NAHRO Analyzes Impact of HUD Proposed Savings

(http://www.nahro.org/node/403/year/2012/month/10/date/1#5413)

(October 31, 2012) - As NAHRO has previously reported, the President’s FY 2013 budget proposal contains a series of proposals intended to generate savings in the Public Housing and Voucher programs. HUD’s proposed policy changes are intended to generate savings by increasing the effective rents paid by participating households, thereby reducing PHAs’ eligibility for Operating Fund subsidy and Housing Assistance Payments (HAP). For CY 2013, HUD estimates that these policy changes would generate savings of $208 million in Voucher programs and about $252 million in the Public Housing program. NAHRO continues to have serious concerns about the impact of HUD’s proposed policy changes on low-income households as well as the accuracy of the methodology used to calculate these savings, and believes that many of the underlying assumptions serve to inflate the projected savings. This is a particularly troubling situation, because HUD’s budget request, the traditional starting point for Congressional budget negotiations, acknowledges that even with these optimistic projections the funds requested are insufficient to fully fund the Operating Fund and HAP accounts.

In the Public Housing program, the proposed policy changes would require all PHAs to: 1) institute a $75 minimum rent (a policy change that was estimated to reduce eligibility by about $65 million); 2) raise the threshold for deducting medical expenses from income for purposes of rent determinations from three to 10 percent of the family’s annual income (a change that is intended to save $37 million, and is not offset by an increase in the existing allowance, as proposed in AHSSIA); and 3) require all PHAs to set flat rents no lower than 80 percent of FMR, though these increases would be phased in to ensure that rental payments do not increase by more than 35 percent per year as a result of this change (estimated to result in savings of $150 million in the first year, and $429 million when fully implemented).

Although HUD has touted the importance of generating these savings, the Department has been less forthcoming about the impact of these proposed changes on households assisted through these programs. Based on limited data which HUD provided to NAHRO in response to a request under the Freedom of Information Act (FOIA), NAHRO has begun to analyze these effects. According to our analysis, the changes to minimum rents would increase the average affected household’s annual rent by $299 for HCV participants and $388 for public housing residents. Under the proposed medical deduction policy, affected HCV and public housing households would, on average, pay an additional $204 and $231 respectively. Finally, the proposed change to public housing flat rents would increase the annual rent of affected households by an average of $4,048 when fully phased in.
HUD’s estimate of savings from the proposed changes to the flat rent assumes that the 14.4 percent of all public housing-assisted households (more than one-third of whom live in New York City) that currently pay flat rents would remain in place. This is a highly unlikely assumption, and masks the increased need for subsidy as the higher-income residents currently paying flat rents are replaced with lower-income tenants.

The Senate version of the FY 2013 THUD Appropriations bill (S. 2322) includes language amending the existing statutes governing income targeting in Public Housing, Section 8 tenant-based and project-based voucher programs, and Section 8 Project-Based Multi-Family Assistance programs by changing the definition of extremely low-income for income targeting purposes to the higher of 30 percent of Area Median Income or the federal poverty level. The House version of the bill (H.R. 5972) did not include this provision.

In Voucher programs, HUD’s CY 2013 budget sought to make the same changes to minimum rent and medical expense deductions as those proposed for the Public Housing program, generating savings estimated at $55 million and $32 million respectively. In addition, HUD proposed to change the definition of extremely low-income for income targeting purposes to the higher of 30 percent of Area Median Income or the federal poverty level, generating an estimated $121 million. In future years, savings derived from this change will vary dramatically between rural, suburban, and metro areas, resulting in HAP renewal funding distribution shortfalls for some PHAs.

Subsequent to HUD’s budget release, the Department provided additional information to national housing organizations. Senior HUD officials stated that the Department’s requested voucher HAP renewal funding level would result in an estimated 97.4 percent pro-ration, which would increase to a 98.6 percent pro-ration if the $208 million in HUD’s estimated savings for FY 2013 are realized as assumed by HUD. If the Department’s cost-saving assumptions are overly ambitious, it could result in many PHAs having less HAP funds than would be necessary to continue to serve the same number of families in 2013 that were served in 2012.

Bills advanced by the House and Senate appropriations committees in the summer of 2012 did not include HUD’s proposed changes relating to minimum rents and medical expense deductions. As a result, however, these bills represent a lower proration to the Operating Fund and HAP accounts, because they do not provide sufficient additional funds to balance out the foregone savings that were assumed in the President’s budget. Furthermore, any overestimate in the projected savings for the changes to flat rents and income targeting would also serve to lower the effective pro-ration for these accounts. Particularly given that final enactment of a FY 2013 appropriations bill will be very late and take time for HUD and subsequently for PHAs to implement, the projected cost savings are dubious at best.

Under any scenario, NAHRO believes HUD’s proposed policy changes are reckless and damaging. It is disappointing that HUD yielded to political pressure to create so-called savings even in the face of the serious negative impacts that these policies would have for low-income
households. Furthermore, HUD has once again created a situation in which a lowered baseline for the program magnifies the challenges of securing adequate appropriations in future years.

A copy of HUD’s response to NAHRO’s FOIA request providing a national overview of the impact of each of their cost savings proposals for both Public Housing and Voucher programs is accessible at: http://www.nahro.org/sites/default/files/searchable/2013-Cost-Savings.pdf. NAHRO hopes its members will use this information in their education efforts with their elected officials and to advocate for adequate funding (http://www.nahro.org/nahro-advocacy) to maintain the investment in public housing and to renew all existing leased voucher holders under lease in 2012.