Housing sequestration 101: It's going to hurt

The Center for Budget and Policy Priorities runs down the impact of cuts to homeless, housing servcies

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The budget cuts known as sequestration, initiated on March 1, will likely force state and local housing agencies to cut the number of low-income families using Housing Choice Vouchers to afford housing by roughly 140,000 by early 2014. This represents a sharp break from Congress' bipartisan commitment – which it has met for most of the voucher program's nearly 40-year history – to renew assistance for at least the same number of families from year to year. Thousands of other low-income families using vouchers could face sharp rent increases because of sequestration.

These cuts, which housing agencies have already begun to implement (primarily by failing to reissue vouchers to families on waiting lists when other families leave the program), will fall heavily on vulnerable people. Half of the households in the voucher program include seniors or people with disabilities, while most of the rest are families with children. These households typically have incomes well below the poverty line and cannot afford housing without assistance. Some who will go without assistance face extreme hardship, such as living in homeless shelters.

The cuts come at a time when the number of low-income families in need of housing assistance has been rising substantially, there are long waiting lists for vouchers in almost every community, and homelessness remains a persistent problem.

Since many communities accord priority in issuing vouchers to people who are homeless or at imminent risk of homelessness, these cuts in housing vouchers will exacerbate homelessness. They will do so at the same time that sequestration also will force cuts in the federal grants that communities use to assist homeless people. For instance, funding for Emergency Solutions Grants (ESG), which help support emergency shelters and temporary financial and other types of assistance for at-risk people to avert homelessness or enable them to move from shelters into permanent housing, could fall by 34 percent in 2013. As a result, more individuals and families will become homeless, and they will remain homeless longer.

Overall, sequestration will cut more than $2 billion in 2013 from housing assistance and community-development programs administered by the Department of Housing and Urban Development (HUD). While cuts in housing vouchers and homeless assistance will probably have the largest impact on low-income families in the near term, sequestration will also contribute to further losses of public housing, impede the development of affordable housing for low-income seniors and people with disabilities, cause more low-income children to be exposed to lead-based paint in older rental housing, and cut counseling services for families at risk of foreclosure.

How will they affect low-income families that use or need housing assistance?

The Housing Choice Voucher program helps 2.2 million low-income households to rent modest housing at an affordable cost. Half of these households are headed by seniors or people with disabilities; most of the rest are families with children. On average, these households have incomes of about $12,500, well below the poverty line. HUD, the Government Accountability Office (GAO), and independent researchers have consistently identified the voucher program as a cost-effective means of helping low-income families afford decent, stable housing and avoid homelessness. Because of funding limitations, however, only one in four eligible households receives a housing voucher or some other type of federal rental assistance, and there are long waiting lists for assistance in nearly every community.

Under the policy set by Congress, HUD provides most state and local housing agencies with annual funding to renew housing vouchers based on the number of families that were using vouchers in the prior year and the cost of those vouchers, adjusted for inflation and other factors. For all but two years out of the voucher program's nearly 40-year history, Congress has provided sufficient, or close to sufficient, funding to renew all vouchers in use and thereby to ensure that communities will not suffer a reduction in the number of needy families assisted.

140,000 fewer families likely will have vouchers by early 2014

Sequestration will reduce funding for the Housing Choice Voucher program by $938 million in calendar year 2013. This cut, applied against the funds that Congress authorized in the final appropriations legislation for fiscal year 2013, means that housing agencies will receive 6 percent less funding than they need to continue to assist the same number of families in 2013 as in 2012. Housing agencies began to receive reduced funding allocations for April; because the reductions will be retroactive to January 1 and three months of the year have already passed, the funding shortfall for the remaining months of the year will be closer to 8 percent, on average.

The severity of the shortfall in voucher renewal funding caused by sequestration is unprecedented in the history of the program. Facing such large shortfalls, agencies will be forced to take steps to reduce program costs quickly, even as they spend down reserves. Most agencies will be unable to avoid instituting measures that adversely affect low-income families.

Many housing agencies are already "shelving" vouchers – that is, not reissuing vouchers to families on the waiting list when families leave the program. Shelving vouchers cuts costs by reducing the number of families assisted over time. Given the depth of the funding shortfalls and the great uncertainty about whether policymakers will restore renewal funding to a more adequate level in the near future, most agencies are likely to follow suit quickly. In addition, some agencies are withdrawing vouchers from families that have recently received them but are still searching for a suitable apartment and thus have not yet begun to use them. Agencies can shelve or withdraw vouchers without notice to or permission from HUD.

Most agencies will likely continue to shelve vouchers so long as their monthly housing assistance costs exceed their monthly renewal funding allocations from HUD, in light of the risk that the funding cuts could extend into 2014. As a result, we estimate that by early next year, agencies' voucher programs are likely to shrink by approximately 140,000 households – primarily seniors, people with disabilities, and families with children.

Yet attrition alone will not fully close budget gaps for agencies with low funding reserves or low rates of voucher turnover. Such agencies could be forced to consider other options, such as terminating assistance for some families. Fortunately, the just-enacted fiscal year 2013 funding law authorizes HUD to allocate a modest amount of funding to prevent terminations of assistance at agencies with shortfalls. This important provision will likely protect thousands of low-income families from losing rental assistance due to terminations, but it may be insufficient to avert terminations entirely.

Many agencies will raise rents for families using vouchers

Many housing agencies – and particularly those with few reserves or low turnover rates – will also reduce costs by raising the rents paid by families using vouchers. Agencies may do this by reducing the voucher "payment standard," or the maximum amount of rent that voucher assistance will cover. This step forces low-income families to choose between paying more for rent or moving to a lower-cost apartment (if one is available), unless the landlord is willing to accept reduced rent.

When payment standards are cut, families' housing costs can rise sharply. For example, a 10 percent reduction in the payment standard could result in a rent increase of $100 per month (or 33 percent) or more for a typical family. One-fifth of families with vouchers already pay housing costs that exceed 40 percent of their income, a very heavy burden on what are typically meager household resources. Lower payment standards also are likely to steer families into neighborhoods with more crime, lower-performing schools, and less access to jobs.

In addition, agencies may impose minimum monthly rent charges on formerly homeless and other families that have little or no income. Agencies are permitted to impose a minimum rent of up to $50 per month, but about one-third of agencies have chosen not to do so. A rent of $50 can be a difficult burden for destitute families.

Cuts will discourage landlords from renting to families using vouchers

The sequestration cuts will also have other deleterious effects. The voucher program represents a successful partnership between HUD, housing agencies, and private property owners that is cost-effective and expands housing options for low-income families. Yet the risk of terminations (which voids the assistance contract between the owner and the local housing agency) and precipitous reductions in agency payments may discourage owners from continuing to accept voucher holders as tenants, thereby limiting the options available to low-income families.

Sequestration also will come on top of recent cuts in funding for voucher program administration; indeed, housing agencies will receive only about 70 percent of the administrative funds for which they are eligible this year. At such low funding levels, agencies will struggle to complete the property inspections that federal law requires, delaying the remedy of potentially serious problems in apartments that families have already rented.

Homeless assistance will also be cut, as cuts worsen homelessness

Housing vouchers are an essential tool for preventing homelessness and helping families in emergency shelters and other types of temporary housing to move into stable, permanent housing. Indeed, many communities prioritize homeless individuals and families for receipt of vouchers. As agencies shelve vouchers in response to sequestration cuts, the number of vouchers available to families that are homeless or at imminent risk of homelessness will shrink dramatically, lengthening the amount of time that families remain homeless and causing other homeless families to be turned away from emergency shelters because they are full.

At the same time, sequestration will cut $96 million from the grants that communities use to assist homeless people, leaving $1.93 billion for fiscal year 2013. Under the terms of the final fiscal year 2013 funding law, at least $190 million of this amount must be allocated this year as Emergency Solutions Grants (ESGs), leaving a maximum of $1.74 billion for the renewal of Continuum of Care (CoC) grants.

At the minimum funding level of $190 million, ESGs would be 34 percent below the amount provided in 2012. Facing a 34 percent reduction in federal funds, communities will be forced to either close down shelters or cut back efforts to prevent homelessness or re-house homeless families. Because a large share of shelter operations are fixed costs, communities may be more likely to reduce other forms of assistance, which would result in more families becoming homeless and families remaining in shelters for longer periods.

Affordability crunch increases for low-income renters

The sequestration cuts come at a time when growing numbers of low-income households face serious housing affordability

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Crete

By Avendor

Grey skies rain
Shadows room pain
Feelings wane
Rise again

Hit the street
Incomplete
Patter of feet
Hope's discrete

These are just words
Never heard
Yet the birds
Seem undisturbed

Tomorrow I'll pray
Today just drink
All the dishes are clean
By my empty sink