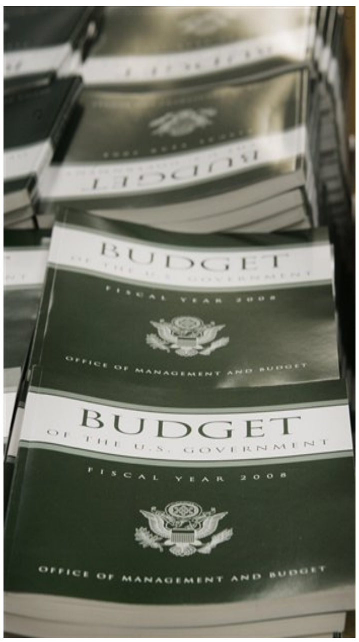
January 2008

The 2008 Federal Housing Budget



Citizens Housing & Planning Council

Founded in 1937, CHPC is a non-profit policy research organization dedicated to improving housing and neighborhood conditions through cooperative efforts of the public and private sectors.

In typically late fashion, Congress completed an appropriations bill for 2008 in December. The 2008 Omnibus Appropriations Bill was signed by the President on December 26, 2007 and is now in effect.

Faced with veto threats over spending levels, the final Department of Housing and Urban Development (HUD) budget contained some marginal improvements in appropriations and other items. However the long term trend of decline in HUD appropriations has only been moderated, not reversed.

Herewith are the highlights of the HUD 2008 budget, broken out by the major constituents of the HUD budget: Section 8, Community Planning and Development, and Public Housing.

Section 8

Tenant based Section 8 was increased by $471 million from FY '07. However this apparent good news comes with two major problems.

First, $742 million of this allocation comes from reducing reserves held by housing authorities that administer Section 8. It will not be available in future years, thus increasing the uncertainty about future Section 8 funding.

Second, current HUD rules still strongly discourage housing authorities from spending their entire allocation of Section 8 funds. HUD seriously penalizes housing authorities that issue more vouchers than allocated, thus encouraging them to play it safe and reduce spending. Thus the number of families assisted continues to be reduced.

For the lowest income tenants the gap between 30 percent of their income and their rent continues to grow, making the program more expensive for the same number of vouchers. Thus the increased appropriation is only expected to maintain the existing number of voucher households.

Passage of the Section 8 Voucher Reform Act (SEVRA), currently being considered by Congress, will provide needed relief in the operation of the Section 8 tenant based program. Among other things, that bill would enable housing authorities to fully spend their Section 8 budgets without fear of penalty.

Project based Section 8, also had an increase in funding of $406 million over last year to an allocation of $6.382 billion. However last year's under-funded appropriation resulted in missed payments to owners of Section 8 projects. It is not clear if the increase will actually meet the need to fully fund Section 8 project based contracts, which some observers believe may be underfunded by more than $1 billion. As a result HUD is required to report within 60 days of the passage of the budget on the actual need for fully funding project based Section 8 for 2008. If further funds are needed it is unclear if, or where, they will come from.

Community Planning and Development

The FY'08 budget continues the slow decline of HUD's community development programs.

The *HOME* formula grant takes a substantial cut and is reduced by $61 million. This is the main program that funds localities and states in construction and rehabilitation of housing. With skyrocketing increases in the costs of construction over the last few years, the real cut is even bigger.

The Community Development Block Grant formula budget, which funds states and localities for a wide variety of discretionary development activities, takes a $118 million cut in this budget. This cut funds a restoration of the Economic Development Initiatives (EDI) program which was zeroed out in FY '07. This continues the trend which has resulted in an actual decrease of over $1.2 billion in the Community Development Block Grant budget since FY'01.

Housing for the Elderly (§202) and *Housing for Persons with Disabilities (§811)* are maintained at their prior actual funding levels of $735 million and $237 million, respectively. Rapidly rising construction costs mean that this is really a substantial cut.

Public Housing

The *Public Housing Operating* budget improves by $336 million to $4.2 billion for 2008. However this increase is not sufficient for public housing authorities (PHAs) to reach the levels needed for full funding. Remember that the FY '05 budget cut PHAs by about $1.1 billion. The FY'06 appropriation only brought them back to the level of the FY'04 budget. Because of fuel, energy and other non-discretionary costs, PHAs have been experiencing cost growth in excess of CPI inflation. The Center on Budget and Policy Priorities indicates that the operating budget only meets 85 percent of the need for PHAs nationwide.

The *Public Housing Capital* budget, which pays for needed improvements to the aging public housing stock, continues to deteriorate. Actual funding was held level this year at $2.439 billion, which of course means a cut when compared to inflation of construction costs. Overall the actual public housing capital budget has declined by over $500 million since FY'01.

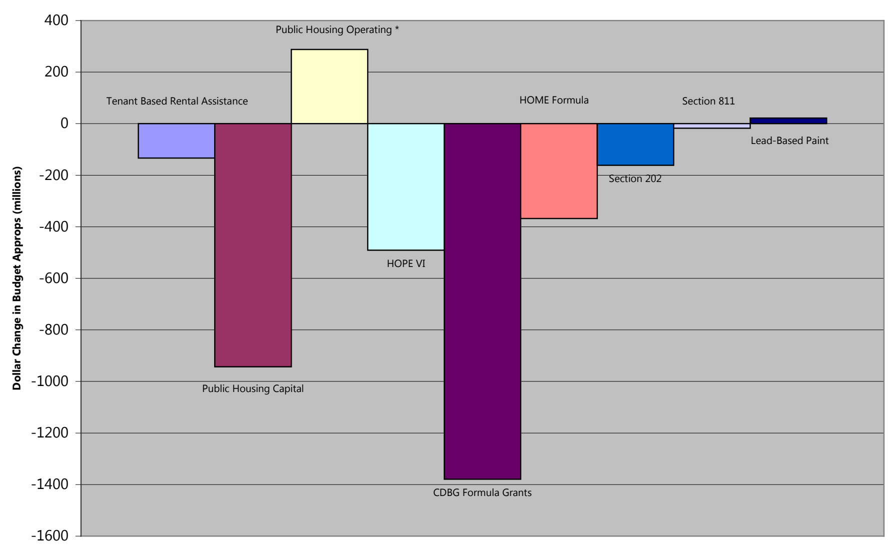
Other Items of Interest

Congress has added $5 million to the HUD budget to pay for discount sales of buildings and loans held by HUD. Previous legislation in the 2005 Deficit Reduction Act had made it virtually impossible for HUD to sell distressed buildings at a reasonable discount to purchasers intending to preserve the buildings as affordable housing. This change opens the door to such sales again.

The *Lead Based Paint Hazard Reduction Program*, has been reduced by $7 million to $145 million. New York City has been a big user of this program, so this means that more of the costs of lead paint hazard reduction will be shifted to the City.

Harold M. Shultz, Senior Fellow

Dollar Change in HUD Budget, Selected Programs
2001-2008
(Constant 2001 Dollars, Millions)



* Although Public Housing Operating funds have increased over time (even when indexed for inflation with the Consumer Price Index), costs for fuel and employee benefits have increased at rates that are substantially higher than CPI inflation.

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This is part of a series of CHPC briefings examining current issues of importance to the NYC housing and community development industries.