

**FEDERAL HOUSING ASSISTANCE:
ALTERNATIVE APPROACHES**

**The Congress of the United States
Congressional Budget Office**

PREFACE

After amending current housing assistance programs during each of the past few years in ways expected to reduce their cost, this year the Congress is considering proposals that would comprehensively restructure federal housing aid. This paper, requested by the Senate Budget Committee, describes current housing assistance programs and analyzes several comprehensive housing policy options.

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In accordance with CBO's mandate to provide objective and impartial analysis, this paper contains no recommendations.

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SUMMARY

For more than 40 years, the federal government has subsidized the shelter costs of low- and moderate-income persons through a series of frequently changing rental and homeownership assistance programs. In fiscal year 1982, nearly \$10 billion will be spent under such programs to aid more than 4.5 million households--representing more than 10 times the level of spending at the beginning of the last decade and almost four times the number of persons served. This rapid expenditure growth has prompted an increasing interest in alternative housing assistance approaches. Several such alternatives are being considered by the present Congress, and they seem likely to arise during the next few years as well.

PROGRAM OBJECTIVES

Federal housing assistance programs are intended principally to improve the housing conditions and to reduce the shelter costs of the poor. Over the past several decades, however, the housing circumstances of Americans have changed significantly. Rising personal incomes and the decision of many persons to consume more and better housing have reduced the incidence of substandard housing while increasing the average proportion of income devoted to shelter. One result of these trends is that the most common housing-related problem facing lower-income families today is not substandard housing but high housing-cost burdens. As of 1977, one-fifth of all renters with family incomes below 50 percent of the local median--the effective target group of most present federal programs--were living in dwellings requiring rehabilitation, while nearly two-thirds of all such households were spending more than 30 percent of their incomes for housing (see Summary Table 1).

In addition to dealing with the housing adequacy and cost problems of the poor, housing assistance programs are also expected to contribute to other policy objectives, including: promoting residential construction and dampening cyclical swings in building activity; increasing homeownership among low- and moderate-income persons; expanding the range of housing choices available to lower-income and minority-headed households; and promoting community preservation and revitalization. The net impact

SUMMARY TABLE 1. PERCENT OF HOUSEHOLDS LIVING IN HOUSING UNITS REQUIRING REHABILITATION OR PAYING MORE THAN 30 PERCENT OF INCOME FOR HOUSING, BY TENURE AND INCOME: 1977

Housing Conditions and Expenditures ^a	Annual Family Income ^b				All Households
	Very Low	Low	Moderate	Middle and Upper	
Renters					
Living in units requiring rehabilitation	19.8	12.4	10.7	8.2	14.0
Housing expenses exceeding 30 percent of income	62.7	26.2	7.0	1.7	30.4
Homeowners					
Living in units requiring rehabilitation	9.3	4.3	2.5	2.0	3.7
Housing expenses exceeding 30 percent of income	47.2	20.1	11.4	3.1	13.2

SOURCE: CBO estimates based on 1977 Annual Housing Survey.

- a. See text of paper for definition of units requiring rehabilitation and description of housing expenses considered.
- b. Income classification based on that used in federal housing assistance programs. For four-person households, the definitions are:

Very low = Annual family income less than or equal to 50 percent of area median.

Low = Annual family income between 51 and 80 percent of area median.

Moderate = Annual family income between 81 and 95 percent of area median.

Middle and upper = Annual family income greater than 95 percent of area median.

of housing assistance programs on these other objectives is difficult to assess, however, and has generally been secondary to the effects of other federal policies, including tax and monetary policies, mortgage insurance programs, and direct community development programs.

CURRENT HOUSING ASSISTANCE PROGRAMS

Present housing assistance programs serve both renters and homebuyers over a wide income range, but most of the benefits go to renters with incomes below 50 percent of the local median. Under most programs, the government makes multiyear commitments to pay subsidies equal to the difference between a fixed proportion of income that households are expected to contribute to their own housing expenses (generally 25 percent today but due to rise to 30 percent by 1986) and the full market cost of the dwellings they occupy.

The cost to the government of current programs varies appreciably, depending primarily on whether assisted families are housed in newly built structures or in less-costly existing housing units. The average first-year direct subsidy cost of commitments made in 1982 is expected to range from about \$2,200 per household under the existing-housing assistance program to more than \$6,000 per household under some new construction programs.

In contrast to other federal income supplements, which are available to all qualifying households, housing assistance is limited by annual budget decisions. Under most housing programs, aid is extended each year to some number of additional households, expanding program coverage and contributing to federal outlays for many years into the future. Through fiscal year 1982, approximately 4 million rental assistance commitments and 1.3 million homeownership assistance commitments will have been made, obligating the government to long-term expenditures of more than \$240 billion. Together, these commitments will be sufficient to serve approximately 28 percent of all renters in the effective target group and about 6 percent of all homeowners with incomes low enough to qualify for homeownership assistance.

ALTERNATIVE POLICY APPROACHES

Concern with the increasing costs of current housing programs and their limited coverage has led to a number of proposals that

would comprehensively restructure federal housing aid. One obvious course would be to cease making additional housing assistance commitments, leaving the current inventory of assisted units to serve lower-income households and using any additional resources to supplement general income assistance programs. Such an approach would address the income problem of the poor and would grant assisted households maximum flexibility in using their assistance, but would do little to deal with the remaining housing adequacy problems.

Alternative approaches that would continue to expand housing aid include:

- o Housing vouchers;
- o Housing assistance block grants; and
- o A multiple-program approach involving separate lower-income assistance and production-subsidy programs (see Summary Table 2).

Elements of these alternatives are included in the Administration's 1982 legislative proposals and in housing and community development acts reported out of the Senate and House Banking Committees this year.

Housing Vouchers

One alternative to current programs would be to offer housing assistance primarily through cash or cash-equivalent vouchers provided directly to lower-income persons living in housing of their own choosing that meets prescribed physical adequacy standards. Under a voucher system--which would closely resemble the present Section 8 existing-housing program--households would receive payments equal to the difference between some percent of their incomes and benchmark amounts corresponding to the estimated cost of modest-priced, physically adequate housing. Persons selecting units costing more than the appropriate benchmark amount would pay the full additional expense themselves; those choosing to live in less-costly dwellings would realize all of the savings. Because vouchers would probably not be immediately available to all qualifying households, local administering agencies would have to ration aid, as they do under current programs.

Likely Impacts. Housing vouchers, which could be used to aid homeowners as well as renters, would concentrate resources on

SUMMARY TABLE 2. COMPARISON OF CURRENT HOUSING ASSISTANCE PROGRAMS AND ALTERNATIVE APPROACHES

Policy Alternative	Objectives Served	Types of Households Assisted	Average Annual Cost per Household Assisted ^a
Current Housing Assistance Programs	Principally aiding lower-income households and supporting new residential construction.	Principally very-low-income renters.	\$3,650
Housing Vouchers	Principally aiding lower-income households.	Exclusively very-low-income households.	\$2,150
Housing Assistance Block Grants	Depend on federal guidelines and local program-design decisions.		
Multiple-Program Approach			
Lower-income housing vouchers; separate block grants or production subsidies to support rehabilitation or construction	Similar to current programs but different policy tools used to address different objectives.	Very-low-income households through vouchers. Principally somewhat higher-income households through separate production subsidy.	\$2,150 per voucher recipient. Costs under block grants depend on local decisions. Production subsidy costs depend on program design and income group served.

a. Figures represent estimated direct expenditures in constant dollars for the first year of assistance per additional assistance commitment made in 1983. Estimated average cost under current programs assumes 55 percent existing-housing assistance and 45 percent new construction mix--the program mix expected to result from the fiscal year 1982 authorizing legislation at the time it was enacted. See accompanying text for description of specific voucher option.

alleviating housing-cost burdens among the poor. Findings from a government-sponsored voucher experiment together with experience under the Section 8 existing-housing program indicate that vouchers would also be likely to induce some upgrading of marginally substandard units but would probably not generate repairs to many seriously dilapidated structures or promote additional residential construction. There is no evidence that housing vouchers would cause inflation in rents.

Program Costs. Housing vouchers would be appreciably less costly than the current mix of housing aid. Assuming that subsidies were capped at levels 5 percent below the present Section 8 existing-housing subsidy benchmarks, the average annual cost per household aided in 1983 through vouchers would be about \$2,150, or 40 percent less than the average expense under the current program mix and 8 percent less than the average cost under the Section 8 existing-housing program. Lower subsidy caps would reduce program costs still further but would also risk making large segments of local markets financially inaccessible to assisted households.

Housing Assistance Block Grants

A second policy alternative would be to fold current housing assistance programs into one or more block grants to be spent by state and local governments under programs of their own design. In its most inclusive form, all current direct housing assistance programs would be folded into a single, loosely-restricted grant. A more limited block grant might supplant only certain kinds of programs--for example, those providing lower-income rental assistance--while restricting the use of funds to corresponding types of assistance.

Likely Impacts. The policy goals emphasized under a block grant would depend both on federal guidelines and on the program-design decisions made locally. The degree to which funds would benefit low-income persons, for example, would depend on the income-targeting requirements established. Similarly, the relative emphasis on the housing adequacy and affordability problems of the poor would depend on the distribution of assistance among new-construction, rehabilitation, and existing-housing programs.

Program Costs. The average expenditure per household aided under a block grant program would depend on the types of assistance provided locally. Whatever form aid was provided in, however, some administrative savings would likely be realized at the

federal level. State and local administrative expenses, on the other hand, could increase--at least in the short run--as those governments took over additional program-design and management responsibilities.

A Multiple-Program Approach

A third option--encompassing elements of the other two--would be to use separate programs to pursue separate policy objectives. Under this approach, vouchers could be relied upon to aid lower-income households. Some combination of limited-use block grants and separate federally administered production subsidies could then be used to fund housing rehabilitation and to promote the construction of additional rental units that would be available to persons over a wider income range than would benefit from vouchers.

Likely Impacts. This approach would use a combination of devices to serve some of the same goals addressed by current programs. By differentiating between lower-income assistance and construction/rehabilitation support, however, the system as a whole would probably be more efficient, making it possible to aid more lower-income persons while subsidizing the upgrading or construction of more housing units at less expense. On the other hand, any multiple-program approach that included production subsidies targeted less toward low-income households would necessarily divert some funds from those most in need.

Program Costs. The cost of the voucher component of such a scheme would be as described above. Average per-household expenditures under a supplementary block grant would depend on rules governing eligible uses and on the actions of state and local governments. Costs under a separate production subsidy would depend on how large a subsidy was provided and on the subsidy mechanism used. Using a mortgage assistance grant to reduce mortgage interest rates on newly built rental housing by between three and seven percentage points, for example, would require one-time expenditures of between \$9,400 and \$21,500 per unit. Averaged over a 20-year subsidy term, the cost would amount to between \$500 and \$1,100 per unit.

POLICY TRADEOFFS

The choice among current housing programs and these alternatives presents an important set of policy tradeoffs:

- o Current federal efforts provide housing assistance primarily to very-low-income renters through programs also expected to contribute to residential construction. Pursuing both objectives through lower-income new construction programs results in high program costs but assures that some number of newly built--and, presumably, higher-quality--housing units are available to the poor.
- o Housing vouchers would concentrate resources on the affordability problems of the poor and would make it possible to assist the largest number of households at the lowest possible cost. While vouchers would result in upgrading of some existing marginally substandard dwellings, they would do little to expand the total supply of housing.
- o Housing block grants would delegate to states and localities the responsibility for designing and targeting aid. Without fairly strict income-targeting requirements--as govern current housing programs--block grants could, therefore, divert assistance from those most in need. The average cost per household assisted under a block grant is difficult to forecast.
- o A multiple-program approach would focus lower-income assistance on problems of housing affordability, while dealing separately with remaining housing adequacy and supply problems. By divorcing these policy objectives from each other, the Congress could continue to pursue all of them at less total cost than under current programs. Such a system would, however, necessarily divert some funds from the lowest-income households in order to help finance additional housing for better-off persons.

**FEDERAL HOUSING ASSISTANCE:
ALTERNATIVE APPROACHES**

The federal government will spend nearly \$10 billion in fiscal year 1982 under a variety of housing assistance programs to subsidize the living costs of more than 4.5 million low- and moderate-income households.¹ This represents more than a tenfold increase in expenditures and nearly a fourfold rise in the number of households served since 1970 alone, making housing assistance one of the most rapidly growing components of the federal budget. Furthermore, commitments already outstanding will increase outlays sharply in the next few years and keep them at high levels for many years to come, regardless of how many additional commitments are made in the future. Past expenditure increases and the prospect of continuing steep rises have led to a number of curbs on program growth and, more recently, to proposals that would restructure comprehensively federal housing aid.

RECENT EXPERIENCE

Since the 1930s, the federal government has subsidized the housing costs of a growing number of low- and moderate-income persons through rental and homeownership programs that involve assistance commitments of up to 40 years. In contrast to other kinds of income supplements, which are available to all households that qualify, housing assistance is limited by annual budget decisions to only a small proportion of the eligible population. Under most housing programs, aid is extended each year to some number of additional households--expanding program coverage, adding to the volume of outstanding obligations, and contributing to outlays for many years to come.

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1. Expenditure figure includes outlays under the Section 8, public housing, rent supplement, and Section 236 rental assistance programs and the Section 235 homeownership assistance program plus interest-subsidy costs under outstanding Farmers Home Administration loans and expenditures under the rural rental assistance program. (Program names refer to sections of various federal housing acts.)

After a long period of relatively slow program growth, the number of new assistance commitments made each year--and, thus, both outlays and outstanding obligations--increased sharply during the last decade. During the 30 years ending in 1970, an average of about 50,000 additional assistance commitments were made annually. Since then, however, the number of new subsidy commitments has averaged more than 400,000--except for a two-year partial moratorium on new commitments in the mid-1970s--and expenditures have grown by more than 25 percent each year. Because of the one- to four-year lag between the commitment date and the time when a new household begins to receive aid, outstanding subsidy agreements will increase outlays by more than \$3 billion by 1987, even if no new commitments are made after this year.² The long-term obligation associated with commitments expected to be outstanding at the end of fiscal year 1982 will exceed \$240 billion.³

Concern with rising expenditures and mounting obligations has prompted a number of actions during the last several years intended to slow spending increases without affecting the basic design of present programs. These actions have included: reducing the number of additional housing assistance commitments made each year; subsidizing proportionately more renters living in existing rather than in newly built housing; increasing the share of their incomes that assisted tenants are required to contribute toward their own housing expenses; and requiring that persons receiving homeownership assistance repay some portion of the subsidy received if they eventually sell their homes at a profit.

CHOICES FOR 1982 AND BEYOND

More recently, attention has shifted from amending current programs to identifying alternative approaches. Alternative housing assistance approaches that have been suggested during the past few years include:

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2. Estimate, based on funding provided in appropriations acts passed during the first session of the 97th Congress.
 3. Figure represents total obligations expected to be outstanding at the end of fiscal year 1982 under Department of Housing and Urban Development programs. Outstanding Farmers Home Administration assistance commitments obligate the government to several billion dollars more in future expenditures. (Current programs and program costs are described more fully in Chapter III.)

- o Aiding lower-income families principally through housing vouchers that they could use to pay part of their living costs in privately owned dwellings of their own choosing;
- o Providing housing assistance block grants to state and local governments to fund programs of their own design; and
- o Dividing the currently intermingled goals of assisting lower-income persons and promoting housing construction and rehabilitation by offering separate lower-income assistance and production-subsidy programs.

Elements of each of these approaches were included in the Administration's legislative proposals for fiscal year 1983 and are incorporated in housing and community development acts ordered reported out of the Senate and House Banking Committees this year.

This paper is intended to assist the Congress in considering these policy alternatives during the remainder of this session of Congress and in the years ahead. Chapter II describes housing assistance program objectives and assesses present housing conditions. Chapter III examines current federal housing assistance efforts. Chapter IV compares the costs and impacts of the three alternatives mentioned above. The final chapter examines program-design issues and options associated with each approach. An appendix describes specific provisions of the housing bills reported out of the two Banking Committees.

