

Statement of Alice M. Rivlin
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Before the
Subcommittee on Housing and Urban Affairs
of the
Committee on Banking, Housing and Urban Affairs
U.S. Senate

April 24, 1979

There should be no
release of this
statement before
9:00 a.m. (EST),
April 24, 1979

Each year, the Congress decides how much should be spent on housing assistance for lower-income persons and how available funds should be allocated among the various assisted housing programs. As background to your consideration of these questions for fiscal year 1980, in my testimony today I will:

- o First, review the multiple objectives of housing assistance programs;
- o Second, describe differences in program costs and in the particular needs that each program addresses; and
- o Third, describe several budget and program options, including the President's 1980 funding proposal.

THE OBJECTIVES OF HOUSING ASSISTANCE PROGRAMS AND THE LEVEL OF UNMET HOUSING NEEDS

The objectives of housing assistance programs include: providing decent and affordable shelter to lower-income persons; reducing cyclical instability in residential construction; expanding the supply of housing; increasing housing opportunities for lower-income persons and minorities; and promoting community preservation and revitalization. None of these goals has been fully realized.

Reducing Housing Needs Among Lower-Income Persons

Although the number of lower-income families living in physically deficient and overcrowded housing has declined steadily over the past several decades, many persons still live in substandard conditions. Of the 30 million families with incomes

low enough to qualify for rental assistance programs, approximately 5.4 million, or 18 percent, are now living in physically inadequate or overcrowded dwelling units (see Table 1).

In contrast to the gains in housing quality, a sizeable and increasing proportion of lower-income families are paying a large share of their income for housing. Of the families eligible for rental assistance, 12.9 million, or 43 percent, are paying more than one-fourth of their income for housing--the current standard for defining excessive housing costs. The growing proportion of families paying more than 25 percent of their income for housing reflects both increased housing costs and decisions by these families to acquire more or better housing. Among lower-income households, the large share of income devoted to housing more likely reflects necessity rather than choice.

Stabilizing and Expanding Housing Production

Two other goals of subsidized housing programs are to reduce cyclical instability in the residential construction industry and to increase the supply of new housing. Over the past 10 years, annual swings in housing production have been great (see Figure 1). Since 1968, the number of residential construction starts has varied from 1.2 million to 2.4 million units per year. Multifamily construction starts have ranged from less than 300,000 to more than 1 million units per year. The construction of subsidized housing, which has accounted for an

TABLE 1. HOUSING NEEDS AMONG LOWER-INCOME HOUSEHOLDS, 1976

Housing Condition <u>a/</u>	Percent of Income Devoted to Housing <u>b/</u>	Number of Households (in thousands)	Percent of All Lower- Income Households
Physically inadequate or overcrowded	25 percent or less	3,227	10.8
Physically inadequate or overcrowded	Greater than 25 percent	2,219	7.4
Physically adequate and not overcrowded	Greater than 25 percent	10,706	36.0
Physically adequate and not overcrowded	25 percent or less	<u>13,636</u>	<u>45.8</u>
TOTAL		29,788	100.0

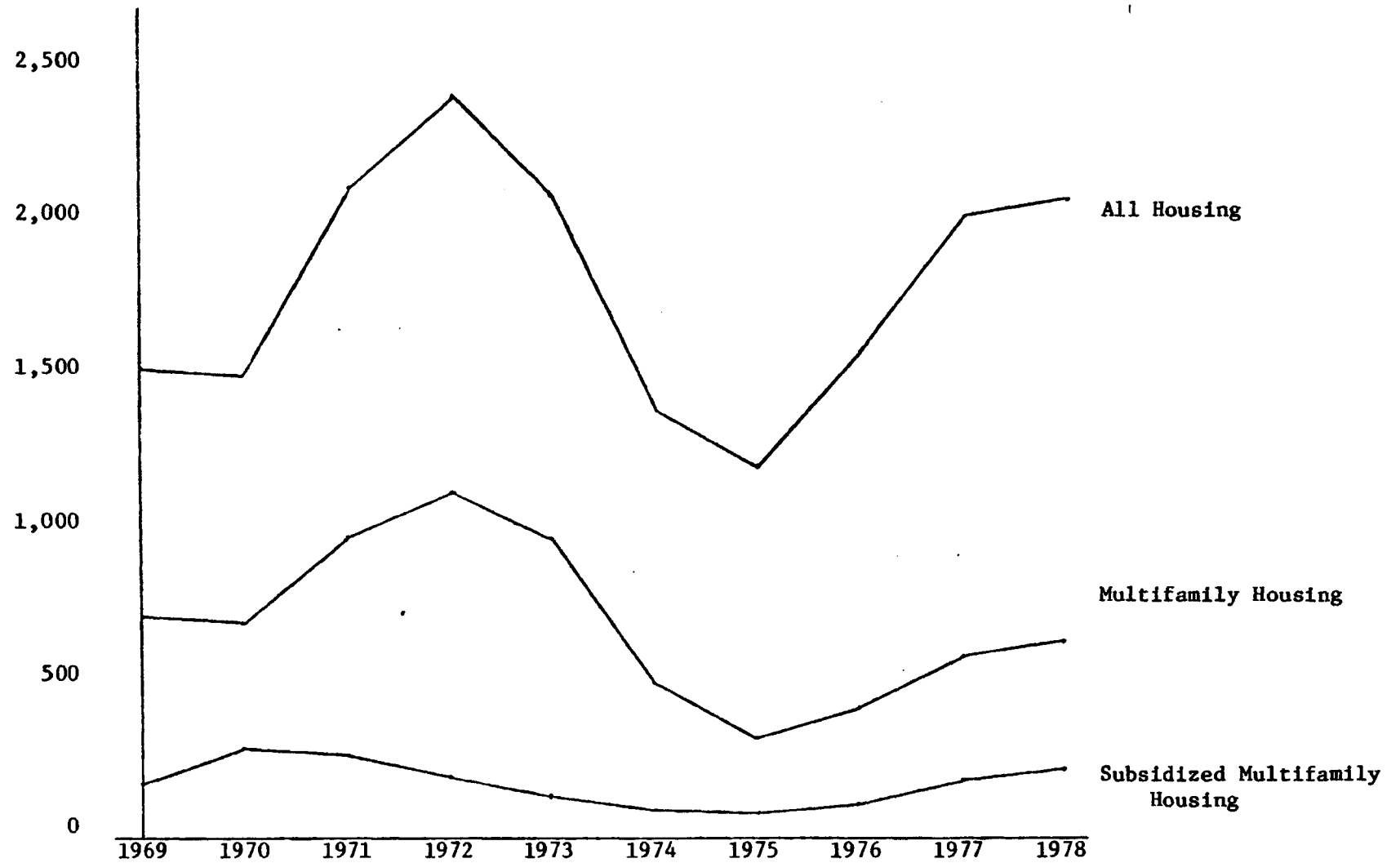
NOTE: Lower-income households are those eligible for Section 8 Housing Assistance Payments Program.

SOURCE: CBO Tabulations of 1976 Annual Housing Survey.

a/ A unit is classified as physically inadequate if it lacks complete plumbing or kitchen facilities or has two or more other deficiencies. A unit is classified as overcrowded if it has more than one person per room.

b/ Housing costs for renters include rent payments due the landlord, plus utility and fuel costs not included in the rental payment. Housing costs for homeowners include principal and interest payments on the mortgage, real estate taxes, property insurance, utilities, fuel, and garbage and trash collections.

FIGURE 1. RESIDENTIAL CONSTRUCTION STARTS, 1969-1978: IN THOUSANDS OF UNITS



SOURCE: Derived from Census reports and data provided by U.S. Department of Housing and Urban Development, Office of Housing.

average of 19 percent of all multifamily construction starts, has also varied greatly from year to year, at times contributing to, rather than reducing, instability.

There is conflicting evidence concerning whether the current rate of production of rental housing is adequate to meet the present demand. Vacancy rates, which are one measure of the adequacy of supply, have declined in recent years, but the decline has been greatest in those areas that previously had relatively high vacancy rates. In addition, some studies have suggested that, because of the large number of households now reaching the stage at which they can be expected to become homeowners, the present rate of production of rental housing will be sufficient for some years to come. 1/

Expanding Housing Opportunities and Promoting Community Development

Housing assistance programs are also intended to expand housing opportunities for lower-income persons and minorities and to promote the development and preservation of viable communities. It is difficult, however, to measure the degree to which either of these objectives has been realized. Despite formal prohibitions against discrimination in the sale and rental of housing, discriminatory practices persist. There is also

1/ See George Sternlieb, Multifamily Housing Demand: 1975-2000, Joint Economic Committee of the Congress of the United States (November 1978).

evidence that residential segregation in metropolitan areas actually increased during the 1960s. 2/

With respect to community development, there are signs of revitalization in selected urban areas. One of the principal challenges now facing federal housing programs is to support revitalization while permitting lower-income persons to share in its benefits.

COSTS AND IMPACTS OF CURRENT PROGRAMS

The subsidized housing programs that are intended to address these needs--the Section 8 existing housing program, the Section 8 new construction/substantial rehabilitation program, and public housing--differ in cost and in the specific policy objectives that each serves.

Comparative Program Costs

The Section 8 existing housing program is the least costly of the programs to the federal government, because it subsidizes families living in physically standard, previously available housing units that have lower rents than newly built units. Among new construction programs, public housing is somewhat less costly than Section 8, because the financing costs of public housing are lower, no owner's profits are required, and public

2/ See Ann Schnare, Residential Segregation by Race in U.S. Metropolitan Areas (The Urban Institute, 1977).

housing projects do not bear the full expense of local property taxes.

The costs of the various housing assistance programs depend on the pattern of future increases in housing expenses and tenant incomes. Applying a number of assumptions for these increases, the average annual cost, in constant dollars, of serving the same mix of households in the three programs ranges from \$1,560 per family to \$1,750 in the Section 8 existing housing program, from \$2,200 to \$2,530 in public housing, and from \$2,490 to \$3,510 in the Section 8 new construction/substantial rehabilitation program (see Table 2).

The long-term costs of all of these programs may exceed the amount of funds provided at the outset to finance the subsidies. This funding shortfall--if it occurs--is likely to be especially severe for the lengthiest subsidy commitments of the Section 8 new construction program, because funds must be available to account for up to 40 years of inflation in rents. If shortfalls do occur, the additional funding needed would be large in terms of absolute dollars but substantially lower in terms of today's dollars. The sensitivity of the long-term costs to future inflation rates suggests the difficulty of advanced budgeting for long periods into the future.

Program Impacts

All housing assistance programs are equally effective in reducing the housing costs of lower-income families, because

TABLE 2. PROJECTED LONG-TERM SECTION 8 AND PUBLIC HOUSING SUBSIDY COSTS PER UNIT: IN DOLLARS a/

Program	Duration of Commitment (in years)	Budget Authority Reserved <u>b/</u>	Total Direct Subsidy Cost <u>c/</u>	Average Annual Cost (in constant dollars) <u>d/</u>
Section 8 Existing Housing	15	46,200	45,600 - 59,000	1,560 - 1,750
Section 8 New Construction/ Substantial Rehabilitation	20 30 40	101,900 152,900 203,900	94,700 - 151,800 161,200 - 343,400 242,600 - 710,300	2,750 - 3,300 2,590 - 3,390 2,490 - 3,510
Public Housing	40	141,600	226,800 - 426,800	2,200 ¹ - 2,530

SOURCE: CBO estimates.

a/ Costs are for fiscal year 1980 subsidy commitments estimated under a range of assumptions regarding future increases in housing expenses and tenant incomes from a low-cost case in which expenses and incomes increase at the rate by which they grew over the 1957-1977 period to a high-cost case in which future increases are based on CBO economic projections for fiscal year 1981. For a complete description of the assumptions used, see Congressional Budget Office, Long-Term Costs of Lower-Income Housing Assistance Programs, Budget Issue Paper (March 1979).

b/ The amount of budget authority reserved is calculated using procedures currently employed by HUD.

c/ Direct subsidy costs for the Section 8 program include rental assistance payments and administrative fees, as appropriate. Direct subsidy costs for public housing include debt-service payments and annual operating subsidies.

d/ Includes direct subsidy costs and indirect financing subsidies and tax expenditures. Average annual costs (in constant dollars) are calculated assuming identical tenant incomes for all programs.

each program limits the housing expenses of participating households to 25 percent of their income.

The programs contribute differently toward reducing the incidence of physically deficient or overcrowded housing. New construction and substantial rehabilitation programs can add directly to the supply of decent housing available to lower-income persons. Existing housing programs, by contrast, result in some upgrading of marginally deficient units and provide an incentive for improved maintenance. By making it possible for participants to afford better housing, existing housing assistance may also speed the filtering process by which lower-income persons inherit still-adequate but less-expensive housing from higher-income persons.

Current programs also differ in their impacts on housing production. There is no evidence that subsidies for existing housing result in additional housing production. New construction programs do contribute directly to the production of rental housing, but the net effect of such programs is not clear because subsidized construction may substitute, to some degree, for unsubsidized development that would have otherwise occurred.

The impact of housing assistance programs on expanding housing opportunities and encouraging community preservation and revitalization is difficult to assess. Evaluations of existing housing programs indicate that, when lower-income families have

the opportunity to search for housing of their own choosing in the private market, they tend to locate in somewhat higher-income neighborhoods. Similarly, minority households are slightly more likely to select housing in areas with lower concentrations of minorities. The net effect of the assistance payments on both of these trends, however, appears to be small. The impact of new construction programs on economic and racial integration will depend on the location of the housing.

OPTIONS FOR FISCAL YEAR 1980

The annual choices made by the Congress regarding the level of funding for housing assistance and the allocation of funds among different programs affect the number of families aided, the cost to the government, and the particular objectives pursued.

The President's 1980 budget submission requests \$27 billion in long-term budget authority to finance assistance for 300,000 additional households under the Section 8 and public housing programs. Under CBO's economic assumptions, this level of funding would support only 266,000 additional subsidy commitments if the program mix proposed in the President's budget is maintained. The Congress may, of course, alter the number of households assisted by providing a different level or pattern of funding.

Options for allocating resources among programs include the following:

o Maintain the Current Procedure for Setting the Program Mix.

First, the Congress may choose to maintain the current procedure for setting the program mix. Under current law, the mix among assistance programs reflects, as practicable, the housing needs identified by local governments in their housing assistance plans (HAPs). Based on the latest local plans, the President's budget calls for 34 percent of the assistance commitments made in fiscal years 1979 and 1980 to be for existing housing and 66 percent to be for newly built or substantially rehabilitated units--a decrease in the share of assistance for existing housing from 48 percent in fiscal year 1977 and 45 percent in 1978. Thus, the short-term effect of maintaining the local option would be to direct a greater share of the assistance toward programs that involve new construction or substantial rehabilitation. This would provide aid to fewer households for the same level of funding but would contribute more directly to increasing the supply of rental housing.

o Shift the Program Mix Toward Existing Housing Assistance.

A second option would be to limit the share of housing assistance that would go into new construction programs, but otherwise to leave the system of local option intact.

The resulting shift toward assistance for existing housing would increase the number of families assisted and reduce the average subsidy cost per family, but it would also reduce the direct impact of subsidized housing programs on expanding the supply of housing. Greater reliance would be placed on private market forces to provide an appropriate level of new rental housing construction. Moving from the President's proposed mix of 34 percent existing housing to a mix of 50 percent would reduce the budget authority needed to fund the 266,000 additional subsidy commitments from \$27 billion to about \$24 billion.

- o Differentiate Between Housing Assistance and Housing Production Programs. A different approach would be to rely principally on existing housing assistance to address the needs of lower-income persons, while providing support to the residential construction industry through programs not tied to subsidies for the poor. A heavy reliance on assistance for existing housing would reduce the average subsidy cost and would focus available resources on the problem of excessive housing costs, which is currently the most prevalent form of housing need. Support to the housing construction industry could be provided either by expanding the current favorable tax treatments for rental housing or by extending the Government National Mortgage Association

(GNMA) tandem financing program, which provides limited subsidies for mortgage interest. Extension of the GNMA program would subsidize all rental housing development but would rely on private market forces to determine what type of housing was built and where. Also, because the size of the GNMA interest subsidies could be altered easily and the program could be turned on and off quickly, it might be a more effective countercyclical tool than construction of lower-income housing.

In addition to altering the funding level and program mix, the Congress could affect the number and type of households receiving aid and the cost of the assistance by changing either the eligibility criteria for the programs or the benefit level provided to the tenants. These changes would alter the distribution of families receiving assistance and would change the rents that tenants are required to pay.

