Setting income eligibility levels for local housing programs

In designing programs that fund the creation or preservation of dedicated affordable housing units, cities, towns, and counties will need to determine what income level(s) each program will target.

This is often a contentious issue. While there is no single solution that will be “right” for every city, the following points may be helpful for cities to consider as they work on tailoring their programs to local circumstances:

**Households with extremely low-incomes are much more likely to face severe housing cost burdens than higher-income households.**

While the precise figures vary from city to city, at the national level, 62.5 percent of renter households with incomes between 0 and 30 percent of the Area Median Income (a category HUD calls extremely low-income) spent more than half their income on housing in 2013. As shown in Figure 1, the percentage of renter households with such severe housing cost burdens drops substantially as income rises. This is an argument in favor of targeting assistance on extremely low-income households. Of course, people with severe housing cost burdens that have somewhat higher incomes may still have serious housing problems, even if the incidence of such problems is lower for their income cohort. Nationally, there were nearly 7 million renter households in 2013 with severe housing cost burdens in the 0-30 percent AMI income category, 2 million renter households with severe housing cost burdens in the 30-50 percent AMI category and 720,000 households with severe housing cost burdens in the 50-80 percent AMI category.[i] In addition, there are also millions of households nationally with moderate housing cost burdens, defined as paying between 30 and 50 percent of income for housing. Nationally, such moderate cost burdens are much more common for households in the 30-50 percent and 50-80 percent AMI levels than for households in the 0-30 percent and 80-120 percent AMI levels.

In weighing the relative challenges faced by households in different income categories, it is important to note that the consequences of inaction may be greatest for the lowest-income households. A household earning $40,000 per year and spending half of its income for housing has considerably more resources left over after paying for housing than a household earning just $10,000 a year that is also paying half of its income for housing.

Figure 1 — Severe housing cost burden by income level
On the other hand, it generally costs more to serve lower-income households.

The size of the public subsidy needed to bring the rent down to an affordable level will be greater for lower income households than for households with somewhat higher incomes since the ability of lower income households to contribute to the rent is more limited. For example, a household with an annual income of $40,000 may be able to afford to pay $1,000 per month for rent and utilities, while a household with an annual income of $15,000 may be able to afford to contribute only $375 per month. The higher rent level is sufficient to cover both (a) the ongoing costs of operating the rental unit (e.g., management staff, basic maintenance, basic utilities) and (b) a contribution toward the monthly payments of a loan used to finance the initial construction. By contrast, the lower rent may be barely sufficient to cover basic operating costs. Without the ability to contribute toward the servicing of debt incurred to support construction, the latter unit will require more public subsidy to construct. As a result, housing programs targeted to the lowest-income households will generally be able to serve fewer households than programs targeted toward households with somewhat higher incomes given the same level of public subsidy. The rents that some extremely low-income households can afford to pay are insufficient to cover even the basic costs of operating the property. To serve these households, a provider will therefore need ongoing operating subsidies – throughout the property’s life – in addition to whatever subsidies are needed to finance the property’s construction. For this reason, some cities choose to partner with local housing authorities to access Housing Choice Vouchers to act as an operating subsidy and allow Low Income Housing Tax Credit developments to serve extremely low-income renters.\[2\]

Cities, towns, and counties should examine local data on housing cost burdens and the level at which a household can afford a decent-quality unsubsidized unit in a typical neighborhood.

While large shares of extremely low-income renters face severe housing cost burdens in every locality, the affordability picture further up the income spectrum varies substantially from city to city. Cities, towns, and counties should examine the share of renter and owner households at different income levels with both severe and moderate housing cost burdens to determine the relative incidence of housing cost burdens at different income levels. Municipalities should also examine the income level at which a household could comfortably afford a decent-quality unsubsidized unit in a typical neighborhood; this will help them determine the income level at which households no longer face significant housing cost challenges.
Many cities, towns, and counties adopt different housing programs and policies targeted at households of different levels.

In order to meet the substantial housing challenges faced by their residents, many cities adopt multiple housing programs and policies. In some cases, a municipality may target different programs on households with different income levels. For example, a locality may offer a down payment assistance program to facilitate the purchase of a home by first-time homebuyers that is aimed at households with incomes between 80 and 120 percent of AMI; an inclusionary housing strategy that requires a share of housing to be permanently affordable to households with incomes between 60 and 80 percent of AMI, and a housing trust fund aimed at stimulating the construction of dedicated affordable housing developments targeted at families with incomes between 40 and 60 percent of AMI.

The following are some of the factors that cities, towns, and counties may consider in determining which income level to target to which program:

- In some cases, maximum income limits are tied to statutory limitations on how federal or state funding may be used. For example, federal financing through the HOME Investments Partnerships program may not be used to assist any households with incomes above 80 percent of AMI and 90 percent of the renter households served by the program must have incomes that do not exceed 60 percent of AMI.
- In other cases, the income levels may be geared toward the needs and desires of households at different income levels; for example, a down payment assistance program generally works only for households whose incomes are high enough to support a mortgage.
- In still other cases, the nature of the program may play a role in determining how deep the affordability that can be provided. Inclusionary zoning programs, for example, generally provide a modest level of affordability (e.g., down to 80 percent or 60 percent of AMI), but not lower, because such programs only produce units when development is financially feasible. When deeper levels of affordability are required by a local policy, developments may not be financially feasible or may be able to produce only a small number of affordable units.

Cities, towns, and counties should also consider the existing affordable housing resources available in the community.

Before deciding on an income level at which to target a new housing program or policy, it’s important to be aware of all of the resources provided through existing programs. These programs may be offered by the municipality, the local housing
authority, the State, or private housing providers. A table that shows the full array of existing programs, the number of units offered by each program, and the income levels they target, can be helpful in providing this context. Comparing the resources currently available to households at different income levels with the needs of households at each level can help cities determine the income levels at which assistance is most needed.

**Funding, policy and political issues may also affect income targeting decisions.**

Funding issues include both the limited availability of locally controlled funding for housing and any limitations imposed by federal or state resources that a municipality is considering using to fund the program. Given the limited availability of funding, some may argue that locally controlled funds should go only to meet the most severe housing needs, while others may argue that such funds be used primarily in ways that leverage larger funding streams (such as by providing gap funding to help housing providers qualify for state awards of Low Income Housing Tax Credits). Still others may argue for targeting households with somewhat higher incomes in order to increase the number of people served.

The policy and political issues will vary from city to city but could include, for example:

- Concerns that a lack of affordable housing for moderate-income households is making it difficult for local businesses to recruit and retain qualified workers
- Concerns about the growing number of homeless families entering shelters because they lack access to affordable housing
- An interest in helping local renters to purchase their homes in order to help stabilize the neighborhood or avoid displacement
- An interest in ensuring that rental developments serve households with a mix of incomes in order to deconcentrate poverty

Such issues can and should be debated on their policy merits, but may also have political implications related to building the coalitions needed to successfully adopt new programs and/or ensure adequate funding for those programs.

2. The exact income level at which operating subsidies become necessary to support the ongoing operations of affordable housing vary. Check with local affordable housing developers for more information about local conditions.