupt rent increases may cause hardships even for public housing residents with higher-than-average incomes, and caps the amount of the annual increase in a household's rental payment at 35 percent. As a result, HUD estimates that total savings would amount to $150 million in 2013, although annual savings would be roughly three times greater after the policy is fully implemented.

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[19] 24 C.F.R. § 960.253(b)(1).

[20] The flat rent option was authorized by the Quality Housing and Work Responsibility Act of 1998. HUD's proposal would also apply to "ceiling" rents, which were authorized prior to the enactment of QHWRA.

Congress Could Provide Adequate Renewal Funding While Keeping HUD Funding Level Well Below Recent Years

Overall, we estimate that the Administration's 2013 request for the renewal of Section 8 voucher and project-based rental assistance and the public housing operating fund falls $1.7 billion - $1.9 billion short of the amount needed to renew rental assistance for the current number of families in 2013 and later years (see Table 2). The budget also fails to provide adequate funding for public housing capital repairs and voucher program administration.

Table 2

Analysis of HUD Requests to Renew Rental Assistance

Program	HUD request for 2013	Estimated full renewal and operating funding for 2013, assuming no policy-related cost savings	Realistic policy-related cost savings, excluding harmful policy changes	Renewal and operating shortfalls, net of realistic policy-related savings
Housing Choice Voucher renewals	$17.2 billion	$17.7–17.9 billion	$210 million	$250 - 440 million
Section 8 PBRA	$8.7 billion	~$10.2 billion	$400 million	~$1.1 billion
Public Housing Operating Fund	$4.5 billion	$5.0 billion	$160 million	$350 million
Total			$770 million	$1.7 – 1.9 billion

Source: Center on Budget and Policy Priorities and HUD. For vouchers, the cost savings shown include $200 million in reserve offsets. For Section 8 PBRA, cost savings shown include $370 million related to a set of policy changes not discussed in this paper (see footnote 11). For public housing, cost savings include $150 million in savings from the proposed change in ceiling/flat rents. The remaining $50 million in total savings shown is related to the change in medical/standard deductions proposed in AHSSIA, assuming the changes would be implemented on a rolling basis at the annual recertfications of assisted households. No savings from the minimum rent or income targeting proposals are included.

Fortunately, Congress could address a substantial share of this shortfall while producing a HUD budget that still reduces funding by a considerable amount. The President's budget requests $35.3 billion in new budget authority for HUD discretionary programs in FY 2013. This is $2.9 billion (or 7.6 percent) *less* than the enacted 2012 level and $7.6 billion (or 17.6 percent) below the 2010 funding level, even without any adjustment for inflation. The Administration's HUD budget request for fiscal year 2013 is smaller in *nominal* terms than the amount of funding provided for HUD in every fiscal year since 2006 (and is less than the level for every HUD budget since 2000 when inflation is taken into account).

One reason that the level of new budget authority for HUD overall is so low compared to the levels for prior years is that HUD expects to receive $4.4 billion more in 2013 in offsetting receipts from FHA and other credit accounts. (These offsetting receipts reduce the amount of new budget authority needed.) Thus, if Congress were to set funding for HUD's major low-income rental assistance programs as much as $2 billion above the levels in the President's budget in order to address the shortfalls this paper discusses, the overall HUD budget would still stand (if other HUD accounts were funded at the Administration's proposed levels) about $924 million, or 2.4 percent, below the amount provided for HUD in 2012, and $5.5 billion — or nearly 13 percent — below the 2010 HUD budget level. (Such an approach would require reductions below the President's request elsewhere in the federal budget.)

On a related front, HUD has just announced a new round of premium increases for FHA insurance programs that it estimates will increase federal receipts by roughly $1 billion above the level *that was* assumed in the *Administration's* fiscal year 2013 budget when it was released in February. These funds could be used to fill a portion of the funding shortfalls outlined in this analysis. In recent testimony before Congress, HUD Secretary Shaun Donovan said that restoring renewal funding for Section 8 project-based rental assistance and retracting the proposal to impose a mandatory minimum rent of $75 per month on HUD tenants would be his priorities for the use of such funds.

The decisions to be made on these issues in the months ahead are of considerable importance. If the Administration and Congress are unwilling to fully fund the renewal of low-income rental assistance in 2013 — a year when HUD will enjoy a temporary $4 - 5 billion surge in mortgage credit receipts — it is difficult see how policymakers will honor in any year ahead their oft-stated commitment to sustain rental assistance and thereby ensure that vulnerable low-income families do not face significant increased hardship as a result of action taken to reduce the budget deficit.