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DECADE OF NEGLECT HAS WEAKENED FEDERAL LOW-INCOME HOUSING PROGRAMS

New Resources Required to Meet Growing Needs

by Douglas Rice and Barbara Sard

A large and growing number of low-income renters face unaffordable housing costs. Federal housing programs have proven effective in enabling millions of low-income households to obtain stable, decent housing, but a funding squeeze and various actions taken by Congress and the Bush Administration have weakened these programs considerably, just when the need is rising. This report documents that growing need, explains how federal housing programs help address it, shows how recent funding shortfalls and policy changes have hurt these programs, and outlines a series of steps to make housing more affordable for low-income families.

Executive Summary

One-third of all American households are renters, as are about half of *low-income* households. Yet too many renters pay housing costs that are unaffordable. The problem has grown in recent years, according to Census data, and is especially acute among households with the lowest incomes:

- **More than 8 million renter households paid more than half of their income for rent and basic utilities in 2007,** the most recent year for which data are available. Under federal standards, housing costs are considered unaffordable if they exceed 30 percent of household income. (See Appendix A for state by state data on housing cost burdens.)

- **Nearly all of these households had low incomes** (i.e., at or below 80 percent of their state's median income). Two out of three of them had extremely low incomes (i.e., below 30 percent of the state median income, a level that is roughly equivalent to the federal poverty line).

- **The number of low-income renter households that paid more than half of their income for housing increased by 2 million, or 32 percent, between 2000 and 2007.**

- **Many of these households are working households.** Excluding those headed by people who are elderly or have disabilities, low-income households that pay more than half of their income for housing report that members worked a combined average of 25 hours per week for 25 weeks during the prior year.

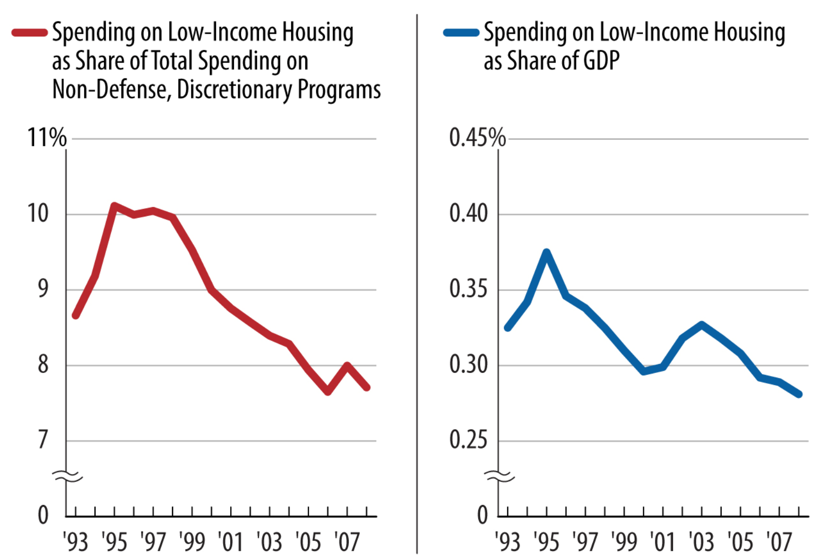
When housing costs are too high, the impact on low-income renters can be severe and enduring. Families can be forced to cut back on food, clothing, medications, or transportation. High housing costs also can compel families to live in housing that is overcrowded or unhealthy, or in neighborhoods with failing schools, high rates of crime, or limited access to basic services. Moreover, research suggests that housing instability and homelessness can hinder the healthy development of children in ways that have a lasting impact.

This problem is likely to get worse. Over the past decade, the number of renter households has grown faster than the supply of rental housing, and there is little reason to expect this trend to change in the near future. Although rents may decline in some communities as a result of the foreclosure crisis and recession, wages will fall as well and unemployment is already rising.

Yet despite rental housing's importance to the well-being of a large share of American households — and the clear failure of the private market to meet the existing need — it has been the neglected step-child of federal housing policy. Since 1995, federal spending on low-income housing assistance has fallen *by well over 20 percent* both as a share of all non-defense discretionary spending and as a share of the Gross Domestic Product (GDP). Even when combined with the Low-Income Housing Tax Credit, the federal government's total commitment to low-income housing assistance is less than one-third the size of the three largest tax breaks provided to homeowners (such as the home mortgage interest deduction).

FIGURE 1:

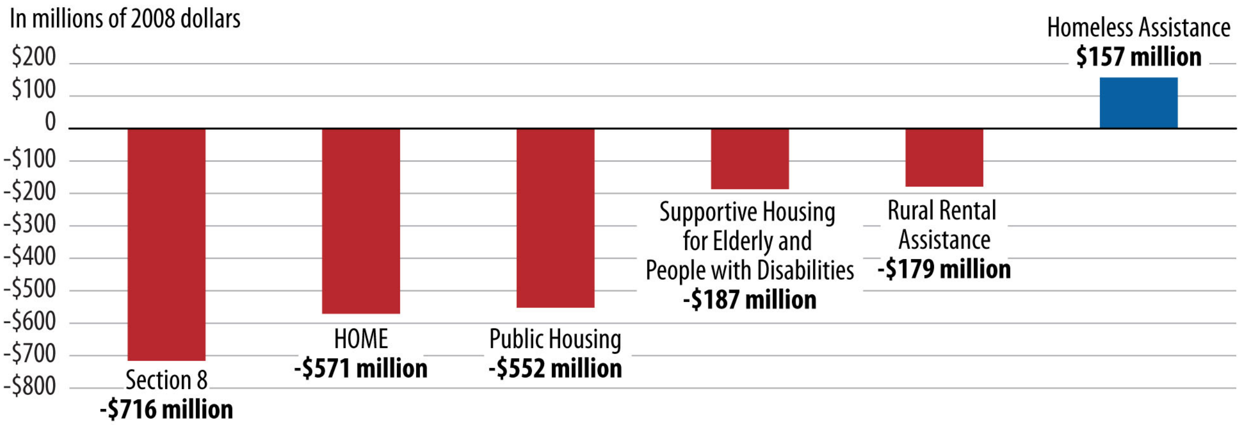
Federal Spending on Low-Income Housing Has Fallen by More than 20% as Share of Budget, GDP



Source: Budget of the United States, FY 2009 and OMB Public Budget Database.

The fiscal pressure on low-income housing programs increased considerably during the Bush Administration. The Administration's annual budgets gave priority to deep tax cuts and increases in defense and homeland security funding. When sizeable deficits emerged in 2003 and 2004, the Administration and Congress turned primarily to reductions in domestic discretionary (i.e., non-entitlement) programs. Discretionary funding for federal low-income housing programs, for example, was slashed in 2005; after rising modestly in 2006 and 2007, it fell again in 2008. In 2008, total funding for all low-income housing programs was $2.0 billion (5.0 percent) below the 2004 level, adjusted for inflation. For some programs, such as public housing, these cuts came on top of earlier funding reductions.

FIGURE 2:
Funding for Federal Low-Income Housing Assistance Fell by $2 Billion, 2004 to 2008 (millions of 2008$)



Source: OMB Public Budget Database. "Section 8" includes tenant-based and project-based rental assistance. All figures are for budget authority, except for Section 8, where outlays were used to eliminate distortions due to rescissions, expiration of long-term contracts, timing shifts, and policy changes

These reductions in funding, combined in some cases with policy changes that exacerbated funding instability, have weakened the three major federal low-income housing programs at a time when the need for assistance is rising sharply:

- **Housing Choice Vouchers.** This program provides about 2 million low-income families with vouchers to help pay for housing that 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, voucher assistance for approximately 150,000 low-income families was eliminated as funding shortfalls compelled housing agencies to serve fewer families. Many agencies also cut costs in other ways that have discouraged landlords from renting units to families with vouchers and limited the ability of families to use vouchers to move to neighborhoods with lower crime rates and better schools.

- **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. In recent years, deep and persistent funding shortfalls have forced housing agencies to take steps such as increasing costs for low-income tenants, delaying repairs, and cutting back on security. Also, an increasing number of agencies appear to have concluded that they can no longer sustain all of their developments and are seeking to remove them from the program. Some 165,000 units of public housing have been lost since 1995 and not replaced; these losses are likely to continue.

- **Section 8 Project-Based Rental Assistance.** This program is a public-private partnership in which private owners sign contracts with HUD 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. Over the past few years, a series of changes in HUD funding policies — designed in part to save money — caused widespread and lengthy delays in payments to owners and have undermined confidence in this program. Some 10,000 to 15,000 units of affordable Section 8 housing are lost every year as owners exit the program; these losses are likely to accelerate if HUD fails to restore owner confidence. At greatest risk are approximately 150,000 units whose owners already have strong financial incentives to leave the program because the rents they receive are well below market rates.

Only one in four low-income households eligible for federal housing assistance receives it because of funding limitations. Unless the new Administration and Congress set a different course, an even smaller proportion of the low-income households is likely to be assisted in the future, further widening the gap between housing needs and available federal assistance.

New Resources Required to Address Growing Needs

Following nearly a decade of neglect — and the bursting of the housing bubble, which has exposed the limitations of an unbalanced emphasis on homeownership — it is time for the new Administration and Congress to revitalize federal rental housing policy. Policymakers need to develop a comprehensive strategy to address the private market's failure to provide sufficient affordable housing. But in the meantime, they should pursue the following goals, which should form part of any viable comprehensive strategy:

- **Preserve existing public and private assisted housing,** in its current location or in other locations that will better serve families. Specifically, the Administration and Congress should commit the necessary resources to:
  - Restore full operating funding for public housing;
  - Address the substantial backlog of capital repairs in public housing;
  - Re-establish reliable renewal funding for project-based Section 8 contracts;
  - Provide incentives and assistance to encourage private owners to renew their participation in the Section 8 project-based rental assistance program; and
  - Improve energy efficiency in public and private assisted housing.

- **Fully utilize the housing vouchers Congress has already authorized.** Enacting the funding provisions of the Section 8 Voucher Reform Act (SEVRA), which the House passed in 2007, would encourage housing agencies to use voucher funds more efficiently. As a result, significantly more low-income families would receive voucher assistance. No additional funding would be required in the first year these vouchers were used.

- **Expand assistance to help more families** secure stable, affordable housing in safe neighborhoods with access to good schools, steady jobs, and other essential services they need to improve their lives. The most flexible, cost-effective way to do this is to fund new, "incremental" housing vouchers. Two million new vouchers (for example, funding 200,000 new vouchers per year over ten years), would help roughly 3 million low-income households over the 10-year period to secure decent, affordable homes; lift an estimated 3.3 million people, including 1.6 million children, out of poverty; and prevent 230,000 people, including 110,000 children, from becoming homeless.[1] New vouchers could also be used to promote other policy goals, such as the development of affordable housing near mass transit (to reduce energy use

[1] These figures reflect the benefits only in the first ten years.

and promote climate change goals) or as part of a broad strategy to expand educational and economic opportunities for low-income families.

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

I. Growing Numbers of Low-Income Families Face Unaffordable Housing Costs

To thrive, families and individuals need decent housing in safe neighborhoods with access to reliable transportation and other essential services — and at a cost that does not squeeze other necessities from the family budget. When housing costs are unaffordable, families can be forced to cut back on food, clothing, medications, or transportation. High housing costs also can compel families to live in housing that is overcrowded or unhealthy, or in neighborhoods with failing schools, high rates of crime, or limited access to basic services. In addition, a large percentage of poor families experience homelessness or live for prolonged periods in a series of temporary accommodations, such as the homes of extended family or friends. Research suggests that housing instability and homelessness can hinder the healthy development of children in ways that have a lasting impact.[2]

Recent Census data show that unaffordable housing costs are a growing problem for the one-third of American families who rent their homes — and that the problem is most pervasive, and the consequences most acute, among households with the lowest incomes. A comparison of Census data from 2007 (the most recent year available) and 2000 shows that the problem of unaffordable housing costs is:

- **Large and concentrated among the poorest families.** Overall, 16.4 million American renter households face unaffordable housing costs, meaning that rent and basic utilities cost more than 30 percent of their income.[3] About half (8.3 million) of these households pay more than *half* of their income for housing. Nearly all (98 percent) households in this latter group have "low incomes" (i.e., at or below 80 percent of the state median income); nine out of ten have "very low incomes" (i.e., at or below 50 percent of the state median); and two out of three have "extremely low incomes" (i.e., below 30 percent of the state median income, a level that is roughly equivalent to the federal poverty line).[4]

- **Growing worse.** Between 2000 and 2007, the number of low-income renter households that

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[2] See footnotes 10-13.

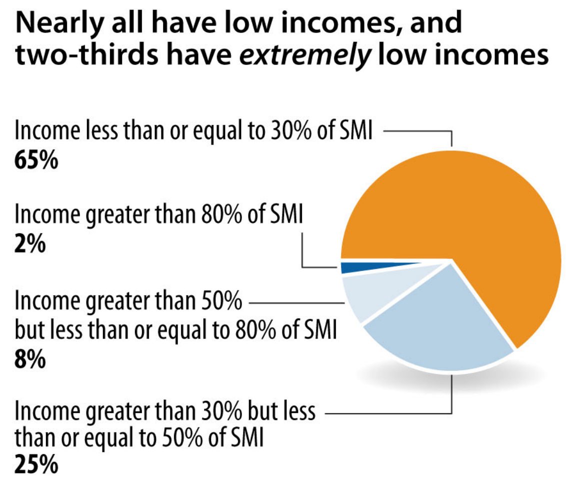
[3] Unless otherwise noted, all housing cost burden data are based on Center on Budget and Policy Priorities' tabulations from the 2000 and 2007 American Community Survey and Supplemental Survey, administered by the U.S. Census Bureau. The federal government considers housing unaffordable if costs exceed 30 percent of household income.

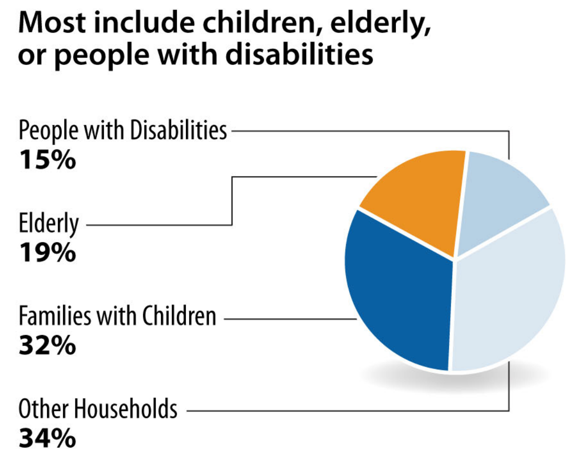
[4] The income groupings used here correspond roughly to the eligibility thresholds used by HUD for low-income housing programs. For a comparison, national median income for a household of three in 2007 was $64,403; 30 percent of this amount is $19,321. These figures are from the Census Bureau's Current Population Survey. The federal poverty line for a family of three was $17,170 in 2007.

pay more than half of their income for housing increased by 2 million or 32 percent, according to Census data. The largest increases, in numerical terms, were among the households with very low or extremely low incomes. The 2007 data were collected prior to the current recession; the situation has almost certainly worsened since then.

- **A serious problem in every state.** Depending on the state, anywhere from nearly one-quarter (in Wyoming) to nearly one-half (in Florida) of low-income renter households spend more than 50 percent of their income on housing. (See Appendix A.)

FIGURE 3:
Renter Households that Pay More than Half Their Income for Housing





Source: 2007 American Community Survey. "SMI" stands for "state median income." Households with children that are headed by persons who are elderly or have disabilities are included under the latter categories.

High Housing Costs Can Cause Severe and Enduring Harm

Housing affordability problems are not only more prevalent among poorer families, they also have more severe impacts. Data from the Consumer Expenditure Survey provide evidence that high housing costs compel poorer families to cut back on food, clothing, transportation, prescription drugs, medical care, and other necessities. Among the one-fourth of families with children that spend the fewest dollars overall, for example, families that pay more than half of their income for housing typically spend 31 percent less on food, 70 percent less on transportation, and 47 percent less on clothing than families whose housing costs are affordable.[5] Such spending reductions can affect the health and nutrition of children and seniors and make it more difficult for parents to obtain and maintain jobs.

High housing costs also limit poorer families' housing and neighborhood options. Among families with very low incomes, those that pay more than half their income for housing are 12 percent more likely than others to live in housing with serious physical condition problems, such as lack of functional plumbing, inadequate heating, or exposed electrical wiring.[6] In addition, high

[5] Joint Center for Housing Studies of Harvard University (2006), table A-7.

[6] CBPP calculation based on HUD (2007a), appendix table 6a.

housing costs are a major reason (though not the only one) why poor families are concentrated in particular neighborhoods. While it can be difficult to disentangle the effects of neighborhood quality from other causal factors on family well-being, research indicates that families living in areas of concentrated poverty are more likely to attend failing schools, experience higher rates of crime, and have less access to basic goods and services, as well as jobs.[7]

Severe housing cost burdens also contribute to housing instability and homelessness. Over the course of a recent 12-month period, an estimated 1.6 million people lived at least part of the year in an emergency shelter or other residential facility for homeless persons.[8] Other poor people lived for a time on the street, in shelters for victims of domestic violence, or in other temporary and unstable accommodations, such as "doubled up" with friends or extended family. One study of families with children that recently had received, or were eligible to receive, welfare assistance concluded that 45 percent of the families had experienced some form of "housing instability" during the previous 12 months.[9]

Numerous studies suggest that housing instability and homelessness have harmful effects on children that can be long lasting. Studies have linked housing instability and homelessness to reduced academic performance, increased chances of repeating a grade, and lower high school completion rates.[10] One study found that children experiencing homelessness were much more likely than other children to suffer from emotional or behavioral problems that interfere with learning.[11] Children experiencing homelessness also are more likely to have severe health problems than similarly poor children who do not become homeless.[12] While the specific causal pathways connecting housing instability to these harmful effects are not well understood, the research strongly suggests that housing instability may have damaging effects on children that persist for many years.[13]

Many *Working* Families Face Housing Affordability Problems

Most low-income households that have housing affordability problems and do not include elderly or disabled adults are working households. Fully 70 percent of low-income households that pay more than half their income for housing reported that at least one household member was working during every week in the prior year. On average, these households reported that family members worked for a combined total of 25 hours per week for 25 weeks during the prior year.[14]

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7 Berube (2008).

8 HUD (2008a).

9 Wood, Turnham, and Mills (2008).

10 Lubell and Brennan (2007).

11 Better Homes Fund (1999).

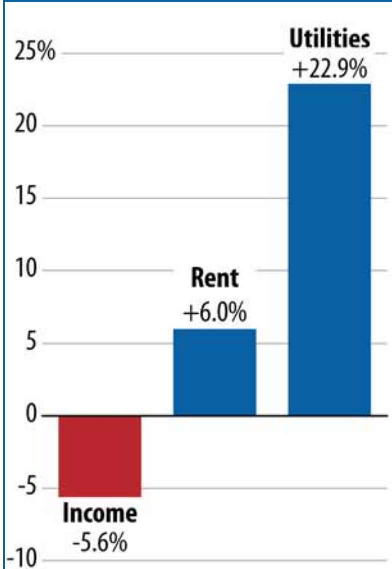
12 Lubell, Crain, and Cohen (2007).

13 As Lubell and Brennan note, researchers hypothesize that disruptions in instruction or in social networks that support learning, or increased stress and anxiety caused by housing instability, could contribute to educational difficulties.

14 These figures exclude households headed by people who are elderly or have disabilities. Based on CBPP tabulation of data from the 2007 American Community Survey.

FIGURE 4:

Incomes of Lower-Income Families Have Not Kept Pace with the Cost of Housing, 2000 - 2007



Source: Bureau of the Census and Bureau of Labor Statistics. Income data are for households in the bottom quintile of incomes.

Wages, especially at the lower end pay scale, have fallen behind inflation in recent years, while housing costs for renters have risen faster than the overall inflation rate. Since 2000, the income of the average household in the bottom fifth of the income spectrum has fallen 5.6 percent in real (i.e., inflation-adjusted) terms, while rents and utility costs have increased 6 percent and 22.9 percent, respectively.[15]

Nationally, renting a modest two-bedroom apartment costs $900 per month on average, according to HUD estimates for 2008.[16] For this rent level to be affordable, an individual or family has to earn $17.32 per hour, working full time — well above federal and state minimum wages. There is no community in the country in which the rent and utilities for a modest one- or two-bedroom apartment are affordable for an individual or family living on full-time, minimum-wage employment.[17]

Problem Expected to Worsen in Near Future

In a recent analysis, Harvard researchers noted that affordability pressures on renters have worsened over the past decade, even though the growth in the number of renter households slowed. This is because two of every three new rental units produced over the decade have been offset by the removal of other units from the rental market. As a result, between 1995 and 2005 the number of renter households rose more than twice as fast as the number of rental units.[18]

While the long-term outlook is less clear, this trend is likely to worsen in the short term. In many areas across the country, rising foreclosures are displacing additional families into the rental market, thereby increasing demand and placing upward pressure on rents. Frequently, the homes they left behind are unavailable for occupancy pending the completion of the foreclosure process and sale to

[15] Income changes reflect the change in the average income of households in the bottom income quintile from 2000 to 2007, as reported in the historical tables of the 2007 Current Population Survey and adjusted by CBPP for inflation. Rent and utility cost changes reflect changes in the CPI indices for residential rents and fuels and utilities through 2007, adjusted for overall inflation.

[16] HUD publishes annual estimates of the median (50th percentile) and 40th percentile "gross rent" (rent and utilities) of recently-rented non-luxury dwellings for each metropolitan area and non-metropolitan county. For 28 metropolitan areas, HUD sets the "Fair Market Rent" (FMR) at the 50th percentile based on findings that voucher holders are overly concentrated in a small portion of the area's census tracts. For all other metropolitan areas and all non-metropolitan counties, HUD sets the FMR at the 40th percentile of the rent charged for recently-rented non-luxury dwellings. The $900 average rent figure was calculated by the National Low Income Housing Coalition using the HUD FMR estimates for 2008, weighted by the number of renter households in each county in 2000. See Wardrip et al. (2008).

[17] Wardrip et al. (2008). More precisely, there is no community in which HUD's "Fair Market Rent" level for a one-bedroom apartment does not consume more than 30 percent of the income of an individual or family that is living on full-time, minimum-wage earnings.

[18] Joint Center for Housing Studies of Harvard University (2008).

a new owner. Even in other areas where markets are softening, rents are still rising at a faster rate than incomes of low-income families. In the absence of policies that raise the incomes of low-income renters or expand the supply of affordable housing, the deepening crunch is likely to hit the lowest-income renters especially hard.

II. Rental Assistance Is Effective But Serves Only a Fraction of Eligible Households

For many decades the private market has failed to supply enough rental housing that is affordable to low-income families. Federal rental assistance helps fill the gap between what the private market provides and what low-income families can afford to pay. Low-income families receiving rental assistance contribute roughly 30 percent of their income for housing (rent plus basic utilities); rental assistance makes up the difference between this contribution and the family's actual costs, within reasonable limits set by the federal government.

There are three major federal rental assistance programs — the Housing Choice ("Section 8") Voucher Program, public housing, and the Section 8 project-based rental assistance program — as well as a handful of smaller programs, such as the Section 521 rural rental assistance program administered by the Department of Agriculture. Under existing funding levels, these programs can assist approximately 4.8 million low-income families, or only about *one of four* eligible households.[19] Most communities have long waiting lists for assistance.

FIGURE 5:
How Many Families Use Federal Rental Assistance?

Program	Number of Units	Families with Children	Elderly	People with Disabilities	Other Households
Housing Choice Voucher	2,015,000	54%	17%	19%	9%
Public Housing	1,161,000	41%	29%	16%	14%
Project-Based Section 8	1,275,000	33%	49%	17%	1%
Other Programs	443,000	NA	NA	NA	NA
Total	4,893,000	NA	NA	NA	NA

Source: CBPP and Urban Institute analyses of HUD data. "Number of Units" includes unoccupied units, except for Housing Choice Vouchers. Households with children that are headed by persons who are elderly or have disabilities are included under the "Families with Children" category.

For the families struggling to pay high housing costs, rental assistance provides both immediate and long-term benefits. There is strong evidence that rental assistance:

- **Alleviates poverty.** Nearly two of three otherwise-poor households that receive rental

[19] See Appendices A and B for national and state-by-state data on major federal rental assistance programs and the people they serve, as well as references on data sources. The figure includes units funded under the Section 8 tenant-based and project-based rental assistance, public housing, Section 202, Section 811, Rent Supplement, and Section 521 Rental Assistance programs, including units vacant or unused at any given time; for Section 8 tenant-based rental assistance, only leased units were counted. According to HUD's analysis of the 2005 American Housing Survey, 12.4 million low-income renter households paid housing costs that were unaffordable and received no housing assistance from any source. We assume that all such households were eligible for federal rental assistance. If the federal government funds 4.8 million units of affordable housing, and a small percentage of these units are unoccupied at any given time, then only about one-quarter of the need is being met.

assistance are lifted out of poverty by that assistance, according to Center estimates.[20] In 2005, rental assistance lifted an estimated 4 million people, including 1.6 million children, out of poverty.[21]

- **Frees up financial resources that poor families can use for other basic needs,** such as food, child care, transportation, and medical care.

- **Improves housing stability and reduces the risk of homelessness.** A rigorous study found that Housing Choice vouchers dramatically reduced the incidence of homelessness among families with children and sharply reduced the frequency with which families were compelled to move.[22] Other studies have demonstrated that the great majority of previously homeless individuals and families that receive rental assistance remain stably housed.[23]

Housing assistance can benefit low-income people in other ways, as well. For those who are elderly or have disabilities, it can help them retain their independence and avoid (or delay) entering institutional care facilities, which would be much more costly. Some research also suggests that housing programs, when integrated with well-designed work supports, can help families to increase their employment and earnings.[24]

Low-Income Housing Programs Are Small and Shrinking Share of Federal Budget

Federal low-income housing programs are not entitlements. Spending on these programs totaled $40.7 billion in 2008, or 1.4 percent of all federal expenditures.[25] Between 1995 and 2008, spending on low-income housing assistance rose by 0.5 percent per year in inflation-adjusted terms, on

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[20] The Census data used for simulating the poverty-reducing effects of housing assistance are from the March 2006 Current Population Survey. This analysis does not use the government's official measure of poverty, as housing assistance is not counted as income under the official measure. Instead, the analysis uses an alternative poverty measure that follows the recommendations of the National Academy of Sciences (NAS). This measure considers income after taxes and also counts as income the value of certain government non-cash benefits, such as food stamps and housing assistance. The measure also incorporates a modified poverty threshold, as recommended by NAS. The Census data are adjusted to correct for the underreporting of TANF, SSI, and food stamp benefits using data from the Urban Institute's TRIM model.

[21] The actual number of people lifted out of poverty by housing assistance may be somewhat higher than this. The stated figures were calculated using a model that assumes that 4.3 million households received housing assistance. This appears to be lower than the actual number of households receiving housing assistance, according to independent data sources from HUD and USDA.

[22] Wood *et al.* (2008).

[23] For a summary of some of this research, see Khadduri (2008).

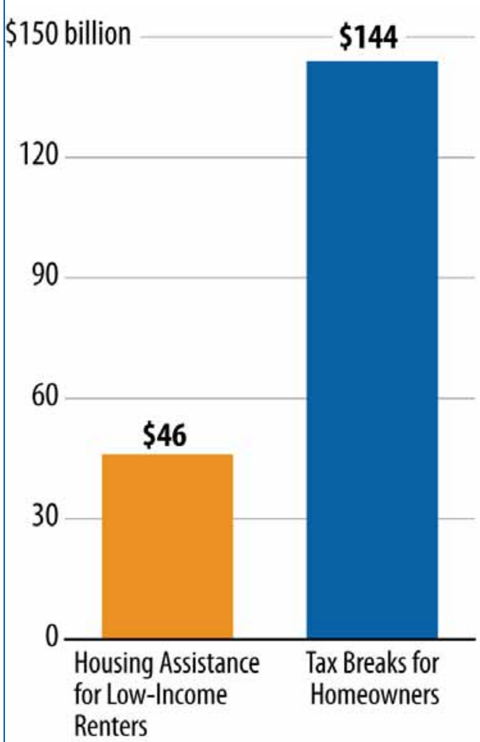
[24] For summaries of research on the impact of housing assistance, see Lubell et al. (2007a), Lubell et al. (2007b), and Turner (2005).

[25] Spending refers here to outlays for all discretionary programs in budget subfunction 604, including Section 8 tenant-based (voucher) and project-based rental assistance, public housing, homeless assistance, HOME Investment Partnerships, supportive housing for the elderly and people with disabilities, Native American block grant, and rural rental assistance. It does not include tax expenditures associated with the Low-Income Housing Tax Credit program. The source is the OMB Public Budget Database.

average — yet shrank by more than 20 percent both as a share of all non-defense discretionary spending and as a share of the Gross Domestic Product (GDP).[26] (See Figure 1 above.)

FIGURE 6:

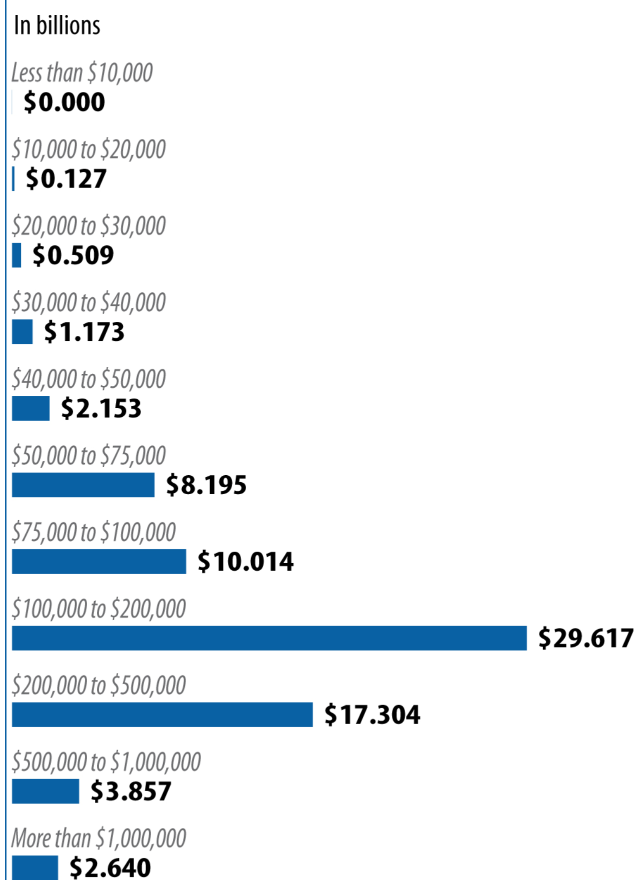
Spending on Low-Income Housing Assistance Is 1/3 the Cost of Federal Subsidies for Homeowners



Source: Data are estimates for 2008 from the Budget of the U.S. Government for FY 2009.

FIGURE 7:

Distribution of Tax Benefits from Home Mortgage Interest Deduction, by Income Group, 2006



Source: Urban-Brookings Tax Policy Center.

Federal spending on low-income housing assistance is also small compared to federal subsidies for homeowners, which primarily benefit high-income households. In 2008, the three largest housing-related tax breaks for homeowners are expected to cost the U.S. Treasury $144 billion, three times the combined total expenditures for federal low-income housing assistance and the Low-Income Housing Tax Credit program.[27] Some 70 percent of the total tax benefits of the largest homeowner

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[26] Spending refers here to outlays, and the rate of increase is adjusted by inflation. GDP provides a rough measure of the total economic resources available in our society. In the other comparison, spending on defense and entitlement programs was excluded to make clear that the sharp relative decline in spending on low-income housing assistance is not an artifact of rapidly rising spending in those areas.

[27] Tax expenditure data are from the White House Office of Management and Budget (2008), Table 19-1, and the OMB Public Budget Database. The three largest such tax breaks are the home mortgage interest deduction, the deduction for property taxes, and the capital gains exclusion for home sales.

tax break, the home mortgage interest deduction, go to households with incomes exceeding $100,000. Figure 7 shows the average tax savings for households in various income groupings due to the home mortgage interest deduction.[28]

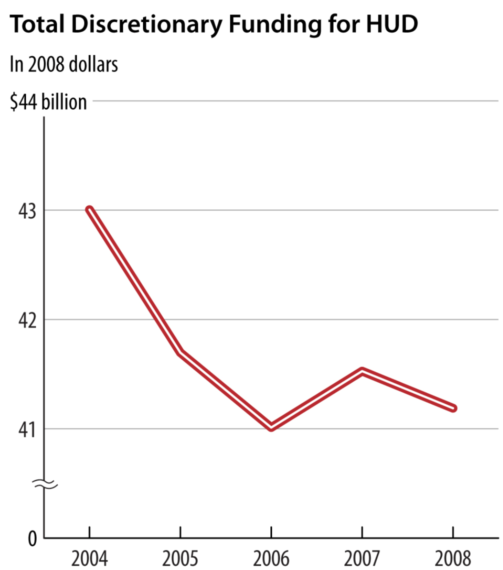
III. During Bush Administration, Unbalanced Priorities Weakened Housing Programs

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

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

FIGURE 8:

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



Source: OMB Public Budget Database for 2001-2007.

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

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

[28] Urban-Brookings Tax Policy Center, Table T06-0200, http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=1269), with additional calculations by the Center on Budget and Policy Priorities.

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

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

other low-income housing programs that also are important to preventing and ending homelessness.[31]

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

Vouchers: Funding Cuts Contributed to Unprecedented Loss of Assistance

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

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

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

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[31] See Rice and Sard (2007).

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

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

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

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

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

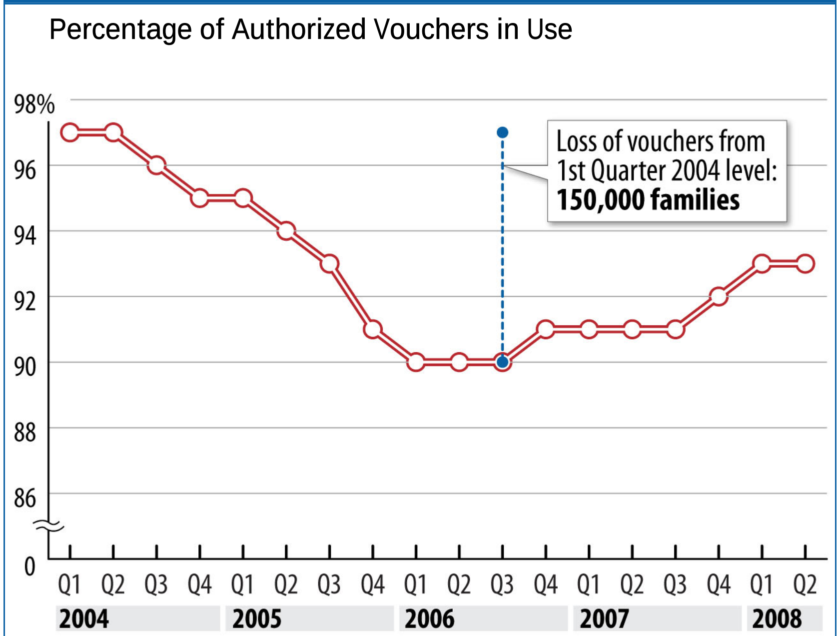
A number of housing agencies were compelled to take dramatic steps to address immediate funding shortfalls or reduce the risk of future shortfalls. Many reduced the maximum voucher subsidy they were willing to pay, denied rent increases to landlords, or prohibited families from moving with their vouchers to neighborhoods with more jobs and less crime but higher rents. Many agencies also removed vouchers from circulation as families left the program, rather than reissuing them to families on waiting lists, thereby reducing the total number of families served. In a few cases, agencies terminated assistance to some families participating in the program.

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

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

FIGURE 9:

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



Source: CBPP analysis of HUD data.

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

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

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

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

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

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

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

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

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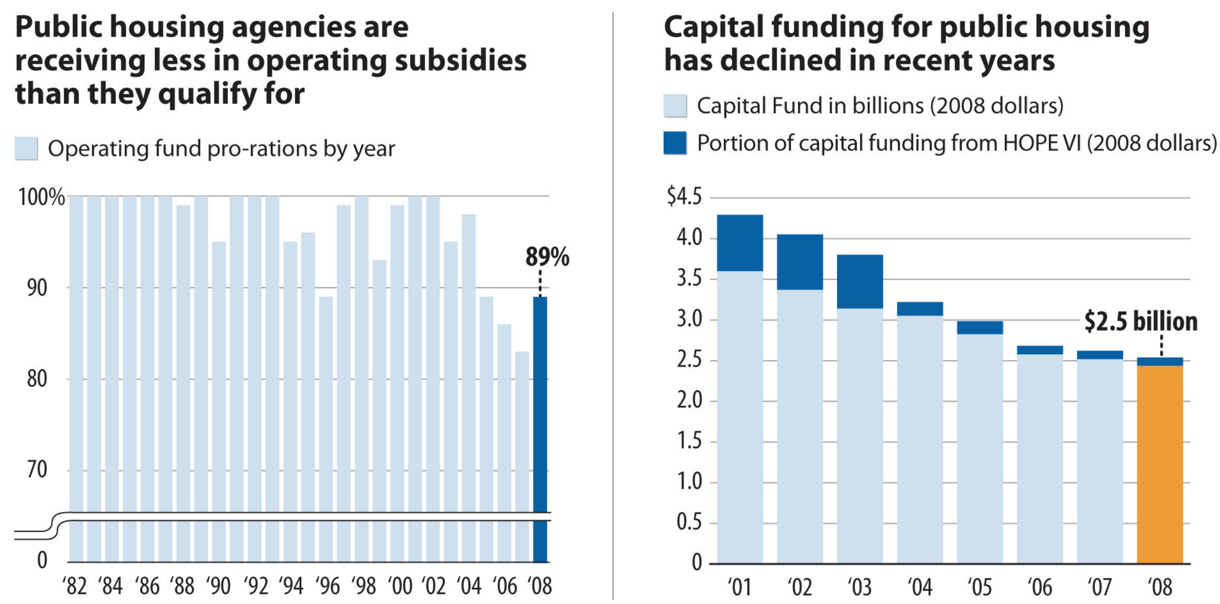
[37] For a fuller discussion of the issues raised in this section, see Sard and Fischer (2008).

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

FIGURE 10:
Underfunding Public Housing



Source: HUD.

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

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

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

Assisted Private Housing: Federal Funding Disruptions Hindering Preservation of Units

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

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

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

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

Recent Actions Diminished Owner Confidence

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

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[39] Legislative initiatives include: The Emergency Low Income Housing Preservation Act of 1987 (ELIHPA), the Low Income Housing Preservation and Resident Homeownership Act of 1990 (LIHPRHA), and the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRAA). In 1996, Congress also authorized a new type of "preservation" or "enhanced" vouchers for tenants that live in project-based housing that is converted to private-market use. Another goal that has been central to some of these reforms is reducing the costs and fiscal risks to the U.S. Treasury that the assisted housing programs can pose. This goal was explicit, for example, in the creation of the Mark-to-Market Program, which requires owners with above-market rents to accept reduced rent subsidies, sometimes in conjunction with the restructuring of their debt to ensure that the property remains viable.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Preventing Further Losses of Public and Private Assisted Housing

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

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

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

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

- **Some public and private assisted housing developments are located in neighborhoods where it can be difficult to use vouchers (or to develop new affordable housing).** Most often, this is because the local supply of moderately priced rental units is limited or local building restrictions inhibit the development of new rental housing.

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

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

- **Restore full operating subsidies for public housing.** Congress and HUD have sponsored much work in recent years to determine the amount of operating subsidies necessary to sustain public housing developments. The result of this work is HUD's operating cost formula, which estimates each agency's operating costs and allocates funding among agencies. We recommend

[47] Sard and Fischer (2008) and GAO (2002).

that the Administration request, and Congress approve, funding sufficient to cover the full amount required under the formula. For fiscal year 2010, this would require $5.3 billion, according to Center estimates, an increase of $1.1 billion above the 2008 level.[48]

- **Address the backlog of capital repairs to public housing.** The Center estimates that it would cost about $22 billion to fully rehabilitate existing public housing units (or $32 billion if 100,000 units with the most severe capital repair needs are replaced with new units rather than repaired). There are a number of ways to approach this problem; all of them would require significant investments by the federal government.[49] The just-enacted American Recovery and Reinvestment Act of 2009 (ARRA) includes $4 billion for capital repair needs for public housing, which would provide a substantial infusion of funds to begin to reduce this backlog.

- **Restore reliable renewal funding for project-based Section 8 contracts,** making it clear to property owners and tenants that the federal government will honor its commitments. ARRA provides $2 billion in one-time supplemental funding to eliminate the "short funding" of Section 8 contracts and restore full, 12-month renewals. This should help to reassure property owners that the federal government intends to meet its commitments under the program. In addition, it will be important to provide sufficient renewal funding in the regular appropriations bills for 2009 and 2010.

- **Provide incentives and assistance to encourage private owners to renew Section 8 project-based rental assistance.** Wherever Section 8 apartments have appreciated substantially in value or need fresh capital for rehabilitation, owners have strong financial incentives to opt out of federal affordability requirements. Both new resources and policy reforms are needed to counter these incentives and encourage the long-term preservation of these affordable units. (Rep. Barney Frank, chair of the House Committee on Financial Services, has indicated that comprehensive legislation to promote the preservation of the private assisted stock will be a priority in 2009.)

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

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

[49] For a more detailed discussion of public housing preservation issues, see Sard and Fischer (2008).

Utilizing Authorized Vouchers More Fully

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

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

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

Reaching More Low-Income Families

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

To make real progress in reducing housing instability and homelessness, and in bringing decent rental homes within the reach of more low-income families, the federal government will need to do more. One potentially important step forward is the newly created federal Housing Trust Fund, authorized as part of the Housing and Economic Recovery Act of 2008. The Housing Trust Fund is supposed to provide grants to states for the production, rehabilitation and preservation, and operation of rental housing that is affordable for low-income families.[53] Such development-based

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

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

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

[53] Under the Housing Trust Fund (HTF), funding is to be distributed to states in accord with a formula that takes into account shortages in affordable rental housing, the amount of housing of substandard quality, and other factors. States

subsidies would help both to meet the needs of low-income people who are elderly or have disabilities and to create or preserve affordable rental housing in neighborhoods where job opportunities are better but little affordable rental housing currently exists.

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

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

New Vouchers the Most Flexible and Cost-Effective Approach

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

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are to grant the funds to organizations and agencies to develop affordable rental housing. A portion of the funds may be used in support of homeownership development.

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

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

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

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

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

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

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

- *Help an estimated 3 million low-income households to secure decent, affordable homes.*[58]
- *Lift an estimated 3.3 million people, including 1.6 million children, out of poverty.*[59]
- *Prevent an estimated 230,000 people, including 110,000 children, from becoming homeless.* At least an equal number of adults and children would avoid having to live in temporary, unstable accommodations such as motels or living "doubled up" with friends or extended family.[60]

The additional vouchers could be allocated through a formula based on relative local needs. Housing agencies and their local partners could decide how the vouchers they received would best be used. Congress and the Administration also could set aside new vouchers to advance federal

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[57] GAO (2002).

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

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

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

policy priorities or initiatives that could have an important impact beyond expanding the number of low-income families with affordable housing. Following are three suggested federal priorities that would benefit from an allocation of new vouchers:

- **Preventing or alleviating homelessness.** Homelessness has remained a persistent problem for 25 years, and the deepening economic recession is certain to cause an increase in homelessness across the country, particularly among families with children.[61] Numerous studies have concluded that rental assistance such as vouchers is the most effective way to help families who are homeless or at risk of homelessness to obtain and remain in stable housing.[62] To maximize the impact on homelessness, new vouchers could be awarded to housing agencies that collaborate effectively with local governmental and non-profit agencies that provide services to families that are homeless or at risk of becoming homeless. This would ensure that families receive housing search assistance and other critical services, such as employment services, as well as rental assistance.

- **Promoting educational and economic opportunities for low-income families by expanding housing choice in high-opportunity areas where vouchers are difficult to use.** Too many families are locked in neighborhoods with failing schools, high crime rates, and limited access to job opportunities because of the high cost of housing. Unfortunately, rental housing is often scarce in neighborhoods where job opportunities are better, including neighborhoods where opportunities are improving due to redevelopment. New vouchers could be combined with production dollars (including funding from federal sources such as the Housing Trust Fund or Low-Income Housing Tax Credits) to develop new rental housing in high-opportunity areas where there is a shortage of units in which vouchers may be used. Vouchers could also be linked to subsidies for the rehabilitation of rental housing in neighborhoods that are being revitalized and are becoming gentrified. By tying voucher awards to the use of production and rehabilitation funding in this way, an incentive would be created to use more housing development funds in such areas. This would help address a significant weakness in federal housing production programs.[63]

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

To expand housing voucher assistance to 2 million new families by 2019 would require a substantial investment: roughly $8,000 for each voucher in the first year, plus the cost of renewal of each voucher in subsequent years. This investment would pay considerable dividends, however, in

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

[62] Khadduri (2008), Shinn et al. (2001).

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

terms of reduced poverty and homelessness, and better opportunities for families struggling to improve their lives while making ends meet.

V. Conclusion

The recommendations outlined above represent important steps needed to help preserve existing public and private assisted housing and to bring decent, affordable homes within the reach of more low-income families. But these steps alone do not constitute a full solution. A number of other policy issues — including issues concerning the reform of public housing, the future of rental housing finance, and changes in state and local regulations and policies to encourage (rather than discourage) the development of affordable housing — also are important but are beyond the scope of this paper.

With housing costs becoming unaffordable for growing numbers of low-income families, Congress and the Administration should chart a new course for federal rental housing policy. This new course will require a commitment of additional resources as well as a broad re-evaluation of federal policies, initiated with the goal of developing a comprehensive and sustainable strategy for increasing the availability of decent, affordable rental housing in communities where schools are good, crime rates are low, and families have access to economic opportunities.

Policymakers ought to be able to address such needs while also addressing the serious long-term fiscal challenges our nation confronts. To do so, they will have to address the long-term fiscal problem in a balanced manner. This means placing *all* of the budget — including taxes and various programs protected by powerful constituencies — on the table, and reaching bipartisan agreement on a balanced mix of reductions in projected spending and increases in revenues to be instituted after the economy recovers.[64] A guiding principle should be the one articulated in the 1980s by David Stockman, President Reagan's first budget director: when seeking to reduce the deficit, he once said, policymakers should target "weak claims" made on the federal Treasury, including weak claims made by powerful interests and constituencies, rather than politically "weak clients." The politically weak include the low-income families assisted by federal housing programs.

This approach has been followed successfully before. Landmark deficit-reduction packages enacted in 1990 and 1993 each contained a mix of spending reductions and tax increases. Moreover, the spending reductions and revenue-raising measures in both of those packages were combined with *increases* in key anti-poverty programs, such as the Earned Income Tax Credit. The result was legislation that reduced deficits and poverty at the same time. This is a model that policymakers should follow in the future as well.

[64] For a description of what a balanced approach looks like, see *A Balanced Approach to Restoring Fiscal Responsibility* (2008).

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APPENDIX A

Table 1: Federal Programs and the Unmet Need for Low-Income Housing Assistance, by State

State	Housing Choice (Section 8) Vouchers[a] Authorized Units, 2008	Housing Choice (Section 8) Vouchers[a] Number of Families Assisted, 2008	Project-Based Section 8 Housing Units, 2008[b]	Public Housing Units, 2008[c]	Section 515 Rural Housing Units, 2006[d]	Total Number of Federally-Assisted Units[e]	Number of Low-Income Families with Unaffordable Housing Costs, 2007[f]
Total	**2,191,371**	**2,011,084**	**1,274,641**	**1,160,911**	**446,310**	**4,892,946**	**14,873,408**
Alabama	31,644	26,746	16,457	40,070	15,916	99,189	211,378
Alaska	4,216	4,268	1,304	1,285	938	7,795	27,868
Arizona	20,441	19,516	8,215	6,938	3,736	38,405	281,549
Arkansas	22,686	20,850	10,857	14,671	10,186	56,564	146,832
California	299,902	288,647	103,601	41,107	18,710	452,065	2,142,039
Colorado	28,370	28,198	16,304	8,287	3,426	56,215	246,683
Connecticut	36,355	32,162	23,800	15,678	2,482	74,122	173,450
Delaware	4,546	4,348	4,783	2,791	1,622	13,544	39,368
District of Columbia	12,272	9,741	11,071	7,877		28,689	48,340
Florida	94,826	86,338	42,712	36,194	16,631	181,875	872,121
Georgia	55,320	47,931	28,110	45,039	16,231	137,311	443,506
Hawaii	11,954	8,898	3,179	5,442	897	18,416	62,566
Idaho	6,527	6,188	3,812	811	4,316	15,127	54,145
Illinois	93,321	76,017	64,940	61,237	10,945	213,139	610,824
Indiana	37,752	33,111	30,160	16,300	14,354	93,925	272,911
Iowa	22,050	20,811	12,289	4,466	10,928	48,494	116,181
Kansas	11,977	10,885	11,492	9,151	6,603	38,131	113,150
Kentucky	32,938	30,393	23,418	23,200	12,280	89,291	184,019
Louisiana	42,107	29,712	14,988	25,005	12,671	82,376	197,777
Maine	12,443	11,946	8,224	4,140	8,186	32,496	55,489
Maryland	45,736	38,017	25,129	21,330	5,326	89,802	255,675
Massachusetts	72,583	70,793	60,398	33,384	1,996	166,571	360,532
Michigan	53,078	47,921	57,335	23,447	18,667	147,370	440,509
Minnesota	30,838	29,785	31,088	20,739	11,782	93,394	203,504
Mississippi	19,366	15,656	17,070	13,862	15,439	62,027	121,772
Missouri	41,712	38,656	25,796	17,479	19,602	101,533	273,446
Montana	5,784	5,337	4,366	2,077	2,653	14,433	40,922
Nebraska	11,454	11,095	6,656	7,184	3,775	28,710	79,175
Nevada	12,987	12,550	3,645	4,154	2,089	22,438	143,210
New Hampshire	8,987	8,847	5,847	4,331	2,528	21,553	50,085
New Jersey	67,029	61,321	48,940	39,387	3,311	152,959	454,625
New Mexico	14,137	12,598	5,461	4,655	3,946	26,660	83,260
New York	225,758	206,565	113,436	196,845	13,371	530,217	1,266,155

State	Housing Choice (Section 8) Vouchers: Authorized Units, 2008	Housing Choice (Section 8) Vouchers: Number of Families Assisted, 2008[a]	Project-Based Section 8 Housing Units, 2008[b]	Public Housing Units, 2008[c]	Section 515 Rural Housing Units, 2006[d]	Total Number of Federally-Assisted Units[e]	Number of Low-Income Families with Unaffordable Housing Costs, 2007[f]
North Carolina	55,483	52,827	25,569	36,499	22,455	137,350	450,046
North Dakota	7,548	7,202	3,442	1,779	3,263	15,686	35,584
Ohio	89,624	87,547	72,523	46,382	14,686	221,138	577,737
Oklahoma	24,277	22,664	13,560	12,968	8,177	57,369	169,012
Oregon	31,456	30,669	10,103	5,391	5,642	51,805	213,596
Pennsylvania	83,852	73,364	60,708	62,878	10,355	207,305	550,366
Rhode Island	9,487	7,977	15,379	9,779	421	33,556	61,749
South Carolina	24,624	23,687	17,980	14,446	12,242	68,355	187,423
South Dakota	5,844	5,364	6,016	1,767	6,745	19,892	32,549
Tennessee	32,585	30,962	31,000	35,918	13,047	110,927	275,018
Texas	146,123	136,992	52,313	58,658	24,964	272,927	1,120,051
Utah	10,543	10,160	4,117	2,159	2,105	18,541	84,129
Vermont	5,692	5,684	3,432	1,831	1,497	12,444	29,070
Virginia	46,318	41,095	30,670	19,742	10,248	101,755	327,686
Washington	45,754	44,580	17,176	12,982	8,794	83,532	332,568
West Virginia	14,750	13,860	10,910	6,958	7,127	38,855	69,110
Wisconsin	28,511	26,293	31,932	13,097	10,492	81,814	268,482
Wyoming	2,206	2,106	2,294	785	1,551	6,736	16,166
U.S Territories	35,598	32,204	20,634	58,329	6,956	118,123	

[a] Source for authorized units is HUD Resident Characteristics Report, downloaded in January 2008. Number of families assisted represents the average number of vouchers leased per month from January through September 2008. Source is CBPP analysis of data from HUD's Voucher Management System.

[b] Tabulations by the National Housing Trust of data are from HUD's Multifamily Assistance and Section 8 Contracts Database, as of December 2007. Figures include units that are temporarily unoccupied. Figures include a small number of units supported by rental assistance from the Rent Supplement Program or the Rental Assistance Payment Program.

[c] For an explanation of the sources and methodology used to account for public housing units, see the technical appendix to Sard and Fischer (2008). Figures include unoccupied units.

[d] The figures are total Section 515 units as reported for January 2006 in USDA, "2006 Rural Development Multi-Family Housing (MFH) Annual Occupancy Report".

[e] The totals in this column are sums of the figures in the previous four columns.

[f] CBPP tabulations of data from the 2007 American Community Survey. "Low-income" is defined as renter households with incomes below 80 percent of the *state* median household income, adjusted for household size. Eligibility for HUD low-income housing assistance programs is restricted to households with incomes below 80 percent of *area* median income, a similar but not identical standard. "Unaffordable housing-cost burden" is defined as housing costs that exceed 30 percent of household income. This definition conforms to federal standards of affordability. Table 2 in this Appendix provides demographic data on the key groups of these households.

Table 2: Characteristics of Low-Income Renter Households with Severe Housing Cost Burdens, by State[a]

	Low-Income Renter Households that Pay More than Half Their Income for Housing, 2007[a]				
State	**Total**	**Percent with extremely low incomes[a]**	**Percent that Are Elderly[b]**	**Percent that Are Disabled[c]**	**Percent that Are Families with Children[d]**
Total	**8,137,983**	**66.46%**	**18.71%**	**15.04%**	**32.64%**
Alabama	116,546	72.03%	14.69%	20.54%	32.77%
Alaska	14,552	66.00%	15.56%	12.98%	30.57%
Arizona	152,618	56.13%	20.96%	15.42%	33.40%
Arkansas	78,352	69.42%	12.59%	22.62%	34.14%
California	1,235,579	57.10%	20.54%	12.71%	37.96%
Colorado	132,873	74.55%	17.53%	12.26%	32.49%
Connecticut	92,929	73.55%	26.32%	14.08%	31.68%
Delaware	21,973	70.20%	19.90%	15.51%	33.83%
District of Columbia	28,325	61.63%	24.31%	9.55%	22.03%
Florida	519,575	47.52%	22.82%	10.21%	34.36%
Georgia	239,417	66.35%	15.19%	13.90%	37.00%
Hawaii	36,768	41.31%	19.46%	8.70%	33.55%
Idaho	26,345	70.51%	15.27%	11.90%	34.84%
Illinois	333,456	75.95%	22.27%	12.64%	31.93%
Indiana	146,461	77.14%	18.87%	18.75%	29.41%
Iowa	60,681	81.31%	24.13%	13.34%	25.48%
Kansas	52,322	74.85%	24.39%	14.03%	27.02%
Kentucky	97,378	75.08%	15.86%	24.81%	33.21%
Louisiana	111,081	65.20%	15.89%	12.50%	36.70%
Maine	26,783	72.61%	23.07%	22.70%	26.83%
Maryland	131,314	68.29%	24.24%	13.17%	32.47%
Massachusetts	196,157	70.29%	26.01%	19.80%	25.81%
Michigan	248,440	77.80%	18.75%	21.32%	28.82%
Minnesota	105,029	73.79%	29.45%	14.69%	26.21%
Mississippi	69,228	63.19%	16.10%	17.35%	34.69%
Missouri	144,765	74.16%	20.02%	18.72%	29.70%
Montana	19,967	72.85%	29.91%	18.25%	19.48%
Nebraska	36,794	79.89%	19.89%	16.81%	30.95%
Nevada	74,800	54.83%	21.53%	12.92%	33.77%
New Hampshire	24,408	68.35%	21.42%	23.43%	23.61%
New Jersey	242,848	69.98%	26.82%	13.21%	34.31%
New Mexico	41,133	61.43%	17.79%	13.19%	35.06%
New York	748,912	65.44%	27.92%	13.89%	31.64%
North Carolina	231,858	67.20%	17.31%	16.64%	32.21%
North Dakota	16,812	81.51%	30.71%	15.29%	12.60%
Ohio	313,053	76.47%	19.61%	19.88%	31.19%
Oklahoma	87,675	71.75%	18.07%	16.55%	33.87%

	Low-Income Renter Households that Pay More than Half Their Income for Housing, 2007[a]				
State	**Total**	**Percent with extremely low incomes[a]**	**Percent that Are Elderly[c]**	**Percent that Are Disabled[d]**	**Percent that Are Families with Children[e]**
Oregon	118,837	63.62%	22.26%	14.76%	25.79%
Pennsylvania	296,158	73.10%	30.10%	18.19%	23.13%
Rhode Island	32,944	68.23%	28.00%	17.81%	26.35%
South Carolina	100,054	71.23%	20.13%	16.18%	31.32%
South Dakota	16,920	76.92%	28.46%	7.17%	22.21%
Tennessee	147,469	71.05%	17.15%	18.50%	32.83%
Texas	580,544	65.86%	16.23%	12.96%	38.57%
Utah	38,507	60.74%	13.64%	17.13%	33.30%
Vermont	13,320	67.54%	26.09%	20.89%	15.79%
Virginia	172,475	69.43%	20.77%	13.79%	31.29%
Washington	183,829	68.43%	20.54%	19.15%	28.24%
West Virginia	38,130	80.46%	12.30%	26.34%	31.40%
Wisconsin	134,043	76.38%	27.97%	12.63%	28.66%
Wyoming	7,546	62.56%	17.87%	17.21%	18.22%

Source: CBPP tabulations of data from the 2007 American Community Survey (ACS).

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[a] "Low-income" refers here to households with incomes below 80 percent of state median income, adjusted for family size. Households with "extremely low incomes" have incomes less than 30 percent of state median income. A household has a "severe housing-cost burden" if its housing costs exceed 50 percent of household income.

[b] A household is "elderly" if the head of household or spouse is 62 years or older. This is the definition generally used in federal housing programs.

[c] For this column, a household is counted as "disabled" if it includes a non-elderly adult with disabilities. The ACS uses six criteria to categorize a person as having a disability. The data presented here include only those who meet the criterion of having employment limitations. For more information on the broader range of factors counted as disabilities under the 2005 ACS, see the ACS 2005 Subject Definitions, available at: http://www.census.gov/acs/www/Downloads/2005/usedata/Subject_Definitions.pdf.

[d] "Families with children" include households that do not meet the definitions of "elderly" or "disabled" and have at least one member under the age of 18. A portion of the households categorized as "elderly" or "disabled" also have minor children.

APPENDIX B

DESCRIPTION OF MAJOR FEDERAL LOW-INCOME HOUSING ASSISTANCE PROGRAMS

Over the past 70 years, the federal government has created a wide variety of programs designed to help low-income households secure decent, affordable housing. The two tables below summarize the major federal programs that provide housing assistance to low-income renters.

The first table lists the five largest rental assistance programs. Generally, tenant rents under these programs are limited to 30 percent of household income, which ensures housing affordability for tenants, including those with the lowest incomes.

The second table lists important housing assistance programs that provide a range of subsidies and incentives for the construction, rehabilitation, and operation of affordable housing for low-income families.

Table 1: Major Rental Assistance Programs

	Housing Choice (Section 8) Voucher Program[65]	**Project-Based Section 8 Program**	**Public Housing**[66]	**Section 515 Rural Rental Housing Program and Section 521 Rental Assistance Program**	**Section 202 and Section 811 Supportive Housing Programs**
Enactment	Housing and Community Development of 1974, as amended by the Quality Housing and Work Responsibility Act of 1998	Housing and Community Development Act of 1974	U.S. Housing Act of 1937	U.S. Housing Act of 1949	Cranston-Gonzalez National Affordable Housing Act of 1990

[65] For more information on the Housing Choice Voucher Program, see CBPP's "Introduction to the Housing Voucher Program."

[66] For more information, see Fischer and Sard (2008).

	Housing Choice (Section 8) Voucher Program[65]	Project-Based Section 8 Program	Public Housing[66]	Section 515 Rural Rental Housing Program and Section 521 Rental Assistance Program	Section 202 and Section 811 Supportive Housing Programs
Program description	Low-income individuals and families use Housing Choice vouchers to rent moderate-cost housing in the private market. The voucher subsidy, which is paid directly to the landlord by one of the 2,400 state or local public housing agencies (PHAs) that administer the program, covers the difference between the tenant's contribution (see below) and the PHA's maximum payment or actual rental charge (whichever is lower).	Project-based Section 8 rental assistance subsidizes new or rehabilitated rental units in buildings that are privately owned and operated. Owners, who may be either for-profit or nonprofit entities, contract directly with HUD or through an intermediary such as a state housing finance agency to receive rental assistance in exchange for abiding by rent restrictions and other provisions of the program. Included under the project-based Section 8 umbrella are the Section 8 New Construction and Substantial Rehabilitation Program, the Section 8 Moderate Rehabilitation Program, and the Section 8 Loan Management, Property Disposition, and Conversion Programs.	Public housing consists of rental units owned and operated by public housing agencies (PHAs), which are public or quasi-public entities. Tenant rental payments go to the PHA and are used to help meet the operating and maintenance costs of providing the housing. Federal subsidies paid through the Public Housing Capital and Operating Funds cover the bulk of PHA costs.	The Section 515 Rural Rental Housing Program provides low-interest loans directly to private owners to acquire, rehabilitate, or construct rental housing in rural areas. Three-quarters of households living in Section 515 units also receive rental assistance, most of which is provided under the USDA Section 521 Rental Assistance Program.	As revamped in 1990, these programs provide direct grants and project-based rental assistance to nonprofit developers of affordable rental housing for the elderly and people with disabilities. Section 811 also funds tenant-based rental assistance for people with disabilities.
Number of	2.2 million vouchers are	1.27 million units available.	1.16 million units available.	446,000 units available (as	142,000 units available,

	Housing Choice (Section 8) Voucher Program[65]	Project-Based Section 8 Program	Public Housing[66]	Section 515 Rural Rental Housing Program and Section 521 Rental Assistance Program	Section 202 and Section 811 Supportive Housing Programs
units, 2008	authorized by Congress.			of January 2006). Three-quarters of the occupied units include rental assistance.	including about 15,000 units of Section 811 tenant-based rental assistance.
Current status	Congress funded nearly 300,000 new vouchers from 1998 to 2002. No new vouchers were funded over the 5-year period, 2003-2007. A small number were funded in 2008. (The above excludes “tenant protection” vouchers issued to replace housing assisted under other federal programs that has been lost.	No new units have been added since the mid-1980s, except for a small number of units set aside for the homeless. The total number of project-based Section 8 units has been declining by 10,000 to 15,000 units per year, as owners have prepaid their mortgages or chosen not to renew expiring Section 8 contracts. (Some units receive temporary Section 8 Property Disposition contracts in the period between HUD foreclosure and resale.)	No additional public housing units have been added for more than 10 years, and the total number of available public housing units has declined by about 165,000 since the mid-1990s.	In recent years, very few new units have been produced, and there has been a net loss of units as owners have exited the program.	In recent years, the programs have funded the production of an additional 5,000 units of housing each year.
Rent policy	Rents are based on tenant income; tenant rent is generally limited to 30 percent of household income. However, tenants may pay more to rent	Rents are based on tenant income; tenant rent is generally limited to 30 percent of household income.	Rents are based on tenant income; tenant rent is generally limited to 30 percent of household income.	Under Section 515, tenants generally either pay “basic rent” or contribute 30 percent of household income, whichever is greater. “Basic rent’ is	Rents are based on tenant income; tenant rent is generally limited to 30 percent of household income.

	Housing Choice (Section 8) Voucher Program[65]	Project-Based Section 8 Program	Public Housing[66]	Section 515 Rural Rental Housing Program and Section 521 Rental Assistance Program	Section 202 and Section 811 Supportive Housing Programs
	higher-priced units.			calculated roughly as the amount required to cover operating costs, debt service, and the allowable return on equity. When Section 521 or other rental assistance is available, tenant rent is generally limited to 30 percent of household income.	
Initial eligibility	75 percent of new program participants annually must be families with extremely low incomes (incomes below 30 percent of area median income). The remaining new households may have incomes up to 80 percent of area median income.	40 percent of new households admitted annually must be extremely low income (below 30 percent of area median income); 15 – 25 percent of new households (depending on the year the project was completed) may have incomes between 50 and 80 percent of area median income.	40 percent of new households admitted annually must have incomes below 30 percent of area median income; the remaining new tenants may have incomes up to 80 percent of area median.	Depending on whether a project is new or existing, 95 percent or 75 percent of newly admitted households, respectively, must have incomes below 50 percent of area median income; the remaining new households may have incomes that are low (up to 80 percent of area median income) or moderate (up to $5,500 a year above the low-income limit).	Only households with very low incomes (incomes below 50 percent of area median income) are eligible to be admitted.
Tenant	About 30 percent of	About two thirds of	Two thirds of public	Nearly 60 percent of	100 percent are elderly

	Housing Choice (Section 8) Voucher Program[65]	**Project-Based Section 8 Program**	**Public Housing**[66]	**Section 515 Rural Rental Housing Program and Section 521 Rental Assistance Program**	**Section 202 and Section 811 Supportive Housing Programs**
demographics	vouchers are used by elderly households and people with disabilities; more than 50 percent are used by families with children.[67]	project-based Section 8 tenant households are seniors or people with disabilities. Nearly all the remainder are families with children.	housing households include people who are elderly or disabled; more than 40 percent include children.	Section 515 households are elderly or disabled.[68]	(Section 202) or disabled (Section 811).
Spending 2008 (outlays)[69]	$15.7 billion	$8.7 billion	$7.5 billion (includes Capital Fund, Operating Funds, and HOPE VI)	$45 million (Section 515 loans) $1.3 billion (Section 521 rental assistance)	$1.3 billion

[67] HUD (2008b).

[68] USDA (2006).

[69] Source is Office of Management and Budget.

Table 2: Other Low-Income Housing Assistance Programs

	Low-Income Housing Tax Credit	HOME Investment Partnerships Program	McKinney-Vento Homeless Assistance Program
Enactment	Tax Reform Act of 1986	Cranston-Gonzalez National Affordable Housing Act of 1990	McKinney-Vento Homeless Assistance Act of 1987
Program description	Provides ten-year tax credits that developers may use to raise capital for the acquisition, construction, or rehabilitation of affordable housing for low-income families. In most cases, LIHTCs are allocated and administered by state housing finance agencies.	Provides block grant funding to states and localities that may be used for acquisition, rehabilitation, and new construction of rental housing; development of homeownerships units and assistance to homebuyers; and tenant-based rental assistance.	Includes a number of programs to provide transitional and permanent housing (Supportive Housing Program (SHP), the Shelter Plus Care (SPC) Program, the Section 8 Moderate Rehabilitation for Single-Room Occupancy Program, and the Safe Havens for Homeless Individuals Demonstration Program), as well as the Emergency Shelter formula grant to states and localities. The transitional and permanent housing programs are administered by HUD as competitive grants to local Continuums of Care (which are consortia of public and private providers of homeless assistance).
Number of units	As of 2005, about 1.9 million units financed by LIHTCs had been placed into service since 1987.[70]	From program inception through 2008, HOME funding contributed to the development of 336,438 rental housing units. In 2008, 25,381 households also received	About 168,000 transitional housing and permanent housing beds were funded in 2008.[72]

[70] National Council of State Housing Finance Agencies (2007).

	Low-Income Housing Tax Credit	HOME Investment Partnerships Program	McKinney-Vento Homeless Assistance Program
		tenant-based rental assistance under HOME.[71]	
Current status	Currently, each state receives $2.30 per capita in LIHTCs annually. The LIHTC program has provided funding in recent years for about 100,000 affordable units per year. However, the market for LIHTCs has collapsed in 2008 and 2009, and LIHTC production is likely to be significantly lower in these years than previously.	Over the past four years, HOME has contributed to the creation of about 50,000 units of rental housing per year, on average, including 22,000 units of tenant-based rental assistance.[73]	About two thirds of competitive McKinney funds are used for housing activities, while the remainder is used for services. About 10,000 new beds are funded annually (most of these are permanent supportive housing), although renewals consume a growing share of the McKinney budget.
Rent policy	Rents are not based on tenant income. Rather, rent limits are set based on the mix of units in the development. In LIHTC developments, either 20 percent of units must be affordable to households with incomes below 50 percent of the area median income or 40 percent of units must be affordable to households with incomes below 60 percent of the area median. Rents in tax credit units thus may not exceed levels affordable to	Under HOME, rents are not based on tenant household income but may not exceed specific rent limits. Rents for most (90 percent of) HOME-assisted units must be set at a level that is affordable to households earning 65 percent of the area median income. In multifamily developments of at least 5 units, 20 percent of the	The McKinney transitional and permanent housing programs use rent rules similar to those used in the rental assistance programs described above. Typically, tenants contribute 30 percent of their income for housing costs.

[71] HUD (2008c) and (2008d).

[72] Source for McKinney unit figures is HUD budget documents supplied as part of the *Budget of the U.S. Government, Fiscal Year 2009.*

[73] HUD (2008d).

[74] Abt Associates (2000).

	Low-Income Housing Tax Credit	HOME Investment Partnerships Program	McKinney-Vento Homeless Assistance Program
	households earning either 50 or 60 percent of the area median income. Rent burdens among LIHTC residents are high. According to one study, half of LIHTC residents report that their housing costs exceed 30 percent of their income, thereby exceeding federal standards of affordability. The majority of LIHTC tenants with affordable rent burdens are receiving rental assistance from another source, such as Section 8 vouchers.[74]	HOME-assisted units must have rents affordable to households with incomes no greater than 50 percent of the area median income. Rent burdens among HOME tenants are reportedly high, especially for those receiving no rental assistance. For HOME tenants receiving no rental assistance, housing costs eat up 44 percent of their income, on average, and the burden rises to 69 percent of income for HOME-assisted households with extremely low incomes who do not receive rental assistance.[75]	
Initial eligibility	Tenant income may not exceed 60 percent of the area median income.	Incomes of households admitted to HOME-assisted units may not exceed 80 percent of the area median income. Rental housing: 90 percent of tenants receiving rental assistance must have incomes below 60 percent of the area median income.	Placement in McKinney-funded developments is restricted to individuals and families who are homeless. Permanent supportive housing, Shelter Plus Care, and Section 8 Moderate Rehabilitation units are restricted to individuals with disabilities and their families.
Tenant demographics	Nearly 70 percent of LIHTC households include members who work. Of the	NA	The majority of households living in *transitional* housing funded by

[75] Herbert (2001).

	Low-Income Housing Tax Credit	HOME Investment Partnerships Program	McKinney-Vento Homeless Assistance Program
	remaining 30 percent of households, many are elderly or disabled.[76]		SHP are families with children. SHP *permanent* supportive housing, SPC, and Section 8 Moderate Rehabilitation units are restricted to individuals with disabilities and, in some cases, their families.
Spending 2008 (outlays, except where noted)	$5.4 billion (tax expenditures)	$2.0 billion	$1.4 billion

[76] Abt Associates (2000).