New York City Independent Budget Office

Focus On:
The Preliminary Budget

March 2014

Increased Federal Appropriations Benefit City Housing Programs, Yet Gaps Remain

While the federal government's most recent budget deal increased appropriations for many of its housing programs back to or slightly above presequestration levels, past federal cuts continue to impact the city's housing programs. The omnibus spending bill, passed in January, contained increases for many of the federal funding streams that the city relies on for its affordable housing programs, including Section 8 rental vouchers, public housing, and the HOME program. Although these increases will bring needed funds to the city's housing agencies, they do not reverse the effects of past budget cuts and chronic underfunding.

Section 8 Cost-Saving Changes Remain in Effect. One of the housing programs most seriously impacted by sequestration (the across the board federal funding cuts implemented last year) was the Section 8 Voucher Program, which is administered in New York City as two separate programs by the New York City Housing Authority (NYCHA) and the Department of Housing Preservation and Development (HPD). About 2,300 fewer New York City households are receiving rental assistance through the programs this year than last year after cuts forced NYCHA and HPD to stop issuing vouchers to new households—even as vouchers turned over from families leaving the programs—and undertake other measures to reduce program costs. Those actions were necessary to ensure that current voucher holders did not lose their housing assistance. Because funding for Section 8 is based on voucher costs and usage in the prior year, reductions to Section 8 appropriations are especially significant as they can negatively affect funding in future years.

This year's federal budget raised the appropriation for Section 8 vouchers renewal funding to $17.4 billion, slightly over $1 billion more than last year's sequester level. While increased funding this year may allow HPD to begin issuing new Section 8 vouchers again, it appears unlikely that NYCHA will be able to do so. For now, both NYCHA and HPD plan to continue other changes that were made to reduce voucher costs because of uncertainty about the adequacy of their agency-specific allocations for this year—which have not yet been released by the federal government—as well as about future appropriations. The number of households assisted through the two voucher programs fell from 130,129 during the first four months of city fiscal year 2013 to 127,901 in the first four months of this fiscal year after the agencies stopped issuing vouchers to new households. (Veterans, whose vouchers have a separate funding source, were exempt from this cut-off.)

Under sequestration, NYCHA, which administers the majority of the city's vouchers (about 91,000), faced a $78 million gap just to cover the costs of its existing rental vouchers in 2013. To address the deficit, NYCHA depleted its program reserves ($54 million) and received $21 million in shortfall funding from the federal government. NYCHA has applied for about $8 million more in shortfall funding, which it expects to receive this year. While a prior Section 8 funding shortage caused NYCHA to stop issuing new vouchers in December 2009, new families were able to enter the program with vouchers made available through attrition. After the more recent sequestration cuts, NYCHA was unable to issue vouchers to new families even as other households left the program. As a result, approximately 2,000 fewer families are receiving Section 8 vouchers from NYCHA this year compared with last. NYCHA has put other policies in place to reduce the cost of current vouchers, including reducing the utility allowance and restricting families from transferring the voucher from one apartment to another if the new rent is greater than their existing rent (unless there is an emergency situation).

Similarly, HPD, which administers about 37,000 of the city's housing vouchers, also stopped issuing Section 8 vouchers to new households after it faced a gap of $37 million under sequestration. As a result, about 300 fewer households are receiving rental assistance through HPD's Section 8 Program this year than last year. HPD also depleted its reserves ($24 million) and had to seek about $9 million in federal shortfall funding. The housing agency also made some significant changes to its program to lower the cost of existing vouchers to ensure that households currently holding vouchers did not lose their housing assistance.

HPD reduced its payment standard—the maximum monthly subsidy—from 110 percent of Fair Market Rent ($1,547 a month for a two-bedroom apartment) to 105 percent. The agency also began reevaluating the size of the vouchers held by current recipients, which is based on the number of people in the household. If a household's subsidy is higher than the maximum now allowed, the family must include the difference in their share of the rent, even if it exceeds 30 percent of their income, or move. (Exceptions can be granted for elderly or disabled residents.) While HPD plans to keep these savings measures in place, the agency expects to begin issuing new vouchers again this year given the increase in federal funds.

Despite Increase, Funding Still Low for Other Programs. In addition to Section 8, other housing assistance programs saw their federal appropriations increase this year. However, the increases come after years of deep funding cuts that continue to affect the city's programs.

For example, funding for the HOME Investment Partnership Program, a crucial source of capital funding for the city's supportive housing programs, was restored to presequestration levels. This means the city will likely receive a grant of about $60 million this year, about $2.5 million more than last year. While this is a welcome increase for HPD, due to repeated cuts in the recent past this year's grant is less than half the $125 million that the city received four years ago.

Because HOME funds can be spent over several years, cuts from previous years are just beginning to affect the city budget. As recently as 2012, HOME funds made up 36 percent of HPD's capital spending. According to HPD's current capital budget, HOME funds will make up about only 18 percent of planned commitments over the next several years. In addition to the capital funding, HPD can use 10 percent of its annual HOME grant for administrative purposes, which flows through the city's expense budget. This year, due to the past federal cutbacks, the city reduced the portion it uses for administration by $3.3 million.

Similarly, the federal public housing operating subsidy—one of the most important funding sources for NYCHA housing developments—has failed to cover necessary costs for several years. Congress has routinely appropriated insufficient funds to meet the actual costs of operating public housing. Therefore, NYCHA and other housing authorities have been funded at a percentage of their actual need, causing agencies to reduce staff and eliminate programs. Last year, NYCHA received federal operating support at about 82 percent of its $1.01 billion need. This year's federal budget raises the appropriation for the operating subsidy by 8.5 percent. While final funding levels for local housing agencies are still being determined, according to initial estimates from the federal Department of Housing and Urban Development, funding will cover about 89 percent of the actual cost of operating public housing nationwide—more than last year but still less than the full cost.