CITY HOUSING SPENDING ON THE RISE:

How Much is Intergovernmental Aid Helping?

NATIONAL LEAGUE OF CITIES

CENTER FOR CITY SOLUTIONS

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The National League of Cities (NLC) is the voice of America's cities, towns and villages, representing more than 200 million people. NLC works to strengthen local leadership, influence federal policy and drive innovative solutions.

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INTRODUCTION

Due to discriminatory housing practices and the inadequate supply of affordable housing, coupled with wage stagnation as rents have risen, a housing crisis in America's cities was inevitable.[1,2] The COVID-19 pandemic has only exacerbated America's housing problem. Now cities are having to stretch their dollars to fund emergency shelters, provide mortgage and rental assistance, and implement eviction diversion programs for individuals and families facing unemployment, eviction and/or homelessness.

Such unbudgeted expenditures, along with declines in local revenues resulting from the pandemic, have forced cities of all sizes to slash their budgets. For many cities, this includes cuts to appropriated housing budgets that were already scarce. Diminishing housing budgets will directly impact the production and preservation of affordable housing as cities struggle to choose which programs to fund and which programs to cut. These fiscal challenges will continue to hurt the most vulnerable populations in America, people of color, who tend to be overrepresented in both the homeless and low-income renter populations.

Cities are facing a **significant revenue shortfall** of **$135 billion** in this year alone.

Not having fully recovered from the Great Recission, cities are grappling with weakened economies. In fact, the Great Recession of 2007-2009 still significantly impacts municipal policymakers, as data shows slowed growth in both revenues and expenditures.[3] This is very different from the recessions of 1990 and 2001, where it took only about five and six years, respectively, for municipal revenues to get back to pre-recession levels.

Now, the negative economic impacts of COVID-19 have plunged us into another recession. Cities are facing a significant revenue shortfall of $135 billion this year alone, and without aid, cities cannot thrive.[4] State and federal governments have largely reduced direct aid to local governments for housing since the 1980s, with one exception being the large pool of federal dollars recently provided through the Coronavirus Aid, Relief and Economic Security (CARES) Act.[5] In particular, the CARES Act provided $5 billion in Community Development Block Grants and $4 billion for homeless assistance grants. This funding is designated to states, counties and cities but is not enough.

In this policy brief, we aim to quantify the housing finance gap that cities are potentially facing. Our analysis finds that for every $100 that state and federal governments invest per person, cities have $3 in additional housing spending needs per person. **This means that cities have more than $14 billion in additional needs for housing cumulatively, just to get them back to historical levels of housing spending.**

Current levels of state and federal aid are not sufficient for cities and their residents. Cities are in critical need of fiscal support to combat the COVID-19 pandemic, provide relief to residents, and keep their communities thriving.

COVID-19-RELATED UNBUDGETED HOUSING EXPENDITURES

The public health crisis caused by the novel coronavirus has oriented cities across the county to expended unbudgeted expenses to ensure the life, health and safety of all of its residents:

HOMELESSNESS ASSISTANCE

Seattle, Washington/King County secured hundreds of hotel rooms or hotel vouchers to house homeless residents and opened emergency spaces to reduce shelter density. The city has allocated $13 million for ongoing support, including sustaining hygiene services, reducing crowding in shelters and supporting permanent supportive housing programs.[6]

Chicago, Illinois plans to spend $2.5 million per month on shelter and quarantine space for homeless residents, in addition to the $3.29 million it has already spent on hotel rooms for people mildly ill and for first responders and health care workers. The city also donated $900,000 to A Safe Haven to support the provision of isolation and emergency shelter for homeless individuals.[7]

RENTAL AND MORTGAGE ASSISTANCE

Washington, D.C. has allocated more than $6 million to provide low-income renters with financial support of up to three months of rent arrears.[8]

Kissimmee, Florida implemented a modified Foreclosure Prevention and Rental Assistance/Eviction Prevention Program to assist very low-income and low-income residents.[9]

Boston, Massachusetts dedicated $3 million in city funds to assist Bostonians who are at risk of losing their rental housing.[10]

BEFORE THE PANDEMIC: AMERICA'S HOUSING AFFORDABILITY AND HOMELESSNESS CRISIS

Long before the pandemic, America's cities were experiencing both a housing affordability and homelessness crisis.

Annually, the national rate of the unsheltered homeless population has risen for four consecutive years, and the increase in the percentage of people experiencing patterns of chronic homelessness, particularly people of color, has been among the most significant increases. Although almost half of individuals experiencing homelessness are white people, Black people are significantly overrepresented among the homeless population, accounting for 40 percent of the total population.[11] Simultaneously, 20 percent of Black households, 17 percent of American Indian or Alaska Native households, 15 percent of Latinx households and 10 percent of Asian households are extremely low-income renters — and 71 percent of low-income renter households spend more than half of their income on rent and utilities.[12]

Homelessness may increase by **40-50%** this year.

As a result, communities of color are at higher risk of eviction and of experiencing homelessness. Compounding these issues, the U.S. faces a shortage of seven million affordable and available rental homes.[13] Redlining, racialized zoning, urban renewal, predatory lending, and disinvestment in legacy infrastructure are some examples of inequitable policies and programs that have contributed to the housing affordability and homelessness crisis and have been implemented by federal, state and local governments and institutionalized by private actors. In recent years, local elected officials have heard from their residents about needing a new direction for housing.[14] Answering that call, cities across the country have begun to enact measures like housing preservation funds, inclusionary housing policies, eviction diversion programs and housing trust funds.

Presently, cities are battling intensified housing affordability and homelessness crises due to the pandemic and accompanying economic downturn. A study projects that as unemployment rates continue to rise to unprecedented levels, homelessness may increase by 40-45 percent this year.[15]

Despite the current public health crisis, local elected officials are continuing the work to ensure that the housing affordability and homelessness crisis do not widen as residents try to re-engage with the economy while measures to contain COVID-19, like the eviction moratorium, are lifted.

STATE AND FEDERAL AID SHORTFALL

Cities have more than **$14 billion** in additional needs for housing cumulatively.

While cities and metropolitan areas generate 90 percent of economic activity in the U.S., they have faced tremendous challenges since the Great Recession and continue to face challenges in the wake of the pandemic.[16] Total city expenditures for housing alone amounted to $18.5 billion among 19,350 cities in 2017. But historically, cities have had additional housing spending needs to support the health and well-being of their residents. In total, cities may require more than $14 billion in additional aid from state and federal governments for housing spending alone, just to get them back to historical levels of housing spending over the period 2004-2017.

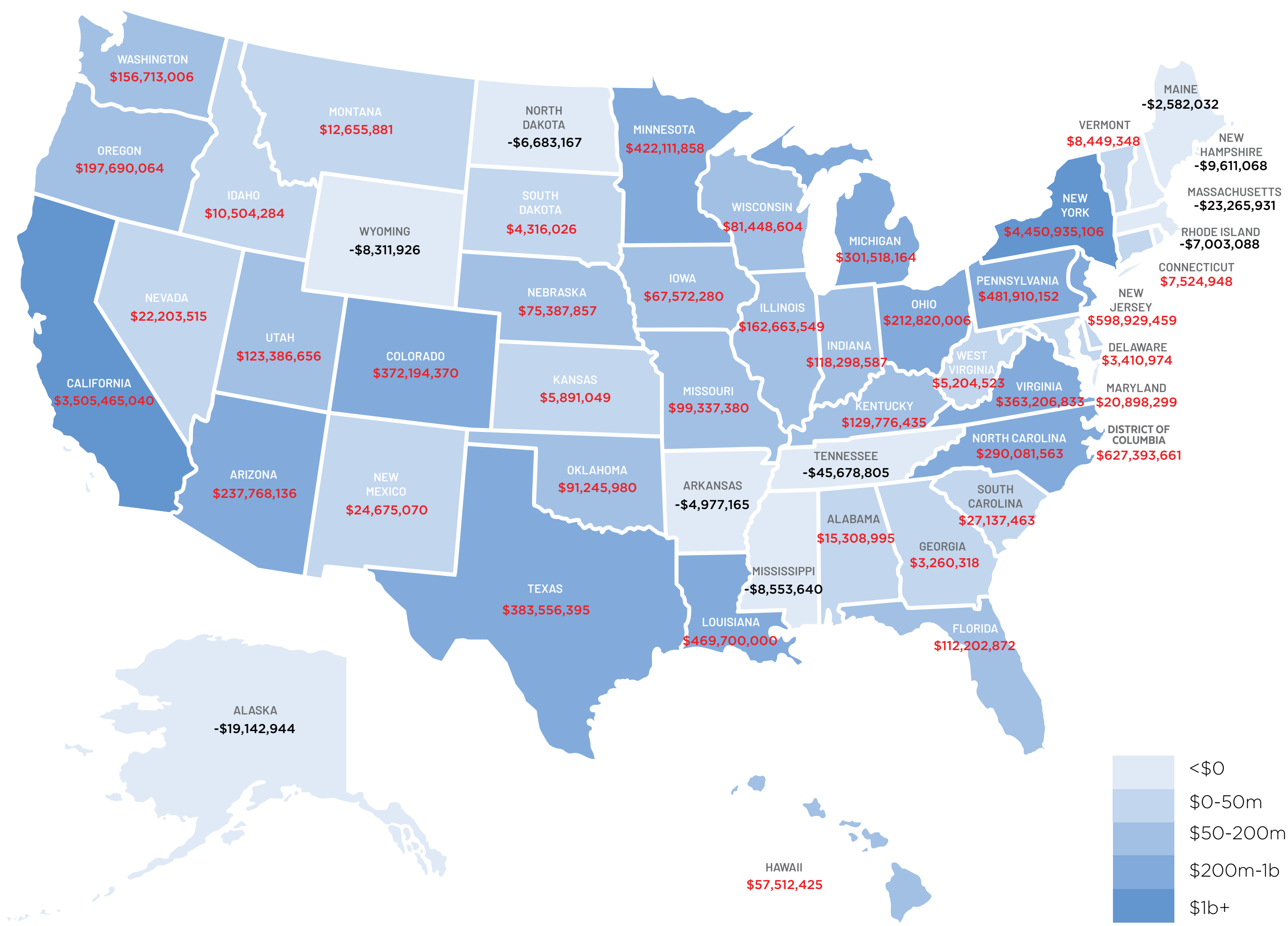
The table below shows aggregated city housing spending amounts by state. Cities in most states are expected to face a significant gap between what they need to spend on housing in their communities and what they are receiving from state and federal governments. Not surprisingly, the two states with the biggest shortfalls are New York and California, at $4.5 billion and $3.5 billion, respectively. These amounts clearly exceed federal dollars provided through the CARES Act.

In California alone, five cities face a gap of over $1 million each – San Diego, San Francisco, Los Angeles, Garden Grove and Anaheim. While over one million people in California use federal rental assistance to afford modest housing, approximately 50 percent of low-income people in the state are homeless or pay over half their income for rent and do not receive federal rental assistance. And while the rent for a modest apartment keeps going up, wages are not keeping up.

In 2007, California cities, along with many other cities across America, spent more than usual on housing, only to cut back significantly during the Great Recession. During the following period of economic recovery, housing spending bounced back somewhat, but it was not until 2013-2014 that cities began seeing a significant uptick. At the same time, state and federal aid to cities declined across several states, such as Georgia and Nebraska. Cities in most states experienced a cut in state and federal aid of approximately 300 percent, on average.

On the other hand, some states, such as Arkansas, Mississippi, and North Dakota, are expected to face a surplus. This surplus is the result of a low number of entitlement cities in those states — where entitlement refers to cities with populations of at least 50,000 — as well as historically low levels of housing spending by cities in those states.

Gap between city housing spending and state and federal aid to cities



TOTAL: $14,226,457,364

HOW CITIES PLAN TO USE CARES ACT FUNDING

Passed by Congress and the President, the CARES Act funding is assisting cities to provide immediate housing solutions to their residents:

St. Louis, Missouri will spend 31 percent of its federal relief funding on measures to combat homelessness in the city through rental and mortgage assistance and utility assistance programs and emergency shelters.[17]

Mesa, Arizona outlined plans to spend $500,000 of the $90 million from the CARES Act on homelessness assistance, including expanding overnight shelter options for individuals and families social distancing with limited resources.[18]

Springfield, Illinois will spend 50 percent of its CARES budget on rental assistance for low-to moderate-income families and the fund allows for up to $1,000 for landlords on behalf of renters.[19]

Seattle, Washington allocated $4 million towards rental assistance, homelessness prevention, and affordable housing from the CARES Act, Emergency Solutions Grant, and Housing Opportunities for Persons with AIDS grant.[20]

Suffolk, Virginia received $10 million from CARES, and will spend three percent of this on community development through the Department of Housing and Urban Development.[21]

Phoenix, Arizona has begun spending $20 million on utility, rent, and mortgage assistance for families impacted by COVID-19, as well as $10 million in care for vulnerable populations.[22,23]

El Paso, Texas plans to spend $16.4 million on community development measures, including rent, mortgage, and utility assistance and rehousing of displaced residents. The majority of the funding will support the Paso Del Norte Community Foundation’s rental assistance fund, Under One Roof.[24,25]

Charlotte, North Carolina hopes to allocate $20 million, approximately 13 percent of its CARES fund, to mortgage and rental assistance and the development of a supportive housing program.[26]

CONCLUSION

During these unprecedented times, income tax- and sales tax-dependent cities have seen the quickest and steepest decline in revenue. While property tax-dependent cities are also seeing a drop in revenues, the decline is not nearly as steep.

On top of this, communities are still reeling from the devastating impact of the Great Recession, during and after which cities have continued to receive fewer grants from state and federal governments. As our research finds, cities may require more than $14 billion in additional aid from state and federal governments for housing spending alone, just to get them back to historical levels of housing spending over the period 2004-2017. Filling these financial gaps to serve their community relies on the fundamentals of a local, state, and federal partnership. Most cities will need more intergovernmental aid.

Unlike the federal government's budget, local governments' budgets cannot operate in a deficit. City budgets do not have financial flexibility in the face of a crisis such as COVID-19. Cities need state and federal aid to help them address the financial stresses of this pandemic. And as emergency orders and legislations are lifted, housing stability will be occupying the minds of residents and local elected officials alike.

As cities begin the process of reopening, the approach taken to ensure safe, quality and affordable housing for residents will likely chart the path of housing stability moving forward. Federal and state funding will be critical to local housing responses. And given the country's history of discriminatory housing policies, the overrepresentation of people of color among the populations experiencing homelessness and housing instability, and the deadly impact of COVID-19 on people of color in particular, it's equally critical that cities embed racial equity into their housing policy solutions.

Moving forward, cities will have to continue to adjust revenues after sharp declines and respond to the rapid growth in unbudgeted expenditures, greatly altering city budgets.

To support a sustainable future and foster a strong recovery, cities can look to long-term solutions and take steps such as those outlined in NLC's report, "Homeward Bound: The Road to Affordable Housing," including by:

1. Advocating for the passage of a long-term, standalone federal housing bill that authorizes 10 years of new funding that advances housing for all, like increasing funding to the National Housing Trust Fund and reauthorizing and restoring the U.S. Department of Housing and Urban Development's HOME and CDBG programs.

2. Partnering with the federal government to fix inequities in housing development and housing finance systems, such as by reforming the Community Reinvestment Act to increase accountability of banks to serve every community and by supporting eviction prevention and mitigation grants.

3. Identifying and exercising broad engagement with local stakeholders such as residents and community-based organizations, and coordinating across municipal boundaries to develop a plan to provide housing opportunities for all.

4. Prioritizing equitable outcomes in housing decisions that put decision-making about public investment in the hands of communities most at risk for displacement.

5. Establishing local programs like housing trust funds, housing preservation funds or tax incentives by combining funding and financing streams to support housing goals.[27]

METHODOLOGY

We analyzed city housing spending between 2004 and 2017, during which 1,201 cities submitted their finances to the U.S. Census Bureau's Annual Survey of State and Local Government Finances consistently for each of the 14 years. Approximately 68 percent of cities in this sample are less than 50,000 in population; 19 percent are between 50,000 and 99,999; 10 percent are between 100,000 and 299,999; and three percent are above 300,000. This sample of cities aligns well with the actual distribution of U.S. cities by population, making the results generalizable to all U.S. cities.

Our regression analysis is based on the State Policy Database developed by Jason Sorens, Fait Muedini, and William P. Ruger.[28] The database gathers state and local public policies over time and analyzes "unexpected" housing spending based on the relationship between federal grants and state and local government housing and community development spending. Our analysis differs from Sorens et al. (2006) in two ways: 1) we examine not only federal grants but also state grants or aid, and 2) we examine cities.

Our analysis finds that for every $100 that state and federal governments invest per person, cities have $3 in additional housing spending needs per person, controlling for state and year effects, as well as political party control of the state government. This finding coincides with Sorens et al. (2006), who find a 0.047 percent effect for state and local governments combined.

Given the 1,201 cities in the sample are representative of the actual distribution of U.S. cities by population, we take our finding of $3/$100, or 0.03 percent, and apply it to all 19,350 cities identified by the U.S. Census Bureau in 2017. We are specifically interested in understanding how much more cities spend on housing and community development than would be expected given the total state and federal aid that cities receive. As such, we calculate the following:

*Housing spending per capita for city X – 0.03*State and federal aid per capita to city X = Additional spending needs per capita for city X*

We calculate this for all 19,350 cities and arrive at a sum of $14 billion in additional needs for housing.

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