Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

March 7, 2011

HOUSE SPENDING BILL RENEWS MOST LOW-INCOME RENTAL ASSISTANCE BUT WOULD UNDERCUT EFFORTS TO REDUCE HOMELESSNESS AND MEET OTHER CRITICAL HOUSING NEEDS

By Douglas Rice

Overview

Legislation that the House of Representatives recently passed to cut funding for non-security discretionary programs in the current year (fiscal 2011) would provide adequate funding for several major low-income rental assistance programs — for renewal of Housing Choice vouchers and Section 8 project-based rental assistance contracts — as well as for the operation of public housing developments.

But the bill (H.R. 1) would cut various other important housing-related programs — including programs to help low-income veterans, people with disabilities, and senior citizens — and thereby hinder state and local efforts to reduce homelessness and address the growing shortage of affordable housing. Overall, the House bill would cut HUD funding for housing and community development programs by $5.4 billion, or 12 percent, below the 2010 level.[1]

H.R. 1's low-income housing provisions thus contain both good news and bad news. Here's the good news:

- **Housing Choice ("Section 8") voucher renewals.** The bill provides $16.7 billion for the renewal of housing vouchers in 2011, an increase of $364 million above the 2010 funding level. This funding level would likely be sufficient to renew rental assistance for the 2.1 million low-income households currently using vouchers to rent modest housing in the private market, according to our analysis of HUD program cost data.

- **Section 8 Project-Based Rental Assistance (PBRA) renewals.** Section 8 PBRA, which assists 1.2 million low-income households living in privately-owned developments, would receive $9 billion for renewals in 2011, $630 million above the 2010 level. This amount should suffice to renew rental assistance for all low-income families currently living in housing supported by Section 8 PBRA. (For an explanation of why renewal funding increases are required to prevent reductions in the number of families assisted by the two Section 8 rental assistance programs, see the Appendix.)

- **Public Housing Operating Fund.** The bill allocates $4.6 billion in 2011 for basic maintenance and operation of public housing. Some 1.1 million low-income households reside in public housing; two-thirds of these households include seniors or people with disabilities. While this amount is $149 million below the 2010 funding level, housing agencies would receive close to 100 percent of the funding for which they will be eligible under HUD's operating cost formula, according to our estimates. This would mark the second year in a row that housing agencies received adequate or close-to-adequate funding to cover the operating costs of public housing, after seven straight years of inadequate funding.[2]

These provisions are important. The Section 8 and public housing programs assist nearly 90 percent of all low-income families that receive federal rental assistance. More than half of these households are headed by people who are elderly or who have disabilities, and 40 percent include children. On average, these families have annual incomes of only $12,500, well below the poverty line. Should families lose Section 8 rental assistance, the great majority would see their housing costs double or triple, placing many at risk of eviction or even homelessness. In public housing, reductions in funding have consequences that are less immediate but still serious — in particular, the deterioration of housing units (and living conditions) and the loss of public housing over time.[3]

Unfortunately, various funding reductions included in the House bill would undercut some of the provisions just described, risking the loss of rental assistance for some low-income families and accelerating the deterioration and loss of public housing:

- Although the Housing Choice Voucher *renewal* funding level is likely adequate, a proposed $368 million (24 percent) reduction in *administrative* funding for the state and local housing agencies that operate the voucher program would prevent many agencies from re-issuing vouchers promptly when families leave the program. This would likely lead to a reduction in the number of vouchers in use at any point in time and hence result in a reduction in the number of low-income seniors, people with disabilities, and families with children being assisted.

- In addition, while agencies overseeing public housing developments would receive sufficient *operating* funding for basic maintenance and operations, the cut of $1.1 billion — or 43 percent — in funding *for capital repairs* in public housing would prevent many state and local agencies from making major repairs or renovations such as fixing leaky roofs and replacing broken heating systems that are necessary to prevent the deterioration of living conditions for low-income residents and to avert damage that could lead to more costly repairs in the future.

And several other provisions of H.R. 1 would seriously weaken state and local efforts to reduce homelessness and address the growing shortage of affordable rental housing for low-income families.

- **Funding to provide new housing vouchers to 10,000 homeless veterans would be eliminated**.[4]

- **Funding for Section 202 housing for the elderly would be cut by $587 million — or 71 percent — while funding for Section 811 housing for people with disabilities would be cut by $210 million, or 70 percent.** As a result of these cuts, Section 811 vouchers for 14,000 low-income people with disabilities would not be renewed, placing these people at risk of losing their homes. In addition, funding for the development of nearly 4,500 new units per year of low-income housing for low-income seniors and people with disabilities would be eliminated.[5]

- **Funding for the HOME Investment Partnerships, Native American Housing, Native Hawaiian Housing, and Community Development block grants would be cut sharply**. These programs distribute resources to state and local governments, Indian reservations, and Native American, Hawaiian, and Alaskan tribal areas to develop and rehabilitate affordable housing.

On March 4, Senate Democrats released a counterproposal to the House bill that reduces spending for non-security discretionary programs by an additional $6.5 billion, beyond those cuts already enacted in the current continuing resolution. The Senate Democratic bill avoids the House bill's deep and harmful cuts in various low-income housing programs. The Senate Democratic proposal does not appear to have much chance, however, of securing the 60 votes necessary to win Senate approval.

With the Incidence of "Worst-Case" Housing Needs Rising, Full Renewal of Existing Rental Assistance for Vulnerable Families Should Be a Priority in Final 2011 Bill

A new HUD analysis of Census data reveals that 7.1 million renter households had "worst-case housing needs" in 2009, meaning that they had "very low incomes" (incomes below 50 percent of the area median income), received no federal, state, or local housing assistance, and either lived in severely substandard housing or paid housing costs that exceed half of their income. That figure represents an increase of 20 percent, or 1.2 million households, since 2007 and 42 percent since 2001.[6]

HUD's analysis also sheds light on the causes of the spike in worst-case housing needs since 2007. Not surprisingly, more than one third of the increase was due to declines in renter incomes caused by the recession. Other major factors include a 10 percent rise in rents and a related drop in the number of affordable housing units available to very low-income families — and the failure of rental assistance programs to expand to meet rising need.

Families with children have been especially hard hit by the recession. HUD's most recent data show that 323,000 children were homeless in 2009, an increase of 12 percent since the recession began in 2007. HUD's figure includes only children living in homeless shelters; two to three times as many children were "homeless" if one counts those living on the street or in unstable situations such as being temporarily doubled-up with other families, according to data the Department of Education has collected.[7] Various studies have found that housing instability and homelessness lead to lower academic performance among children, increase children's chances of repeating a grade, and reduce high school completion rates. Homelessness also puts children at greater risk of serious physical health problems and increases mental stress.[8]

In light of these growing hardships, full renewal of existing federal rental assistance should be a priority in the final funding bill for fiscal year 2011. To prevent reductions in the number of families receiving rental assistance, significant increases in renewal funding above the 2010 level are required in some programs — particularly the Housing Choice Voucher and Section 8 project-based rental assistance programs. For example, if the final bill were to fail to include the renewal funding levels for these programs that H.R. 1 contains and to freeze funding at 2010 levels instead, Housing Choice vouchers currently used by more than 45,000 low-income seniors, people with disabilities, and families with children would receive no renewal funding, and Section 8 project-based rental assistance for more than 70,000 low-income households would not be renewed. Funding reductions below the 2010 levels for Section 8 renewals would result in even deeper cuts.

House Bill's Deep Cuts in Funding to Repair and Renovate Public Housing Undercut Goal of Preserving Existing Rental Assistance

By providing adequate funding for Section 8 renewals and public housing operations, the House bill helps to sustain existing rental assistance for low-income families. As noted above, however, this worthy goal is undercut by the House bill's deep reductions in funding for Housing Choice voucher program administration and capital funding for public housing.

The House bill would reduce public housing capital funding by nearly $1.1 billion, or 43 percent, in 2011. In addition, the bill would eliminate $200 million for grants under the HOPE VI program and the Choice Neighborhoods Initiative (CNI), which are used for such purposes as revitalizing public and private housing developments that provide affordable housing to low-income households but have deteriorated or become obsolete and require major rehabilitation or redevelopment.[9] H.R. 1 also would rescind (or cancel) $198 million in HOPE VI/CNI funds from 2010 that HUD is now in the process of awarding.

Such sharp cuts would prevent state and local housing agencies from making major repairs or renovating housing developments that are in poor condition. The capital funding provided in the House bill is more than $1 billion less than these agencies need just to address new renovation needs that arise in public housing each year, let alone address the large backlog of existing needs. As a result, the bill would:

- Lead to a deterioration in living conditions for many low-income tenants. Cuts of this depth could cause delays in addressing unhealthy or hazardous conditions such as crumbling stairs or broken sprinkler systems.

- Increase future federal costs by deferring improvements that would prevent more costly damage down the road (such as structural damage caused by a leaking roof) or reduce energy consumption and costs. The federal government spends more than $2 billion a year on utility subsidies for public housing. Efficiency improvements such as installing new windows or replacing inefficient heating systems could reduce this amount considerably.

- Risk creating blight that would lower property values in surrounding neighborhoods.

- Permit some developments to deteriorate to the point that they must be demolished, squandering decades of federal and local investment and eliminating badly needed affordable housing. Already, more than 10,000 public housing units are lost every year due to deterioration and other factors; the House bill's deep cuts in capital funding would accelerate these losses. (For estimates of the proposed cut in public housing capital funding for each local housing agency, see the tables at http://www.cbpp.org/cms/index.cfm?fa=view&id=3419.)

House Bill Would Undercut Efforts to Reduce Homelessness and Meet Other Critical Housing Needs

The House bill contains deep funding cuts in other areas that would weaken state and local efforts to reduce homelessness and address the worsening shortage of affordable housing for low-income families. Specifically, the House bill would:

- **Eliminate funding for new housing vouchers for 10,000 homeless veterans.** Congress provided $75 million for rental vouchers for homeless veterans in fiscal year 2010, and the bills approved last year by the House and the Senate Appropriations Committee included $75 million again for 2011, but H.R. 1 would provide no further funding for this program. The House bill does provide $1.87 billion for homeless assistance grants in 2011, which is the same level as in 2010, but evidence indicates that homelessness is rising in response to the persistence of high unemployment and continued widespread foreclosures. As a result, some increase in funding is needed in this area.[10]

- **Fail to renew vouchers for 14,000 people with disabilities, and eliminate funding to produce supportive housing for low-income seniors and people with disabilities.** The House bill reduces funding for the Section 202 elderly housing program by $587 million (or 71 percent) and the Section 811 housing program for people with disabilities by $210 million (or 70 percent), compared to 2010. These reductions would eliminate funding for the development of nearly 4,500 new units of housing under these programs. Most damaging, the bill would create a shortfall of $114 million for Section 811 "mainstream" housing vouchers, which would necessitate the elimination of rental assistance for 14,000 low-income people with disabilities and place many of these people at risk of being displaced from their homes. This is one of the few areas in which the House bill fails to renew federal rental assistance on which low-income families currently rely.

- **Make deep cuts in housing and community development block grants.** The House bill would reduce funding for the HOME Investments Partnerships program by $175 million (nearly 10 percent), reduce funding for the Native American Housing Block Grant by $200 million (29 percent), and eliminate funding for the Native Hawaiian Block Grant, which received $13 million in 2010. These programs distribute resources to state and local governments, Indian reservations, and Native American, Hawaiian, and Alaskan tribal areas to develop and rehabilitate affordable housing for low-income renters and homeowners.

  The House bill would also slash Community Development Block Grants in 2011 by $2.95 billion, or 66 percent, including a $2.49 billion reduction in formula grants. CDBG formula grants provide states and localities with flexible funds they can use to develop and rehabilitate affordable housing, repair and improve essential infrastructure such as water and sewer systems, develop public facilities such as community centers for seniors and youth, and provide social services. Although less than one-eighth of CDBG funding is used for the development of low-income rental housing, it remains an important resource for that purpose. (For state-by-state estimates of the proposed cuts in HOME, the Native American block grant programs, and CDBG, see tables 6 and 8 of the paper by James R. Horney cited in note 1.)

- **Eliminate funding for initiatives that encourage states and localities to make the best use of scarce federal housing, transportation, and other resources.** The House bill would eliminate funding for the Sustainable Communities Initiative and rescind an additional $130 million in 2010 funds that have been awarded to state and local agencies but not yet legally "obligated".[11] This important initiative is a joint effort by HUD, the Department of Transportation, and the Environmental Protection Agency to coordinate federal housing and transportation investments with local land use decisions in order to reduce transportation costs for families, improve housing affordability, save energy, and increase access to housing and employment opportunities.

With worst-case housing needs rising sharply, the House bill's deep cuts in certain housing assistance programs would come at a difficult time for low-income families and would worsen hardships in 2011 and later years.

The Senate Democratic Alternative

Congress has approved temporary legislation to fund federal agencies through March 18. Critical decisions affecting a wide range of federal programs — including low-income housing programs — will have to be made in the weeks ahead.

Senate Democrats and the Obama Administration have expressed strong opposition to cutting funding for non-security discretionary programs to the extent that H.R. 1 would. On March 4, Senate Democrats released a counterproposal to H.R. 1.

The Senate proposal includes reductions in funding for a number of non-security discretionary programs but largely protects low-income housing programs from deleterious cuts. Following the House bill, the Senate proposal adequately funds Section 8 renewals and public housing operations. But it also makes substantial improvements in other areas by:

- Rejecting sharp reductions in funding for Housing Choice Voucher program administration and the repair and renovation of public housing. As explained above, the House-proposed cuts in these areas could lead to the loss of rental assistance for low-income families and the deterioration and loss of public housing.

- Restoring the $75 million for new housing vouchers for 10,000 homeless veterans that would have been eliminated under the House bill and increasing funding for homeless assistance grants by $190 million above the 2010 level. These provisions would modestly increase resources to address rising homelessness due to persistently high unemployment and other factors.

- Declining to accept House proposals to cut $587 million (71 percent) from Section 202 housing for the elderly and $210 million (70 percent) from Section 811 housing for people with disabilities. The Senate proposal would thus renew 14,000 Section 811 "mainstream" vouchers for people with disabilities that would be eliminated under the House bill and restore funding for the development of nearly 4,500 new units of low-income housing under these programs.

- Rejecting deep cuts to the HOME, Native American Housing, Native Hawaiian Housing, and Community Development block grants.

The Senate proposal recognizes that continuing to combat some of the most severe hardships brought on by the recession, and taking some steps — even if small — to address the growing shortage of affordable housing for low-income families, should remain priorities.

Appendix

Why Will Section 8 Renewal Costs Increase in 2011?

The two Section 8 programs — the Housing Choice Voucher (HCV) program and the Project-Based Rental Assistance (PBRA) program — assisted a total of 3.3 million low-income households in 2010. More than half of these households were headed by seniors or people with disabilities; more than 40 percent of the households included children.

To assist the same number of households in 2011, the HCV program will require an additional $364 million in renewal funding, an increase of 2.2 percent, while the PBRA program will require a $630 million, or 7.6 percent, increase in renewal funding. Why are these funding increases required simply to prevent a reduction in the number of households assisted?

While the details differ somewhat in each Section 8 program, three general factors drive program costs — the number of low-income families receiving assistance that is eligible for renewal, rent and utility costs in the private market, and the gap between family incomes and housing costs.

(1) Units eligible for renewal: In most years, the number of Section 8 rental assistance units that are eligible for renewal increases, though the reasons for this differ in each program. In the PBRA program, assistance for roughly 80 percent of the 1.2 million units is renewed by annual appropriations, while the remaining 20 percent is still funded by appropriations made decades ago when the original multi-decade-long assistance contracts were initiated. Every year, the original long-term assistance contracts governing tens of thousands of units expire. In some cases, owners terminate their participation in the program at expiration, but many expiring contracts are replaced with new contracts that require annual renewal funding. As a result, the number of PBRA units requiring annual renewal funding increases by as much as 4-5 percent from year to year, although the increase ranges from 1-2 percent in most years.

In the Housing Choice voucher program, the number of vouchers that are eligible for renewal may increase for any of three reasons. First, following the policy set by Congress, HUD awards approximately 20,000 new "tenant protection" vouchers each year to replace public or other assisted housing that has been demolished or otherwise lost (including PBRA housing where the owner has ended participation in the program). After the initial year, tenant protection vouchers roll into the renewal base, increasing the cost of voucher renewals. Second, Congress periodically funds new "incremental" housing vouchers. These include, for example, the 30,000 new vouchers for homeless veterans that Congress funded from 2008 to 2010. As with tenant protection vouchers, incremental vouchers are rolled over into the renewal base after the first year, increasing costs. Finally, the utilization rate of vouchers may improve from year to year. Each agency is authorized to issue a capped number of housing vouchers, but, for most agencies, renewal funding eligibility is determined by the actual number of families using vouchers and the costs of those vouchers in the prior year. Voucher utilization rises and falls depending on the availability of funding, market conditions, and other factors, and voucher renewal costs rise and fall accordingly.

For example, the number of low-income families using Housing Choice vouchers increased by about 21,000, or more than one percent, from FY 2009 to FY 2010, which contributed to the increase in voucher renewal costs in 2011. Most likely, this increase was due to the issuance of new tenant protection vouchers and VASH vouchers for homeless veterans.

(2) Rent and utility cost inflation: Both Section 8 rental assistance programs are public-private partnerships in which low-income families rent housing in the private market under an arrangement in which a portion of the housing costs is paid by the federal program. Families participating in the Section 8 programs contribute roughly 30 percent of their income for housing costs, and the federal rental assistance payment fills the gap between the tenant contribution and the total cost of rent and basic utilities, within reasonable limits that are set by HUD and state and local housing agencies in comparison to costs in the local market. While the details are complicated, the cost of the federal subsidy is generally tied to changes in market rents and utility costs.

The formulas that determine renewal funding eligibility include inflation factors to anticipate these changes. In the Housing Choice Voucher program, for example, the average inflation factor used in the 2010 renewal formula was 2.4 percent, and we estimate that the average inflation factor for 2011 will be less than one percent.

(3) The gap between resident incomes and housing costs has continued to grow in recent years, pushing up renewal costs in the Section 8 programs. Because Section 8 rental assistance subsidies fill the gap between the tenant contribution and the actual allowable housing costs, the subsidies rise and fall in relation to changes in tenant incomes as well as to changes in market rents and utility costs. When the economy is poor and unemployment is rising, for example, resident incomes may fall, on average, due to job losses — or, at the least, tenant incomes may rise at a slower rate than housing costs do. But changes in resident incomes may affect costs in less obvious ways, too: if there is an uptick in the rate at which families exit the program, for example, this may reduce the average income of assisted tenants, because new admissions typically have much lower incomes than the families that exit the program.

Notes

[1] For more information on H.R. 1, see James R. Horney, Danilo Trisi, and Arloc Sherman, "House Bill Means Fewer Children in Head Start, Less Help for Students to Attend College, Less Job Training, and Less Funding for Clean Water," Center on Budget and Policy Priorities, March 1, 2011, http://www.cbpp.org/cms/index.cfm?fa=view&id=3405.

[2] In addition, the House bill provides adequate renewal funding for most smaller rental assistance programs, including the Homeless Assistance Grants program, and the Section 202 and 811 housing programs for the elderly and people with disabilities. A major exception is the House bill's elimination of funding for the renewal of Section 811 "mainstream" vouchers for up to 14,000 people with disabilities, as explained below.

[3] Over the short term, shortfalls in operating funding for public housing hinder agencies from performing basic building maintenance, such as fixing broken windows and door locks, preparing vacant units to lease to families on waiting lists, and maintaining sidewalks and building grounds. Over the long term, deferred maintenance can contribute to the deterioration and ultimate loss of affordable housing as public housing developments become too costly to rehabilitate.

[4] These vouchers are funded under a HUD-VA supportive housing program (HUD-VASH), which provides rental assistance, clinical services, and case management to veterans. Congress provided $75 million for new HUD-VASH vouchers in fiscal years 2008, 2009, and 2010, and the bills approved last year by the House and Senate Appropriations Committee provided $75 million again for 2011.

[5] The House bill provides $238 million for Section 202 elderly housing and $90 million for Section 811 housing for people with disabilities. These amounts should be adequate to renew rental assistance contracts for existing Section 202 and Section 811 housing developments, but include no funding for the development of new affordable housing under those programs. The bill appears to follow the Administration's FY 2011 budget in proposing $90 million for the Section 811 housing program for people with disabilities. However, the Administration's request also included $114 million separately in the Housing Choice Voucher account for the renewal of Section 811 mainstream vouchers. The House bill fails to provide the latter, and so effectively eliminates rental assistance for 14,000 low-income people with disabilities.

[6] Barry L. Steffan et al, *Worst-Case Housing Needs, 2009: A Report to Congress*, Office of Policy Development and Research, Department of Housing and Urban Development, February 2011. HUD defines "very low income" as income less than 50 percent of the area median income. While the very-low-income limit varies by region, it is roughly equivalent to 150 percent of the poverty line, on average.

[7] *Education for Homeless Children and Youth Program, Data Collection Summary from the SY 2008-09, and Comparison of the SY 2006-07, SY 2007-08, and SY 2008-09 Data Collections*, National Center for Homeless Education, June 2010, http://center.serve.org/nche/downloads/data_comp_06-08.doc.

[8] Jeffrey Lubell and Maya Brenna, "Framing the Issues — the Positive Impacts of Affordable Housing on Education," and Jeffrey Lubell, Rosalyn Crain, and Rebecca Cohen, "Framing the Issues — the Positive Impacts of Affordable Housing on Health," both published by the Center for Housing Policy and Enterprise Community Partners, 2007.

[9] Periodically, public housing developments — just like those that are privately owned — require major repairs and renovation. Capital Fund grants help pay for these costs, but are insufficient for substantial renovation or replacement housing. The HOPE VI program provides competitive grants that are used to revitalize the small share of public housing developments that have become severely distressed and require substantial redevelopment to remain viable. Often, HOPE VI grants are combined with investments to promote economic development and renewal in surrounding neighborhoods. The Choice Neighborhoods Initiative, which the Obama Administration first proposed in its FY 2010 budget request, seeks to improve the HOPE VI model by setting clear goals for creating sustainable, mixed-income communities, and allowing funds to be used to revitalize severely distressed privately owned assisted properties as well as public housing.

[10] As part of the 2009 Recovery Act, Congress approved $1.5 billion in supplemental funding for rental assistance and services to prevent homelessness. These funds have enabled local communities to alleviate some of the severe housing hardships caused by the recession, but more than 40 percent of communities are on pace to exhaust the supplemental funds over the coming year, making it important to increase funding for homeless assistance in 2011.

[11] Grants have been already awarded to 86 individual agencies in 41 states, although the funds have not yet been obligated, as of the release date of this paper. See http://portal.hud.gov/hudportal/HUD?src=/program_offices/sustainable_housing_communities.