MEMORANDUM

To: Interested Parties
From: Center on Budget and Policy Priorities
Date: November 26, 2008
Re: Including Additional Housing Vouchers to Address Severe Poverty as Part of a Stimulus Package

This memo considers whether upcoming stimulus legislation should include funding for up to 200,000 new Section 8 housing vouchers in 2009 to ameliorate severe hardship among some of the nation's poorest households, a step that would have the related benefit of directing funds into the hard-hit housing sector. Depending on the expected duration of the recession, the legislation could provide funding for a second wave of 200,000 vouchers that would be made available in 2010 (for a total of 400,000 new vouchers over two years).

Upcoming Recession Will Increase Severe Poverty Substantially

In the next few years, the nation may experience the sharpest increase in severe poverty in over 30 years. Most experts believe that the current economic downturn will be deeper than any since the 1981 – 1982 recession. Goldman Sachs now projects that the unemployment rate will rise to 9 percent by the end of 2009.

Increases in poverty are generally correlated with increases in unemployment. During each of the last three recessions, the number of people living in poverty — as well the number living below *half* the poverty line, a commonly used measure of "deep" or "severe" poverty — rose markedly, with larger increases occurring during the recessions of the early 1980s and 1990s than in the 2001 recession when unemployment peaked at only 6.2 percent.

This is of particular concern because the safety net to protect jobless families and individuals against destitution is now far weaker than in any previous downturn of recent decades, except for the shallow 2001 recession. The unemployment insurance system has not kept up with changes in the labor market, and as a result, many of the low-income, female, and part-time workers who now make up a significant portion of the labor force do not qualify for UI benefits when they are laid off. Moreover, the basic cash assistance safety net for jobless families and individuals that don't qualify for UI benefits is itself dramatically weaker than in past recessions. Only about 40 percent of families that qualify for TANF cash assistance actually receive that aid (and the help in preparing for and finding jobs that should come with it), while in the recessions of the early 1980s and early 1990s, about 80 percent of poor families eligible for AFDC cash assistance obtained it. In addition, the safety net of last resort for jobless individuals without children — state general assistance (GA) programs — has essentially disappeared. Most states terminated their GA programs in the late 1980s or the 1990s, a move that studies found led to increased homelessness.

Current Turmoil in the Housing Sector Exacerbates the Risks of Housing Instability

The current turmoil in the housing sector is exacerbating the risks of housing instability and homelessness during this recession. Former homeowners, as well as renters, are being displaced into the rental housing market, as an increasing number of owners face foreclosure or walk away from "underwater" mortgages. (National data indicate that at least 20 percent of foreclosed properties in late 2007 were *not* owner-occupied. In many parts of the country — New England, New York City, Minneapolis and others — half or more of households living in foreclosed buildings are renters.) In addition, many families that would otherwise be purchasing homes are waiting for prices — and the economy — to stabilize.

As a result, more families are seeking to rent, and while home prices are falling, rents have continued to rise in many areas. Even before the current downturn, the number of poor renter families with severe housing affordability problems was rising sharply; it increased by 29 percent from 2001 to 2007. It clearly is rising to higher levels now and will climb much farther as the economy contracts in the months ahead.

Housing Vouchers Could Effectively and Efficiently Ameliorate These Hardships

In this context, it makes sense to include a substantial number of additional housing vouchers in a package of temporary measures to stimulate the economy and ameliorate the recession's most serious impacts. These new vouchers would complement, not substitute for, funding to help families displaced by foreclosure meet their relocation expenses, a purpose for which the stimulus bill introduced in the Senate on November 17 included $575 million. The relocation funds would help families with the one-time costs of getting settled in new housing after being displaced by a foreclosure, and the funds are therefore targeted at areas with high foreclosure rates. Housing vouchers would help families struggling to pay the rent amidst the spike in poverty that will result from this recession, and would be available more broadly throughout the country, including in areas hit by job losses and deepening poverty but where foreclosures may or may not be rampant.

Housing vouchers enable families to afford decent housing and have proven to be effective at sharply reducing housing instability and preventing homelessness. Because the amount of the subsidy adjusts with changes in family income, the voucher program works well in an economic downturn. Furthermore, the large majority of newly-issued vouchers go to poor families. Among families with children that receive vouchers, about 40 percent had incomes below about *half* of the poverty line even during better economic times, so vouchers directly help combat destitution and homelessness. All types of low-income households are eligible, with or without children, making the program flexible enough to respond to local needs.

If Congress provided new vouchers in a stimulus package, we estimate that, under an expedited allocation process, most of the new vouchers could be "leased up" within six months of enactment. Families that use vouchers to help pay the rent in their current dwelling could receive help even more quickly.

- Congress could direct HUD to expedite the usual process for awarding new funds, enabling allocations to be made to state and local agencies within 90 days of enactment. Under existing rules, new funds are divided among states or smaller areas based on indicators of poverty and rental housing need. Measures of change or severity in the unemployment rate could be included in the formula for allocating new vouchers provided in a stimulus package. (HUD succeeded in developing a new formula to allocate the $3.9 billion in Neighborhood Stabilization funds to states and localities within 90 days, as directed by Congress in July.

Meeting such a deadline should be easier for new voucher funds, as the formula for allocating new voucher funds already exists in regulation and is based on readily available data.)

- High-performing agencies with a track record of utilizing all their funds could rapidly issue 200,000 vouchers to new families. (Agencies currently administer about 2 million vouchers.) Rather than having agencies compete to administer the funds allocated to their area, Congress could specify that awards are to be made to the agencies in each state (or smaller area) with the best recent record of using voucher funds.

If legislation is approved by February, families could be stabilized before the start of the new school year in the fall of 2009. (Families with children would receive a majority of the new vouchers.) In addition to the benefits to the families receiving the housing assistance, the voucher funds would put a substantial infusion of funds into local economies, with the principal impact being in the now-hurting housing sector. In addition, families now spending most of their income on rent could spend more on food, clothing, health care, and other necessities. All the dollars would be spent out within about 18 months of enactment.

Depending on the duration of the recession, it could be important for the legislation to provide funding for a second wave of 200,000 vouchers that would be made available in 2010. If the recession is as deep and prolonged as Goldman Sachs and others are projecting, then 400,000 vouchers will surely be needed. However, there is a limit to how quickly state and local housing agencies can ramp up their programs, and issuing 400,000 new vouchers all in the first year would represent a 20 percent program expansion, which is more than these agencies or housing markets can reasonably be expected to handle. Providing agencies with 200,000 new vouchers for 2009 and then another 200,000 for 2010 is therefore a sounder approach. This approach also would give the new HUD leadership time to allocate the second installment of vouchers in a manner that would advance key policy goals. (Under existing law, agencies compete to administer the vouchers allocated to each state or smaller area; HUD sets the criteria for the competition in a Federal Register notice. That notice could give a preference, for example, to agencies that make it easier for voucher holders to move to areas with greater economic opportunity or better-performing schools.)

One year of funding for 200,000 new housing vouchers would cost about $1.6 billion, including administrative fees. If HUD awards the vouchers within three months of a February enactment, agencies will begin to spend these funds in the summer of 2009. Congress provides voucher renewal funding on a calendar year basis, so to sustain these new vouchers through calendar year 2010 would likely require an additional $400 million, for a total of $2 billion in cost for the initial wave of 200,000 vouchers. Spending from a second wave of 200,000 vouchers would begin in January 2010, making the initial year's funding sufficient for the calendar year. *The total cost of providing 200,000 new vouchers in 2009 and 200,000 more in 2010 would therefore be $3.6 billion.* Because the Section 8 voucher program is a discretionary program, the funding would, by definition, be temporary (although the vouchers would be eligible for renewal funding, which would not be needed until 2011).