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WHAT TO LOOK FOR IN HUD'S 2010 BUDGET FOR LOW-INCOME HOUSING

By Douglas Rice

“We at HUD and in the Administration are fully committed to attacking the affordability gap in rental housing and ensuring that housing affordability is a long term priority.”

— HUD Secretary Shaun Donovan, speaking before the National Low Income Housing Coalition on April 21, 2009.

Whether President Obama’s 2010 budget for the Department of Housing and Urban Development (HUD), which the Administration plans to release this week, will mark a turning point in federal policy toward low-income housing will depend in part on how the budget answers two basic questions:

- Will the budget at least sustain rental assistance in 2010 for the same number of low-income families aided in 2009?
- Then, will the budget go beyond that point and make rental assistance available to significantly more low-income families?

The President’s HUD budget will provide a first look at the Administration’s plans to tackle the problem of rental housing affordability, which Secretary Donovan has rightly described as a “persistent crisis that far too many low-income Americans face.”

TABLE 1: Funding Needed to Help as Many Low-Income Families in 2010 as in 2009	
Program	Estimated Funding Required in 2010
Housing Choice Vouchers	\$18.1 billion
Public Housing Operating Fund	\$5.3 billion
Section 8 Project-Based Rental Assistance	\$8.2 billion

Source: Center on Budget and Policy Priorities estimates based on HUD data.

Policymakers have largely ignored this problem over the past decade, even as the number of low-income renter families facing unaffordable housing costs has risen substantially.¹ The President's 2010 budget could mark an important step toward addressing this neglect.

Rental assistance will be a core component of any effective strategy to make affordable rental housing available to more low-income families. Rental assistance fills the gap between what low-income families can afford to pay for housing and the actual cost of that housing, within reasonable federal limits. The federal government administers three major rental assistance programs — the Housing Choice Voucher, Public Housing, and Section 8 Project-Based Rental Assistance programs — as well as a number of smaller programs. These programs have been found effective at helping low-income individuals and families obtain decent, stable housing and reducing the risks of homelessness.

Background: Federal Rental Assistance Has Shrunk Despite Growing Need

Since the beginning of the decade, the number of low-income Americans facing unaffordable housing costs has grown sharply. Between 2001 and 2007, the number of poor renter households paying more than half of their income for rent and basic utilities increased by 29 percent, to 4.8 million families.² (Under federal standards, housing costs are considered unaffordable if they exceed 30 percent of income.) These numbers have almost certainly grown since 2007, as escalating job losses caused by the recession have increased the number of families in poverty.

When poor families' housing costs are unaffordable, the consequences can be severe. To pay their rent, poor families often must cut back on food, transportation, prescription medications, and other essentials. Even with these cutbacks, a significant number are unable to maintain stable homes. Unaffordable housing costs are a primary cause of homelessness. Even before the current recession, an estimated 1.6 million people, including 340,000 children, were homeless and living in emergency shelters or transitional housing at some point over the course of a year. Many more adults and children were living on the street, in shelters for victims of domestic violence, or temporarily in the homes of friends and relations.

In recent years, even as affordable rental housing has become more scarce, the federal government has neglected to make significant new investments in programs that make housing affordable for low-income families. Since 1995, federal expenditures for low-income housing assistance have risen at an inflation-adjusted rate of only 0.4 percent per year — and they have fallen by well over 20 percent as a share both of the Gross Domestic Product (GDP) and of non-defense discretionary spending.³

The disinvestment in key federal rental assistance programs was particularly acute from 2004 to 2008, when annual funding for low-income housing assistance fell by 5.4 percent, or \$2.2 billion, in inflation-adjusted terms.⁴ This reduction, combined in some cases with policy changes that exacerbated funding instability, weakened the major federal low-income housing programs even as the need for assistance was rising significantly.

- **Housing Choice Vouchers.** This program provides about 2 million low-income families with vouchers to help pay for housing they find in the private market. More than half of these families include children; another third include seniors or people with disabilities. Between

2004 and 2006, funding shortfalls compelled housing agencies to reduce the number of low-income families with vouchers by approximately 150,000. While some of these vouchers have since been restored to use, voucher usage today remains well below the 2004 level.

- **Public Housing.** The nation's 14,000 public housing developments, located in more than 3,500 communities, provide affordable homes to nearly 1.2 million families, nearly two-thirds of which include seniors or people with disabilities. For five consecutive years, housing agencies have received less than 90 cents in funding for every dollar HUD estimates they face in operating costs. Also, federal funding for major capital repairs in public housing developments declined by 32 percent between 2001 and 2008, despite agencies' large backlog of repair needs. These shortfalls have forced agencies to increase costs for low-income tenants, delay maintenance and repairs, and cut back on security.⁵

Increasingly, agencies appear to have concluded that they can no longer sustain all of their developments and are seeking to remove some of them from the program. Some 165,000 units of public housing have been lost since 1995 without being replaced. As noted below, Congress provided a substantial infusion of capital repair funds in 2009, but operating funding remained more than 10 percent below the estimated need.

- **Section 8 Project-Based Rental Assistance.** This program is a public-private partnership in which HUD enters into contracts with private owners to provide affordable homes to nearly 1.3 million low-income families, three-quarters of which are headed by people who are elderly or have disabilities. Beginning in 2007, funding shortfalls and a series of changes in HUD funding policies caused widespread and lengthy delays in payments to building owners and undermined their confidence in this program. Some 10,000 to 15,000 units of affordable Section 8 housing are already lost every year as owners exit the program; such losses could accelerate if HUD and Congress fail to restore stable and reliable funding. The considerable increase in renewal funding Congress provided in 2009 should help to reassure owners that HUD will honor its Section 8 contracts, but the Administration and Congress need to sustain this effort by providing adequate renewal funding for 2010.

Inadequate funding has weakened smaller rental assistance programs as well. Between 2004 and 2008, for instance, annual funding for supportive housing for the elderly and people with disabilities fell by 16 percent, or \$187 million, and funding for rural rental assistance fell by 27 percent, or \$179 million. (These figures are adjusted for inflation.)

Question 1: Will the Budget Sustain the Number of Families Receiving Rental Assistance?

At a minimum, the President's budget should provide adequate resources to ensure that: (1) agencies can provide rental assistance to at least as many low-income families in 2010 as they did in 2009; and (2) agencies can adequately maintain public housing developments during the year. To accomplish this, we estimate that the three major rental assistance programs need to be funded at the following levels:

- **Housing Choice Vouchers:** *\$18.1 billion, including \$16.25 billion for voucher renewals.*⁶ This would be sufficient to renew the slightly more than 2 million vouchers used in 2008 and expected to be in use in 2009. It would also provide adequate funding for agencies'

administrative expenses, an important issue if agencies are to make efficient use of their rental assistance funds and provide services to expand the housing choices available to families.

- **Public Housing:** *\$5.3 billion for the Operating Fund.* This is an approximate estimate of the amount that would provide housing agencies, for the first time since 2002, with the full funding for which they are eligible under HUD's formula.⁷ That, in turn, would enable agencies to minimize delays in basic repairs and maintenance, make units available more quickly after tenants vacate them, and prevent further job losses among security, maintenance, and other staff.

Regarding the Public Housing Capital Fund, Congress provided \$4 billion in funding in the American Recovery and Reinvestment Act of 2009 (in addition to \$2.5 billion provided in the regular 2009 appropriations act). This infusion of funds will help housing agencies to begin to address the large backlog of repair needs, such as fixing leaking roofs and replacing obsolete heating systems. The 2010 budget should, at the very least, provide sufficient capital funding to allow agencies to meet the additional repair needs that will accumulate over the current year.

- **Section 8 Project-Based Rental Assistance:** *approximately \$8.2 billion, including \$7.9 billion for the renewal of rental assistance contracts.* This is a rough estimate of the amount needed to renew funding for all Section 8 contracts in 2010.⁸

Question 2: Will the Budget Provide Rental Assistance to Additional Families?

It is important to respond to the sharply increasing numbers of low-income renter families facing unaffordable housing costs. Families with *extremely* low incomes — below 30 percent of the area median income, which is roughly equivalent to the poverty line — deserve special attention. These families make up two-thirds of the households that pay more than half of their income for housing. They are at particular risk for homelessness if they do not receive help with their housing costs.

To tackle the problem, the federal government should make rental assistance available to significantly more low-income families. By itself, this will not be sufficient to solve the problem; a variety of policy tools, as well as a set of comprehensive strategies for preserving existing assisted housing and encouraging the development of new affordable housing, will also be needed. *But no strategy to make rental housing affordable for more poor families can succeed without a significant expansion of rental assistance.*

The most flexible, cost-effective, and quickest way to expand rental assistance is to fund new, “incremental” housing vouchers. Until recently, Congress made substantial investments each year to expand rental assistance, funding an average of about 80,000 new vouchers every year from 1976 to 2002. Congress funded no new vouchers, however, during the five years from 2003 to 2007, despite a large rise in the number of low-income families paying housing costs that are unaffordable. (Congress funded a small number of incremental vouchers in 2008 and 2009, about 33,500 in total.)

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 a family can use its

voucher to remain in its current unit or move to a different one, 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, less crime, more jobs, and better schools.

For 2010, the Administration should propose to fund enough new vouchers to begin a significant reduction in the number of low-income renters that face unaffordable housing costs or lack stable housing altogether. For example, 200,000 new vouchers would increase the number of low-income families receiving voucher assistance by 10 percent in 2010. By adding 200,000 vouchers per year over the next ten years, the federal government could:

- Help an estimated *3 million low-income households* to secure decent, affordable homes.
- Lift an estimated *3.3 million people, including 1.6 million children*, out of poverty.
- Prevent an estimated *230,000 people, including 110,000 children*, from becoming homeless — and prevent at least that many adults and children from having to live in temporary, unstable accommodations such as motels or “doubled up” with friends or extended family.⁹

Expanding rental assistance to 200,000 new low-income families in 2010 would require a substantial investment — about \$1.6 billion — but would pay considerable dividends in terms of reduced poverty and homelessness and increased opportunities.

Promising Initiatives in Budget No Substitute for Additional Rental Assistance

The preliminary 2010 budget the Administration released in February includes several initiatives that would help address the nation’s affordable rental housing needs. It proposes \$1 billion for the new National Housing Trust Fund, which will allocate funding to states for the preservation, rehabilitation, and development of affordable housing, especially rental housing that is affordable for households with extremely low incomes. This funding could modestly expand affordable housing opportunities for populations with particular needs, such as people who are elderly or have disabilities, as well as in neighborhoods where decent quality rental housing is in short supply. (Proponents estimate that \$1 billion would support the construction of about 10,000 units or the rehabilitation of a somewhat larger number.)

In addition, the preliminary budget includes a new Choice Neighborhoods initiative. While the details are not yet available, this initiative appears aimed at revitalizing high-poverty neighborhoods through a combination of mixed-income housing, community development, and an array of services targeted to low-income children.

These initiatives are important. Neither, however, is likely to make substantial progress in alleviating the affordable rental housing needs of poorer families unless the federal government also provides additional rental assistance.

For example, one risk associated with community revitalization efforts is that, as communities become more viable economically, housing costs tend to rise, making it more difficult for poorer families to remain in the community. Rental assistance can play a critical role in ensuring that poorer families are able to benefit from community revitalization. In addition, housing production

subsidies such as the Housing Trust Fund reduce the cost of preserving or building affordable rental housing, but rental assistance must usually be provided as well if the rent is to be affordable for the poorer families that the Trust Fund is intended to help.

Notes

¹ See Douglas Rice and Barbara Sard, “Decade of Neglect Has Weakened Federal Low-Income Housing Programs,” Center on Budget and Policy Priorities, February 25, 2009, <http://www.cbpp.org/cms/index.cfm?fa=view&id=2691>.

² Census Bureau and HUD tabulations of the 2001 and 2007 American Housing Surveys. Sources for all other data cited in this report are provided in either the “Decade of Neglect” report cited above or in Douglas Rice, “Additional Vouchers Needed to Stem Increase in Homelessness,” Center on Budget and Policy Priorities, April 16, 2009. The latter report is available at <http://www.cbpp.org/cms/index.cfm?fa=view&id=2786>.

³ These figures are for discretionary outlays for all programs falling within budget subfunction 604, which includes all low-income housing programs administered by HUD and the Department of Agriculture (USDA). For more information on sources, see the “Decade of Neglect.”

⁴ This figure is for discretionary budget authority for low-income housing programs administered by HUD and USDA. For Section 8 programs, however, outlays were substituted for budget authority to eliminate distortions due to rescissions, expiration of long-term contracts, timing shifts, and policy changes.

⁵ Housing agencies are generally required to charge tenants no more than 30 percent of their income for rent and utilities (up to a utility allowance set by the housing agency), but they have discretion to institute certain policies that result in higher charges on tenants. For example, they can establish minimum rents of up to \$50 a month for tenants with little or no income or establish fees for services such as parking. Many agencies have taken such measures in recent years to help meet expenses. In addition, housing agencies facing shortfalls sometimes delay adjustments in utility allowances when utility rates increase, leaving tenants to bear the full burden of charges above the allowance for a period of time. (Agencies are required to adjust the allowances to reflect major rate increases, but HUD enforcement of this requirement is lax.)

⁶ Figures are based on voucher usage and cost data reported by housing agencies to HUD’s Voucher Management System.

⁷ The estimate is approximate because HUD data on some factors affecting funding eligibility are not available. The \$5.3 billion figure assumes that HUD will adjust the operating fund formula to better reflect inflation in labor costs in recent years; without this adjustment, roughly \$5.1 billion would be needed to provide full operating funding.

⁸ The estimate is based on HUD data on program outlays, changes in the number of Section 8 units requiring renewal, and other factors. The estimate is necessarily rough, as detailed, contract-by-contract data on Section 8 renewal costs are not available.

⁹ For explanations of how these estimates were made, see “Decade of Neglect” cited above, footnotes 58, 59, and 60.