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"Oversight of HUD and Its Fiscal Year 2009 Budget"

U.S. Senate Committee on Banking, Housing, and Urban Affairs

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I am Barbara Sard, director of housing policy for the Center on Budget and Policy Priorities. The Center is an independent, nonprofit policy institute that conducts research and analysis on a range of federal and state policy issues, with particular emphasis on fiscal policies and policies affecting low and moderate-income families. We receive no government grants or contracts and are funded by foundations and individual donors.

My testimony today will focus on three areas: 1) overall shortfalls in the proposed HUD budget for fiscal year 2009; 2) the impact of the budget on the Section 8 Housing Choice Voucher program; and 3) other impacts on key programs that assist low-income families, elderly individuals and persons with disabilities.

Congress Needs to Add $6.5 Billion to Administration's Request to Avoid Cuts In Assistance for Low-Income Families

Last year, Congress rejected deep cuts the Administration proposed in affordable housing and community development programs and funded the Department of Housing and Urban

Development at $2.1 billion above the Administration's budget request for 2008. For 2009, Congress will have to provide a substantially larger increase — totaling $6.5 billion above the Administration's request — to avoid cuts in core programs that help millions of low-income families secure decent housing at affordable rents. There are two primary reasons why.

First, Congress can no longer rely on large recaptures of unspent funds from the "Section 8" programs to finance HUD programs. For most of the past decade, Congress and the Administration have used roughly *$2 billion per year* in unspent balances in Section 8 program accounts to help finance the current costs of HUD programs, thereby reducing the amount of new funding required. Such large recaptures will not be available in 2009 (and probably not in subsequent years, either). As a result, Congress will have to provide an increase of $2 billion in budget authority in 2009 simply to maintain funding for HUD programs at the nominal (pre-inflation) 2008 levels.

Second, the President's budget fails to provide funding increases in HUD's three main rental assistance programs needed to prevent cuts in assistance to low-income families now being served. More specifically:

- **The renewal of Housing Choice vouchers for 2 million low-income families will cost $15.5 billion in 2009, according to Center estimates, which is $868 million above the 2008 funding level and $1.3 billion above the President's 2009 request.** Under the President's budget, at least 100,000 housing vouchers being used by low-income families this year would *not* be renewed. (For data showing the state-by-state impact of these cuts, see the Appendix.)

- **The Public Housing Operating Fund will require $5.120 billion in 2009, $920 million above the 2008 level and $820 million above the President's request, to provide state and local housing agencies with the operating subsidies they are due under HUD's own formula.** Deep underfunding of operating subsidies in recent years has resulted in the deterioration — and ultimately, the sale or demolition — of many public housing units. The loss of units can be expected to accelerate in 2009 unless progress is made in restoring funding to a sustainable level. (The Appendix includes a state-by-state breakdown of shortfalls in funding for public housing.)

- **The President's budget fails to address satisfactorily a one-time, multi-billion-dollar shortfall in the project-based rental assistance program, which risks the loss of thousands of affordable apartments.** Last year the Administration belatedly revealed a substantial shortfall in funding for Section 8 project-based rental assistance. (This program provides affordable housing to nearly 1.3 million low-income households, most of which contain someone who is elderly or has a disability.) Congress narrowed but did not eliminate the gap in its 2008 appropriations legislation. To close the gap and fully fund the program in 2009 — and thereby restore confidence in the program's financial reliability among the property owners with whom HUD partners — Congress needs to provide an estimated $3.4 billion more for the renewal of Section 8 contracts than it provided in 2008 (or $2.4 billion more than the President requested for 2009).

Table 1 below shows how these shortfalls affect HUD's 2009 budget. Once the nearly $2 billion in prior-year funds that were available (and rescinded) in fiscal year 2008 but will not be available in 2009 are netted out of Congress' 2008 appropriation, the President's overall 2009 budget for HUD is *$885 million below* the nominal 2008 level (i.e., the 2008 level before adjusting for inflation). To avoid reducing the number of people assisted through the Housing Choice Voucher, public housing, and Section 8 project-based rental assistance programs, Congress will need to provide funding in 2009 that is $5.2 billion above the 2008 level. Finally, another $386 million is required to provide an inflation adjustment for the remaining HUD programs.

As a result, a total of $6.5 billion above the President's budget (or $7.5 billion above the 2008 level before adjustment for inflation) is needed simply to maintain current levels of service in HUD programs and to avert losses in housing assistance.

Shortfalls of this magnitude have few precedents among recent HUD budgets and would have sharp and painful effects. Moreover, these shortfalls would come at a time when affordable housing problems are growing among low-income families. HUD's analysis of recent Census data shows, for example, that the incidence of severe housing affordability problems among low-income families grew by nearly 20 percent from 2001 to 2005 (the latest year for which these data are available). Only one in four eligible low-income families receives federal housing assistance, a problem the Administration's budget proposal would worsen. And need now is increasing further as the economy deteriorates and unemployment and poverty rise.

The remainder of my testimony discusses the sources of the $6.5 billion shortfall in the Administration's budget in more detail.

Large Unspent Section 8 Balances No Longer Available to Replace New Appropriations

For many years, Congress and the Administration have relied on the recapture of large unspent balances from the Section 8 programs to finance HUD programs, thereby reducing the amount of new appropriations needed. From 2001 to 2007, an average of $2.1 billion in unspent Section 8 balances was recaptured every year and recycled in this way. Similarly, in 2008, Congress rescinded nearly $2 billion in recaptured Section 8 funds and thereby reduced the scored "cost" of the 2008 appropriations law by that amount.

TABLE 1
How Big is the Shortfall in the President's HUD Budget Request for 2009?

	Amounts in millions
STEP 1: Calculating the President's cut below the 2008 nominal level	
2008 appropriation[1]	*$37,636*
+ Funding to replace offsets from the 2008 bill that are no longer available[2]	*+$1,973*
= Total funding needed in 2009 to maintain 2008 nominal level	$39,609
President's request for 2009[3]	$38,724
Shortfall in President's budget compared to 2008 nominal level	***-$885***
STEP 2: Additional funds needed above the 2008 level to maintain assistance in the three major low-income programs (due to inflation and other factors)	
To avoid cuts in Housing Choice Vouchers[4]	$868
To restore full funding for the Public Housing Operating Fund[5]	$920
To fully renew Section 8 Project-Based Rental Assistance contracts[6]	$3,400
Total additional funding needed for these three programs	***$5,188***
STEP 3: Providing an inflation adjustment for other HUD programs[7]	***$386***
Total HUD funding shortfall under President's budget for 2009 (steps 1, 2, and 3)	**-$6,459**
Amount by which Congress exceeded the President's request in 2008[8]	*$2,065*

Yet for a number of reasons, such large amounts of recaptured Section 8 funds will not be available in 2009 and are unlikely to be available in subsequent years. As a result, the Administration and Congress will be required to provide new budget authority to cover costs that previously were financed with recaptured Section 8 funds. Some $2 billion in new budget authority will be required in fiscal year 2009 simply to sustain funding for programs at their 2008 levels, before adjustment for inflation.

Housing Vouchers for at Least 100,000 Low-Income Families Cut Under Bush Budget

The Housing Choice (or "Section 8") Voucher Program is the federal government's largest housing assistance programs for low-income families; approximately 2 million low-income families use vouchers to secure decent homes in the private market at rents 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.

The voucher program also is widely regarded as one of the most successful housing programs. The Administration's 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."[9]

The Center estimates that $15.5 billion will be required to renew all vouchers in use in 2009, which is $868 million more than was provided for the program in 2008. (See the accompanying text box for an explanation of this estimate.) The Administration's budget, however, provides $14.16 billion for voucher renewals in 2009." This is $500 million below what Congress provided for 2008 and about $1.3 billion less than is needed to renew all vouchers in use.[10]

At least 100,000 housing vouchers in use by low-income families in 2008 would be cut under the President's budget request. Moreover, this figure may substantially understate the size of the cut that would occur. The Administration's budget includes a proposal to sharply cut back housing-agency funding reserves and to use large amounts of funding now held in these reserves to cover a portion of 2009 voucher renewal costs. As explained below, this deep cut in agency reserves would be ill-advised. If Congress rejects the proposed cut in reserves without providing additional funds to supplement the President's request, nearly 200,000 vouchers in use will be eliminated.

Proposed Cut in Reserves Would Harm Local Housing Agencies

Under the Administration's budget, each housing agency's renewal funding in 2009 would be based on the amount of funding the agency was eligible to receive in 2008, with adjustments for inflation, tenant-protection and incremental vouchers initiated in 2008, or commitments of project-based vouchers.[11] Each agency's renewal funding then would be *reduced*, however, by an amount equal to what the Administration calls the "unusable" portion of funds in the agency's reserve account at the end of fiscal year 2008. The budget does not define "unusable," but this term likely refers to the amount of voucher renewal funds that would remain if all of an agency's authorized vouchers were in use for the full year.

The budget assumes that $600 million in "unusable" reserve funds would be secured in this manner. For a large percentage of agencies, however, drawing down the entirety of their "unusable" reserves would leave them heavily exposed to fiscal instability or shortfalls if unexpected costs arosein subsequent months. We estimate that approximately 1,800 of the 2,400 agencies that administer vouchers will have what the Administration terms "unusable" reserves at the end of

Why Is an Increase of $868 Million Needed to Renew Housing Vouchers in 2009?

The Center estimates that $15.5 billion will be needed in 2009 to renew all vouchers in use, an increase of $868 million above the 2008 level. The need for an increase is driven primarily by two factors: inflation in rent and utility costs, and the fact that more vouchers will require renewal in 2009 than in 2008.

Housing cost inflation: Market rents and utility costs rise from year to year. Because vouchers cover the difference between the tenant's contribution (about 30 percent of his or her income) and housing costs, per-voucher costs rise each year roughly in proportion to the cost of housing (including basic utilities). Congress accounts for this inflation by directing HUD to apply an inflation adjustment as part of the formula used to determine each agency's annual renewal funding. The Center estimates that the average inflation adjustment (called HUD's Annual Adjustment Factor, or AAF) will be 4.1 percent in 2009, about the same as the 4.05 average AAF in 2008. Some $600 million will be needed in 2009 to cover such an inflation adjustment.

More vouchers requiring renewal: More vouchers will need to be renewed in 2009 than in 2008, for three reasons. First, HUD issues approximately 25,000 "tenant-protection" vouchers each year to replace affordable housing that has been lost for reasons such as the demolition or conversion of public housing units (or project-based section 8 units) to private-market use. For the initial year, these vouchers are funded out of a separate, dedicated account within the voucher program; in subsequent years, they are funded out of the general renewal account, thereby increasing the number of vouchers requiring renewal funding.

Second, Congress allocated $125 million in the 2008 appropriations law to provide initial-year funding for approximately 15,000 new, "incremental" vouchers. Some of these vouchers will require renewal funding in 2009.

Finally, following the sharp decline in voucher utilization from early 2004 through late 2006, when about 150,000 vouchers were lost, there are good reasons to expect that the number of families using vouchers will grow in 2008, on top of the growth caused by the new tenant-protection and incremental vouchers. This, too, means that more vouchers will require renewal funding in 2009. Funding increases provided by Congress in 2007 and 2008, combined with improved funding incentives for agencies to assist more families within their annual budgets, will result in a total of 75,000 more low-income families receiving voucher assistance in 2008, according to Center estimates. This increase reflects a voucher utilization rate of 95.6 percent in 2008, about four percentage points above the level in the third quarter of 2007 but still well below the peak of 98.5 percent in late 2003 and early 2004.

Adding these numbers up, we estimate that $148 million will be needed in 2009 to renew tenant-protection and incremental vouchers issued in 2008, and an additional $120 million in renewal funding will be required to reflect the increased number of families using vouchers. When added to the $600 million needed to cover rental inflation, this brings the total funding need for the voucher program to $868 million above the 2008 level.

2008. If these agencies are required to fully expend these reserves to renew vouchers in 2009, nearly 1,000 agencies will be left *without any reserves at all* in 2009, while an additional 320 agencies will be left with reserves totaling less than 5 percent of their annual funding allocation, a dangerously low amount.

In other words, nearly three-quarters of the housing agencies with "unusable" reserves would be left with few or no reserves in 2009. Rather than spend reserve funds down to such dangerously low levels, many agencies would likely reduce the number of families they serve — by removing vouchers from circulation over the course of the year as families left the program. Such an outcome would reverse some of the gains in voucher use achieved over the past two years as a result of improvements Congress has made in voucher-renewal funding policies.

Moreover, the proposal to eliminate "unusable" reserves would punish the highest-performing agencies — those that keep per-voucher costs low in order to serve as many families as they are authorized to. An agency that utilized all of its authorized vouchers in 2008 would face the choice of exhausting all of its funding reserves in order to renew its vouchers in 2009 or putting some vouchers "on the shelf" and serving fewer low-income families.

Proposed Change in Formula for Allocating Voucher Funds Would Exacerbate Problems Caused by the Funding Shortfall

Still another problem is that the Administration's 2009 budget, like other recent Administration budgets, would use an inefficient method for allocating voucher-renewal funding among housing agencies. Under the budget, HUD would distribute renewal funding based on the amount of funding that each agency was eligible to receive in 2008, which, in turn, was based on each agency's vouchers in use in fiscal year 2007. This policy, which is similar to proposals rejected by Congress for 2007 and 2008, would deepen funding shortfalls among agencies and punish high-performing agencies that succeed in assisting more low-income families in 2008.

This formula is much less efficient than the "recent-cost" formula adopted by Congress in 2007 and 2008, under which each housing agency's share of renewal funding was based on actual voucher usage and costs during the most recent 12-month period. Because the formula that the Administration would use is markedly less efficient than the formula Congress adopted in 2007 and 2008, many agencies would experience even deeper funding shortfalls than those caused by the budget's inadequate funding levels alone.

For example, high-performing agencies that succeed in serving more families in 2008 than in 2007 would *not* receive the funding they would need to continue serving these families in 2009, because the proposed formula would ignore recent changes in voucher usage. Agencies that serve *fewer* families in 2008 than in 2007 would receive *more* funding than they need, for the same reason. A return to such a discredited funding formula policy would waste scarce funds while punishing high-performing agencies.

The triple blow caused by the reduction in voucher funding, the sharp reductions in agency reserves, and a funding formula not based on recent costs and voucher usage could discourage many agencies from fully using the funds available to them — and could thereby cause the number of vouchers lost to be even greater. For each of the past two years, Congress has wisely rejected the Administration's proposed funding formula and fully funded all vouchers in use. It should do so again.

Enactment of Section 8 Voucher Reform Act (SEVRA) Essential to Provide Predictable Renewal Funding Policy

Unfortunately, the Administration's budget proposal for the voucher program is once again creating uncertainty among local housing agencies. For example, based on the budget, HUD staff have advised housing agencies that if they use reserves in 2008 to serve more families — even with vouchers that the agencies have been authorized to administer — they will *not* receive renewal funding for the additional vouchers in 2009.

To provide the predictability needed to encourage agencies to serve the maximum number of families with available funds, the voucher renewal funding policy needs to be incorporated into the authorizing law and taken out of the arena of annual decision-making in the appropriations process. The Section 8 Voucher Reform Act (SEVRA), approved by the House last year by a wide bipartisan margin and just introduced in the Senate, would make this needed change. Enactment of SEVRA would improve the voucher program's performance. (The House bill is H.R. 1851; the Senate bill is S. 2684, sponsored by Chairman Dodd and cosponsored by Housing Subcommittee Chairman Schumer and Senators Reed, Menendez and Brown.)

Under SEVRA, each agency's renewal funding would be based on the cost of its vouchers in use in the previous year, and agencies would be allowed to retain unspent prior-year funds in an amount up to 12.5 percent of their annual funding in the first year after enactment of SEVRA. (Under the House version of SEVRA, the allowable reserve would fall to 5 percent in subsequent years. Under the Senate version, the allowable reserve level would shrink to 7.5 percent in the second year and to 5 percent in the third and subsequent years.) Like any business, a housing agency needs to have a modest reserve to meet its obligations in the face of unanticipated cost increases. It is important that the program's authorizing statute establish a clear reserve policy such as this in order to protect these funds for their intended purpose, rather than treating these funds as a pot that can be raided to close general budget shortfalls, as the Administration would do.

SEVRA also would incorporate into the U.S. Housing Act the requirement that HUD issue replacement vouchers for all public housing units that are demolished or sold and for all privately owned, HUD-assisted units that are converted to private-market use. Until 2005, HUD generally followed this full-replacement policy. However, HUD then discarded the policy. In the 2008 appropriations act, Congress reacted to HUD's abandonment of this policy by requiring replacement of all lost units that had been occupied within the prior 24 months. But the Administration's new budget proposes to scuttle the Congressional policy and to provide tenant-protection vouchers only for those units that still were occupied right up to the time they were demolished or converted, a standard that would lead to a significant further net loss of assisted housing units. (The Center estimates that since 1995, well over 100,000 public and privately assisted units have been lost and not been replaced by vouchers.)

Request Also Falls Short on Other Components of the Voucher Program

For the entire voucher account — including not just renewals but also new tenant-protection vouchers, Family Self Sufficiency program coordinators, administrative fees, and new incremental vouchers — the Administration's budget allocates \$15.88 billion. This includes \$150 million for tenant-protection vouchers to replace federally assisted housing that has been lost to such factors as demolition and private market conversion, $48 million for the Family Self Sufficiency Program, and $1.4 billion for administrative expenses. (See Table 2.)

TABLE 2

	2008 Enacted (millions)	2009 Bush Budget (millions)	Difference (millions)
Housing Choice Vouchers (total)	**$16,391**	**$15,881**	**-$510**
Renewals	$14,660	$14,161	-$498
Tenant-protection	$200	$150	-$50
Family Self-Sufficiency	$49	$48	-$1
Administrative expenses	$1,351	$1,400	+$49
Incremental vouchers	$125	$75	-$50
Disaster Housing Assistance		$39	+$39

The proposed funding level for administrative expenses represents an increase of 3.6 percent over the 2008 funding level, but is unlikely to be sufficient to avoid a prorated cut. The budget would continue the policy enacted by Congress for 2008 (and which was proposed in the Administration's 2008 budget), according to which agencies earn administrative fees for each voucher leased based on a formula determined by HUD. If funding is not sufficient to pay the full formula amount, however, agencies receive less than 100 percent of the payments due.

The Administration's budget also includes $75 million for incremental vouchers for supportive housing for about 10,000 veterans and $39 million to prevent displacement of people who are elderly or have disabilities and currently receive assistance from HUD's Disaster Housing Assistance Program, which is scheduled to end in March 2009. These provisions are welcome, but will barely dent the unmet need for housing assistance, as discussed above.

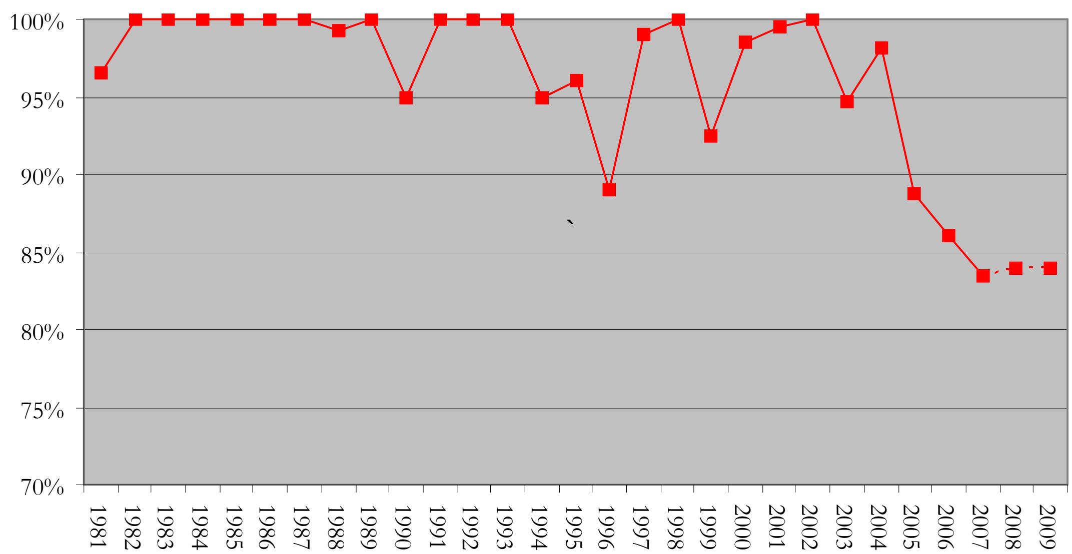
Budget Would Continue Chronic Underfunding of Public Housing

The Administration's budget would provide $6.3 billion in funding for public housing, 6 percent below the 2008 level. Compared to the *2001* level, the Administration's request represents a reduction of 11 percent (or $790 million) before adjusting for inflation and 28 percent after adjusting for inflation.

FIGURE 1

Public Housing Operating Fund Has Been Repeatedly Underfunded in Recent Years

Operating Fund Pro-Rations by Fiscal Year



Note: Prorations in 2006 and before would be substantially deeper if they were calculated based on the current operating subsidy formula, because formula revisions implemented in 2007 increased eligibility levels by approximately 8 percent in 2007 and by larger margins in later years. The prorations shown in the chart for 1981-2007 are as reported by HUD in the "Operating Fund Annual Report: Calendar Year 2007," October 31, 2007, p. 7, available on the internet at http://www.hud.gov/offices/pih/programs/ph/am/of/opfund07rpt.pdf. The 2008 proration is a HUD estimate based on the actual funding level; see "Explanation of Second Funding Cycle CY 2008 Obligation for March through June," February 27, 2008, available on the internet at http://www.hud.gov/offices/pih/programs/ph/am/of/cy2008oblig2.pdf. The 2009 proration is based on a Center estimate of operating fund eligibility and HUD's estimate provided in the "Congressional Budget Justifications" for Public Housing Operating Fund, page E-7.

Funding for the *Public Housing Capital Fund* which provides funding for major repairs such as replacing obsolete heating systems or fixing leaky roofs, would fall $415 million (or 17 percent) below the 2008 level, and be more than $850 million below what will be needed to address the new repair needs expected to accumulate in 2009. Public housing developments already have a backlog estimated at more than $20 billion in unmet capital needs.[12]

For the *Public Housing Operating Fund*, which covers day-to-day operating costs such as utilities, basic maintenance, security at public housing developments, and admissions, the budget requests $100 million above the 2008 level. This amount would provide housing agencies with only 84 percent of the amount they are likely to be eligible for under the federal public housing operating fund formula, which is designed to measure needs for those funds. Some $820 million above the level in the budget would be needed to provide agencies with the full amount for which they are likely to be eligible. Even providing 95 percent of the funds for which agencies are likely to be eligible would require an increase of $570 million above the level in the budget.

Some agencies may be able to make up for *short-term* reductions in public housing funding by drawing on reserves or increasing their operating efficiency but 2009 would mark the *seventh consecutive year* in which operating subsidies have been underfunded and the *eighth straight year* in which capital funding has been frozen or cut. As a result, many housing agencies no longer can make ends meet by using such measures. Instead, they are increasingly being forced to increase revenues or cut costs in ways that have harmful effects on families residing in public housing, more than two-thirds of which are families that include at least one person who is elderly or has a disability. Many agencies have already been compelled to:

- increase rents, fees, and utility charges;
- shift public housing units to higher-income tenants, who can be charged higher rents;
- scale back security protections;
- reduce maintenance of public housing developments; and/or
- defer capital repairs, including safety-related improvements such as replacing obsolete fire-safety systems.

Furthermore, if public housing continues to be underfunded, an increasing number of agencies are likely to conclude they must sell or demolish part or all of their public housing stock. The number of public housing units has already fallen by approximately 177,000 (or 13 percent) from 1995 to 2007.

TABLE 3

	2008 Enacted (millions)	2009 Bush Budget (millions)	Difference (millions)
Public Housing (total)	**$6,739**	**$6,324**	**-$415**
Capital Fund	$2,439	$2,024	-$415
Operating Fund	$4,200	$4,300	+100
HOPE VI	$100	$0	-$100

A substantial share of the remaining public housing developments provide decent housing in low-poverty neighborhoods with good schools and job opportunities or provide affordable homes for low-income elderly people or people with disabilities who otherwise would be forced to leave their neighborhoods or hometowns or move to institutional settings. If additional funding is not provided, those developments — and the more than 60 years of federal investment they represent — will increasingly be placed in jeopardy.

The budget also would eliminate the HOPE VI program, which provides grants to housing agencies to revitalize severely distressed public housing. Congress provided $100 million for HOPE VI grants in 2008. If HOPE VI is reauthorized in a manner that will prevent the further loss of units and provide better outcomes for families residing in severely distressed projects, additional investments in this program would be worthwhile.[13]

Section 8 Project-Based Rental Assistance Faces Large Shortfalls

Under the Section 8 Project-Based Rental Assistance program, HUD contracts with the private owners of nearly 1.3 million units of housing to make them affordable to low-income families, the great majority of which are headed by people who are elderly or have disabilities. Rental assistance for approximately 80 percent of these units is funded by annual appropriations from Congress; assistance for the remaining 20 percent of units is funded under long-term contracts with HUD, using budget authority appropriated in previous decades.

The project-based program has been enveloped in a funding crisis since 2007, when federal funding shortfalls caused lengthy delays in payments to a large share of the owners of Section 8 housing. In the fall of 2007, HUD conceded that its fiscal year 2008 budget request of $5.5 billion was $*2.6 billion shy* of the amount needed to provide a full 12 months of funding for all Section 8 contract renewals. However, instead of requesting the needed funds from Congress, HUD broke with previous policy and began requiring private owners to accept short-funded contracts — i.e., 12-month contracts that were funded for only part of the contract period (typically only through the remaining months of the fiscal year).

These developments have badly shaken owners' confidence in the program. In a hearing before the House Subcommittee on Housing and Community Opportunity on October 17, 2007, owner representatives testified that the late payments and short-funded contracts have resulted in serious difficulties for them in managing their properties, have increased their operating costs, and are likely to make it more difficult and expensive for them to raise capital from lenders and investors to rehabilitate and improve these properties. HUD Assistant Secretary Brian Montgomery recently conceded in testimony before the House Appropriations Subcommittee on Transportation and HUD that short-funding is harmful to owners and that full-funding contract renewals is a desirable goal.

Already, 10,000-15,000 units of affordable Section 8 housing are lost every year as owners leave the program. As more owners lose confidence in the program's financial stability and find it increasingly difficult to raise the funds needed to modernize their properties, many more of them are likely to opt out of the program — especially owners in tight rental markets where incentives to exit the program already are strong. At greatest risk of loss are approximately 150,000 rental units with Section 8 rents that are well below market levels. (See the Appendix for state-by-state data on the number of Section 8 units at risk.)

With most Section 8 renewals being short-funded in fiscal year 2008, we estimate that $2.5 billion will be needed just to "back-fill" the renewals that are receiving less than 12 months of funding this year. An additional $7.0 billion will be required to provide 12 months of funding for all contract renewals in 2009. Altogether, $9.6 billion will be required to fully renew project-based Section 8 contracts in 2009.

The Administration's budget, however, provides only $7.16 billion for renewals of Section 8 project-based rental assistance in 2009, including a $400 million advance of budget authority from fiscal year 2010. The funding requested is more than $1 billion above the 2008 funding level — as the Administration now acknowledges that a substantial shortfall exists — and the proposed advance funding mechanism represents a sound policy. But the budget request still falls *$2.4 billion short* of the amount needed to restore full funding and thereby renew the confidence of the private owners on whom the program depends.

It is critical that this shortfall be filled (and that this be done without taking funds from other HUD rental assistance programs, or Congress will simply be trading one problem for another of equal gravity). Congress could provide a portion of the needed funds by appropriating supplemental funds in 2008 or by providing more than a $400 million advance of budget authority for fiscal year 2010. A supplemental appropriation would allow HUD to return immediately to the policy of full-funding every contract, which would begin to restore property owners' confidence in the financial security of the program. Both of these options would alleviate the fiscal pressure that the Section 8 shortfall will place on the overall HUD budget for 2009.

Funding Needs For Other Low-Income Housing Assistance Programs

As in previous budgets, the Administration proposes to slash funding for the Section 202 and Section 811 programs, which fund supportive housing for low-income people who are elderly or have disabilities. Section 202 would be funded at $540 million, or $195 million (27 percent) below the 2008 level. Section 811 would be funded at $160 million, a cut of $77 million (or 33 percent) below the 2008 level. These cuts would sharply reduce the programs' capacity to promote the development of affordable, service-enriched housing for people who are elderly or have disabilities.

The Administration's request for Section 202 would fund only 2,400 new units of housing for the elderly, according to Administration budget documents. This is 40 percent fewer than the number of units funded in 2006. Given the continuing need for additional supportive housing for low-income individuals who are elderly or have serious disabilities, Congress should at least maintain funding for these programs at the baseline level.

The Administration's budget does include modest increases for homeless assistance and the HOME block grant. Homeless assistance would receive funding of $1.63 billion in 2009, an increase of $50 million (3.2 percent) over the 2008 funding level. All of the increase would be set aside for demonstration grants to address the supportive-housing needs of chronically homeless individuals. The HOME block grant would be funded at $1.85 billion, an increase of $225 million (or nearly 14 percent) above the 2008 level. (The program would still be 16 percent below its funding level five years ago — in 2003 — adjusted for inflation.) Funding for the Housing Opportunities for People with HIV/AIDS program would be frozen at $300 million.

Community Development

The Administration's budget would provide $2.9 billion for formula grants under the Community Development Block Grant (CDBG) in fiscal year 2009. This is $659 million, or 18 percent, less than Congress provided in 2008. (For data showing the impact of the President's proposed cuts in CDBG on states, see Sharon Parrott et al., "President's Budget Would Cut Deeply into Important

Public Services and Adversely Affect States," February 20, 2008; available at http://www.cbpp.org/2-20-08bud.htm.)

The budget also proposes to cancel $206 million in 2008 funding for specific economic and neighborhood development initiatives (i.e., for initiatives that come in the form of earmarks). Since Congress is unlikely to agree to this proposal, funding reductions would have to be found elsewhere in the community development area to remain within the overall levels that the Administration has requested for community development. If the reductions came out of CDBG formula grants (the most likely target, as it is by far the largest account within the Community Development Fund, which includes both CDBG and the earmarked grants), the formula grants would be cut a total $865 million, or 24 percent.

Proposed Unlimited Expansion of Ability to Operate Public Housing and Voucher Programs with Few Federal Rules Should Not be Permitted

The budget includes a provision that would allow HUD to designate an unlimited number of public housing agencies to participate in the "Moving-to-Work" demonstration (MTW).[14] Currently, 29 agencies -- including four added by the FY2008 appropriations bill—are authorized to participate in MTW. Established in 1996 by a provision in an omnibus appropriations bill, MTW permits HUD to grant agencies waivers of voucher and public housing program rules to allow the agencies to experiment with different policies. Agencies can use those waivers, for example, to raise rents on tenants substantially or to place time limits on assistance, even for working families that cannot afford market-rate housing on their own. MTW also allows HUD to grant waivers that authorize agencies to dispense with most federal rules and tenant protections, with deregulation, rather than tenant self-sufficiency, as an end in itself.

MTW was intended to test innovations in housing policy, but its success in this regard has been limited. The demonstration's design did not provide for careful evaluation of the policies with which agencies experimented. As a result, MTW has generated a wealth of anecdotal reports but few firm, objective findings. Targeted, rigorously-evaluated, housing policy demonstrations (such as Moving-to-Opportunity, Jobs Plus, and the Welfare-to-Work Voucher program) have generated a far greater quantity of useful findings than the MTW demonstration, with much less disruption to tenants.

In addition, the current MTW demonstration does little to guarantee that housing agencies will be held accountable for the policies they adopt or be required to fully disclose to the public how they have used their flexibility under the demonstration. HUD's Office of the Inspector General has issued a series of sharply critical reports on MTW that have noted flaws such as ineffective oversight by HUD and poor use of funds by some local agencies.[15]

Granting HUD unlimited authority to designate additional agencies to participate in the current MTW demonstration would be equivalent to allowing HUD to disregard the U.S. Housing Act at will. As such, it would be a serious abdication of Congress' responsibility to determine the rules that apply to the expenditure of public funds.

Nonetheless, the Administration's proposal, like the nearly 20 percent expansion of the program in the FY2008 appropriations bill, reflects the substantial pressures from many quarters to increase the number of agencies participating in MTW. It is important for the authorizing committees of Congress to assert their appropriate jurisdiction over the future of this program.

The House-approved Section 8 Voucher Reform Act, discussed above, is an important first step. It includes a provision that would reauthorize the demonstration for 10 years and rename it the "Housing Innovation Program" (HIP). HIP could include up to 80 state and local housing agencies (including the 29 currently permitted). In return for this expansion, the House bill would strengthen the protections for tenants and enhance their ability to participate in developing the new policies that will affect them, as well as require the evaluation of policy and administrative changes.

But the evaluation requirements of the House HIP provision are not sufficiently rigorous to enable HIP to live up to its purpose and potential as a testing ground for future housing policies.[16] Moreover, allowing an additional 51 agencies to participate could mean that more than 1 million families — about a third of all voucher holders and public housing residents — could be subject to locally-developed rules at variance with the U.S. Housing Act. Such expansion would place far more tenants at risk of harmful consequences than is necessary to test innovative policies. It is likely that a HIP provision will be added to the Senate bill later in the legislative process. To build upon, rather than undermine, the improvements made by SEVRA's other components, it will be crucial that such a provision limit HIP to a size that is appropriate for a demonstration.[17]

Conclusion

The Administration has defended the President's proposed cuts in domestic programs by stressing the need for fiscal responsibility.[18] Yet the budget would actually *enlarge* deficits over coming years, because its cuts in domestic discretionary and entitlement programs would be substantially outweighed by the cost of its tax cuts and defense-spending increases.[19]

The President's proposed cuts in funding for low-income housing assistance and programs designed to boost development in low- and moderate-income communities thus appear to have less to do with fiscal responsibility than with questionable budget priorities. The President has proposed funding cuts that would lead to a loss of rental assistance for large numbers of low-income families, elderly, and people with disabilities served by the Section 8 voucher program or other federal housing programs. The Administration's cuts also would speed the deterioration and loss of public housing units and of apartments supported by the project-based Section 8 rental assistance program. These programs provide affordable housing resources for some of the nation's poorest and most vulnerable people.

In fiscal years 2007 and 2008, Congress rejected deep reductions in funding for HUD programs. It made modest investments to sustain existing levels of housing assistance and community development funding, reduce the number of homeless veterans, and avoid thousands of impending mortgage foreclosures. For the reasons explained above, the 2009 HUD budget presents fiscal challenges that are far greater than those of the past two years. To meet these challenges — and to sustain housing assistance for low-income families at a time when needs are growing — funding for housing and community development will need to exceed the levels the Administration has requested by a substantially larger margin than it did in 2007 and 2008.

Appendix

State Impacts on Three Key HUD Programs Under the President's Budget

State	Section 8 Housing Choice Vouchers	Public Housing		Section 8 Project-Based Rental Assistance
	Number of Low-Income Families Whose Vouchers Would Not Be Renewed by the President's Budget[1]	*Operating Fund Shortfall, According to HUD's operating cost formula (thousands of dollars)*[2]	*Cut in Funding for Capital Fund, Compared to 2008 Level, Adjusted for Inflation (thousands of dollars)*[3]	*Number of Affordable Units at High Risk of Loss Due to Owners Quitting the Program If Shortfalls Are Not Addressed*[4]
Alabama	1,305	-$24,434	-$13,420	314
Alaska	202	-$1,575	-$545	138
Arizona	923	-$6,525	-$2,054	912
Arkansas	1,026	-$3,617	-$4,252	102
California	14,079	-$24,607	-$18,779	37,402
Colorado	1,352	-$4,861	-$2,802	2,494
Connecticut	1,563	-$13,750	-$5,945	3,724
Delaware	210	-$2,116	-$1,132	172
District of Columbia	508	-$9,742	-$5,139	5,676
Florida	4,168	-$23,652	-$12,949	10,692
Georgia	2,300	-$27,370	-$16,545	3,365
Hawaii	461	-$2,958	-$2,477	1,000
Idaho	303	-$180	-$263	153
Illinois	3,725	-$51,746	-$35,504	1,332
Indiana	1,607	-$9,309	-$6,187	1,139

[1] Center estimates, based on analysis of HUD data. For more detail, see the explanatory footnotes in the main body of the paper.

[2] These cuts represent the difference between the President's budget for 2009 and the Center's estimate that housing agencies will be eligible for $5.12 billion in funding under HUD's operating cost formula. For more information on the Center's estimates, see the explanatory notes in the main body of the paper. The state distribution of cuts is based on the estimated distribution in 2009 according to the President's budget; see Table 8-28 in the "Analytical Perspectives on the FY 2009 Budget."

[3] These cuts represent the difference between the President's budget for 2009 and the CBO January baseline for the Public Housing Capital Fund. The state distribution of cuts is based on the estimated distribution in 2009 according to the President's budget; see Table 8-30 in the "Analytical Perspectives on the FY 2009 Budget."

[4] This is the number of housing units receiving Section 8 project-based rental assistance and with total rent (i.e., tenant contribution plus housing assistance payment) equal to less than 80 percent of the Fair Market rent, as determined by HUD. Owners receiving Section 8 rents that are well below market already have strong financial incentives to convert their units to private market use, and are therefore more likely to terminate their participation in the program if they are also concerned about its fiscal stability. Data source is an analysis of HUD's Multifamily Assistance and Section 8 Contracts Database (as of September 2007) by the National Housing Trust.

State	Section 8 Housing Choice Vouchers	Public Housing		Section 8 Project-Based Rental Assistance
	Number of Low-Income Families Whose Vouchers Would Not Be Renewed by the President's Budget[1]	*Operating Fund Shortfall, According to HUD's operating cost formula (thousands of dollars)*[2]	*Cut in Funding for Capital Fund, Compared to 2008 Level, Adjusted for Inflation (thousands of dollars)*[3]	*Number of Affordable Units at High Risk of Loss Due to Owners Quitting the Program If Shortfalls Are Not Addressed*[4]
Iowa	1,034	-$1,564	-$1,113	465
Kansas	538	-$3,775	-$2,499	218
Kentucky	1,474	-$11,354	-$8,249	1,106
Louisiana	1,182	-$14,821	-$10,625	4,798
Maine	583	-$2,559	-$1,183	185
Maryland	1,826	-$17,910	-$8,666	8,052
Massachusetts	3,404	-$28,827	-$12,652	6,545
Michigan	2,390	-$11,496	-$8,809	3,664
Minnesota	1,465	-$10,319	-$6,936	1,298
Mississippi	709	-$6,681	-$4,484	1,686
Missouri	1,878	-$8,589	-$7,441	1,925
Montana	262	-$1,195	-$663	83
Nebraska	537	-$2,618	-$1,891	372
Nevada	603	-$3,114	-$1,589	591
New Hampshire	422	-$2,061	-$1,154	321
New Jersey	3,000	-$34,519	-$16,131	3,510
New Mexico	618	-$2,225	-$1,382	1,120
New York	9,902	-$188,752	-$75,282	9,503
North Carolina	2,570	-$23,092	-$11,671	2,852
North Dakota	352	-$784	-$487	128
Ohio	4,199	-$38,325	-$19,477	3,157
Oklahoma	1,109	-$6,234	-$3,756	1,326
Oregon	1,500	-$3,604	-$2,209	635
Pennsylvania	3,681	-$54,898	-$32,406	4,018
Rhode Island	383	-$5,893	-$2,813	685
South Carolina	1,144	-$7,840	-$5,152	381
South Dakota	249	-$492	-$695	49
Tennessee	1,486	-$20,557	-$12,167	4,110
Texas	6,533	-$30,798	-$19,878	6,434
Utah	491	-$1,053	-$648	212
Vermont	275	-$604	-$589	63
Virginia	1,996	-$14,162	-$10,461	7,441

State	Section 8 Housing Choice Vouchers	Public Housing		Section 8 Project-Based Rental Assistance
	Number of Low-Income Families Whose Vouchers Would Not Be Renewed by the President's Budget[1]	*Operating Fund Shortfall, According to HUD's operating cost formula (thousands of dollars)*[2]	*Cut in Funding for Capital Fund, Compared to 2008 Level, Adjusted for Inflation (thousands of dollars)*[3]	*Number of Affordable Units at High Risk of Loss Due to Owners Quitting the Program If Shortfalls Are Not Addressed*[4]
Washington	2,158	-$7,672	-$6,261	1,902
West Virginia	664	-$3,895	-$2,182	101
Wisconsin	1,270	-$4,395	-$3,806	699
Wyoming	105	-$490	-$201	95
TOTAL	**97,218**	**-$820,000**	**-$461,000**	**148,345**

Endnotes

[1] CBPP calculations based on Congressional Budget Office analysis of the HUD provisions of the omnibus appropriations act for fiscal year 2008. Total is adjusted to include advance appropriations for Housing Choice vouchers for fiscal year 2009. The CBO analysis deducts rescissions, certain receipts, and other offsets from the new budget authority that the appropriations act provides.

[2] The 2008 HUD appropriations law included a one-time rescission of $723 million in housing voucher funds advanced in the 2007 law for the 4th quarter of calendar year 2007. (The voucher program is funded on a calendar-year, rather than fiscal-year, basis.) A similar rescission cannot be instituted in 2009 without harming the voucher program. In addition, the 2008 law rescinded $1.25 billion in recaptured funds from the Housing Certificate Fund. According to the President's budget, there are no such funds available for rescission in 2009. Thus, a total of $1.973 billion in Section 8 balances was rescinded in the 2008 law, with this amount counted as a budget offset.

[3] OMB public database. Figure adjusted to treat Section 8 advances on calendar-year basis. The figure therefore is slightly higher than the $38.5 billion cited in Administration budget documents. The President's budget includes no proposed rescissions of recaptured Section 8 balances, and budget documents make clear that large recaptures will not be available in FY 2009.

[4] According to the Center's estimates, $15.5 billion will be required to renew vouchers in use in 2009, some $1.3 billion above the President's request and $868 million above the 2008 level. This estimate is explained in more detail in the section of this paper on housing vouchers, especially the text box on page 5.

[5] The Center estimates that $5.12 billion is required to fully fund the Public Housing Operating Fund. This figure is based on a Center estimate of the amount of operating subsidies for which agencies will be eligible to cover utility costs and HUD estimates from the 2009 Congressional Budget Justifications of non-utility components of operating subsidy eligibility. The $5.12 billion is $190 million lower than HUD's estimate that a $5.31 billion appropriation would be required to provide agencies with the full amount of operating subsidies they are due, because the Center estimate of utility eligibility is lower than the estimate HUD uses. Utility eligibility in 2009 will be calculated based on utility rates during the period from July 2007 through June 2008, inflated based on the rate of utility inflation from May 2007 through May 2008. The Center estimate replicates this formula using available information on actual public housing utility costs in previous years, CPI data on utility inflation through January 2008, Department of Energy projections of energy prices in later months, and projections of non-energy utility prices that assume prices will continue to grow at the same rate in recent years.

[6] $3.4 billion is the estimated amount needed above the FY 2008 level (or $2.4 billion above the budget request) to provide 12 months of funding for every Section 8 contract up for renewal in FY 2009. The Center estimate is based on HUD and Treasury data. Congress could meet a portion of the need for the project-based Section 8 program by appropriating supplemental funds in 2008 or including an advance appropriation of budget authority for 2010 in the budget resolution and the appropriations bill for 2009. These options could alleviate some of the pressure that the shortfalls in the Section 8 program will place on the HUD budget for 2009.

[7] This amount is the difference between the CBO FY 2009 baseline for discretionary HUD programs and the actual FY 2008 funding level, excluding from both totals the Section 8 rescissions and amounts for housing voucher renewals, the Public Housing Operating Fund, and the renewal of Section 8 project-based rental assistance. Also excluded from the FY 2008 total was an additional offset of $509 million related to a one-year change in a statutory limitation on the FHA's insurance of home equity conversion mortgages.

[8] Based on Administration's FY 2008 request of $35.571 billion as scored by CBO and adjusted to treat Section 8 advances on a calendar-year basis.

[9] Congressional Budget Justifications for Tenant-Based Rental Assistance, p. C-1.

[10] The HUD budget request cites $14.32 billion for the renewal of housing vouchers in 2009, rather than the $14.16 billion used here. Because the voucher program is funded on a calendar-year basis, it is more accurate to treat advance appropriations on a calendar-year basis rather than a fiscal-year basis. Accordingly, the voucher renewal funding figure used here includes $4.0 billion proposed in the budget for fiscal year 2010 that will be used to fund vouchers in the 4th quarter of calendar year 2009, and excludes the advance approved in the 2008 law for fiscal year 2009. The figure cited in the HUD budget uses the opposite approach.

[11] The legislative language submitted with the budget is ambiguous with respect to the proposed treatment of incremental vouchers under the renewal funding formula. Here we assume the more favorable reading — i.e., that adjustments for incremental vouchers issued in FY 2008 and leased for part of the year would be made under the proposed renewal funding formula.

[12] The President's budget requests $2.024 billion for the public housing capital fund account, with $1.939 billion available for grants under the capital fund formula and the remaining $85 million set aside for grants for services to promote self-sufficiency among public housing residents and for other purposes. A HUD-sponsored study in 1998 estimated the increase in capital repair needs to be $2 billion a year. Adjusted for inflation and a reduction in the number of public housing units, this amounts to $2.540 billion in 2009. Approximately 9.1 percent of funds distributed under the capital fund formula are committed to "replacement housing factor" grants that partially cover the cost of replacing lost public housing units. As a result, providing $2.540 billion for repairs would require a total of more than $2.794 billion in formula funds — $855 million more than the $1.939 billion the budget requests. (In addition to providing inadequate funding for the capital fund formula, the budget also would cut the non-formula set-asides within the capital fund account by $27 million below the 2008 level of $112 million. Providing adequate formula funding to cover the annual increase in capital repair needs, while also funding the non-formula set-asides at the 2008 level, would require a total capital fund appropriation of $2.905 billion, or $881 million above the $2.024 billion requested in the budget.)

[13] See Barbara Sard and Leah Staub, "House Bill Makes Significant Improvements in 'HOPE VI' Public Housing Revitalization Program," Center on Budget and Policy Priorities, revised January 30, 2008. Available at http://www.cbpp.org/1-16-08hous.pdf.

[14] See Budget Appendix p. 595, section 211 of the administrative provisions of the HUD budget.

[15] The Office of the Inspector General has conducted a general audit of MTW design and implementation, audits examining the Vancouver (WA), District of Columbia, San Mateo County (CA), Oakland, Seattle and Pittsburgh MTW programs, an audit of HUD's oversight of the Philadelphia MTW program, as well as an audit of HUD's decision to admit the Housing Authority of Baltimore City to the MTW program. The reports are available at http://www.hud.gov/offices/oig.

[16] Jeffrey Lubell and Jon Baron, "The Importance of Integrating Rigorous Research Objectives into any Reauthorization of the "Moving to Work" Demonstration," Center for Housing Policy and Coalition for Evidence-based Policy, March 2007, available at http://www.nhc.org/pdf/pub_chp_mtw_0307.pdf..

[17] For additional discussion of the House HIP provision, see Barbara Sard and Will Fischer, "Bipartisan Legislation Would Build on Voucher Programs Success," available on the internet at http://www.cbpp.org/5-4-07hous.htm.

[18] See Sharon Parrott et al., "President's Budget Would Cut Deeply into Important Public Services and Adversely Affect States," February 20, 2008 (available at http://www.cbpp.org/2-20-08bud.htm), for an broad analysis of the President's proposed cuts in funding for domestic programs important to low-income families.

[19] See Robert Greenstein, James R. Horney, and Richard Kogan, "The Dubious Priorities of the President's FY 2009 Budget," February 7, 2008, available at http://www.cbpp.org/2-4-08bud2.htm.