PARTNERS FOR RURAL TRANSFORMATION

Policy Brief

Equity in Federal Housing and Community Development Funding: A Proposal for a National Floor

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Introduction

The system Congress uses to disburse federal housing and community development dollars is deeply unfair, despite their efforts. Poor rural communities in poor states lose out because of a flawed, one-size-fits-all income limit structure. As a result, thousands of families are not eligible for the same level of critical services and supports as their counterparts in rich states.

The Partners for Rural Transformation know these areas are full of hard-working people and of leaders who, when equipped with the proper resources, revitalize communities. The current system references targeting people and communities encountering the most economic distress, however, when a whole area experiences overwhelming concentrated poverty, that system breaks down and an inclusive approach to community revitalization is needed. What if the country increasingly thought about national economic policy as intentionally prioritizing this revitalization, which would advance the economy of persistently poor rural America while maintaining important supportive investments in low-income people?

One proposal in line with this inclusive approach involves changing the income limits for eligibility to participate in housing and community development programs to include a national non-metro floor. The proposal would allow low-income people in the poorest places to access already-existing public investment. Such a simple change would jumpstart a cycle of increased housing and community development, creating more jobs to rebuild the rural economy, and playing a pivotal role in moving millions of people out of poverty.

Flawed Area Median Income (AMI) Calculations Lead to Inequity

Across the country in 2020, more than 30,000 low-income families received rental support or had a home constructed or repaired through the HOME Investment Partnership program. That same year, the USDA Single-Family Housing Direct Loan Program made homeownership a reality for more than 7,000 low-income families living in rural areas. These two programs represent only a small fraction of the investments made in rural places. The Department of Housing and Urban Development, through programs like the Section 8 Housing Choice Voucher, and the Community Development Block Grant (CDBG), along with other disparate investments such as those made through the Department of Agriculture's Rural Development programs and the Department of Treasury's Community Development Financial Institution Fund also reach hundreds of thousands of people annually.

Participation in these programs and how much support they receive is determined by community economic information produced by the U.S. Department of Housing and Urban Development (HUD). HUD uses this information to determine "income limits," for various programs and sets the limits using the median income for families living in a specific area— popularly known as Area Median Income (AMI).[1] These income limits are set as percentages of AMI, with the most popular being 80%, 50%, and 30% of AMI (Table 1).

Table 1
Area Median Income Descriptions

Percent of Area Median Income	Description
80%	Low-Income
50%	Very Low-Income
30%	Extremely Low-Income

While this structure was established to connect families to resources based on their need, upon closer inspection, the income limits described above drive inequity in rural communities.

Rural Communities with Low AMIs Lose Out

Rural communities, especially rural communities in poor states, are more likely to have lower Average Median Incomes than metro areas because of a history of disinvestment and racism. Even high incomes in these areas are low in comparison to metro areas. Current AMI calculations define many low-income households in these rural communities out of the low-income limit for HUD programs.

For example, a major metro area like Washington, D.C. has a wide range of income levels, and therefore a high AMI. As seen in Table 2, the AMI for Washington, DC is $121,300 and the difference between an average family income and the low income limit is $43,700. By contrast, in places like Perry County, Kentucky the difference between an average family and a low-income family is only $4,450 per year. This indicates that a smaller percentage of residents—not just a smaller absolute number of residents—are eligible for federal programs in these non-metropolitan counties. In other words, the closer these numbers are to one another, the higher the indication that a community is struggling. However, the cost of living differences in rural and urban places are not that stark: food staples, car repair bills, and college tuition prices are broadly similar across the country.

Table 2
The Impact of Income Limits in Non-Metro and Metro Areas on Federal Program Eligibility

	Perry KY (Nonmetro)	Randolph WV (Nonmetro)	Washington DC (Metro)
AMI for community	$45,400	$54,900	$121,300
"Low Income"	$40,950	$43,900	$77,600
"Very Low Income"	$25,600	$27,450	$60,650
"Extremely Low Income"	$25,600	$25,750	$36,400
Difference between "average family" income and "low income" limit	$4,450	$11,000	$43,700

If the AMI system was working as it should, then the percentage share of the population considered "low-income" in both urban and rural areas should be roughly equal. However, as seen in Table 3, when you look at the difference between income limits in metro areas compared to rural areas, that is not the case. It indicates that in urban areas, 30.4% of the population qualifies as "low-income" whereas in rural areas only 16.3% of the population does.

Cumulative Population Figures by Income Category: Rural vs. Urban Census Tracts (based on County CBSA Definitions)

Income Category	Rural Population	Urban Population	Sum	% of Rural Population Included	% of Urban Population Included
Very Low (<=50% AMI)	477,671	21,163,298	21,640,969	1.0%	7.7%
Low (<=80% AMI)	7,510,186	83,675,008	91,185,194	16.3%	30.4%
Moderate - Low 1 (<=90% AMI)	14,553,852	110,128,163	124,682,015	31.6%	40.1%
Moderate - Low 2 (<=100% AMI)	24,122,586	138,720,683	162,843,269	52.3%	50.5%
Moderate High (<=120% AMI)	39,522,509	189,991,841	229,514,350	85.7%	69.1%

Income Limit Fairness in Rural America

Fahe Member COAP, Inc., has been working with a grandmother of, and sole guardian to, four children in Harlan, KY. She has been trying for months to get out of an expensive rental situation, and into stable long-term homeownership. There have been hurdles along the way, like delinquencies and credit issues, but this intrepid grandmother has overcome them. She steadily chipped away at her credit issues, building her way from the low 500s up to the 620 credit score required for a government home loan. She has worked hard, and done all the right things to improve her family's life, and thought she was on the way to homeownership.

Now, however, she and her family face a new barrier. In order to buy a big enough home that she can afford, she will need some help. But, to qualify for low-income assistance, her income must be below a certain level – something known as an income limit – and she is just over the limit by about $100 a month, even though she is on a fixed income. Right now, she needs to stay on the fixed income and prioritize raising her four grandchildren on a day-to-day basis. In a way, she is stuck: her current income cannot support the life she wants to give her family, but she is also unable to receive additional assistance to help move them all towards homeownership. As the CEO of COAP, Mike King says, 'She's too poor to be "poor"'.

Directing funding to those most in need by determining income limits for programs is good government. Unfortunately, there is a structural issue with the way income limits are designed, which disadvantages people living in places without a wide variety of incomes, like Harlan County.

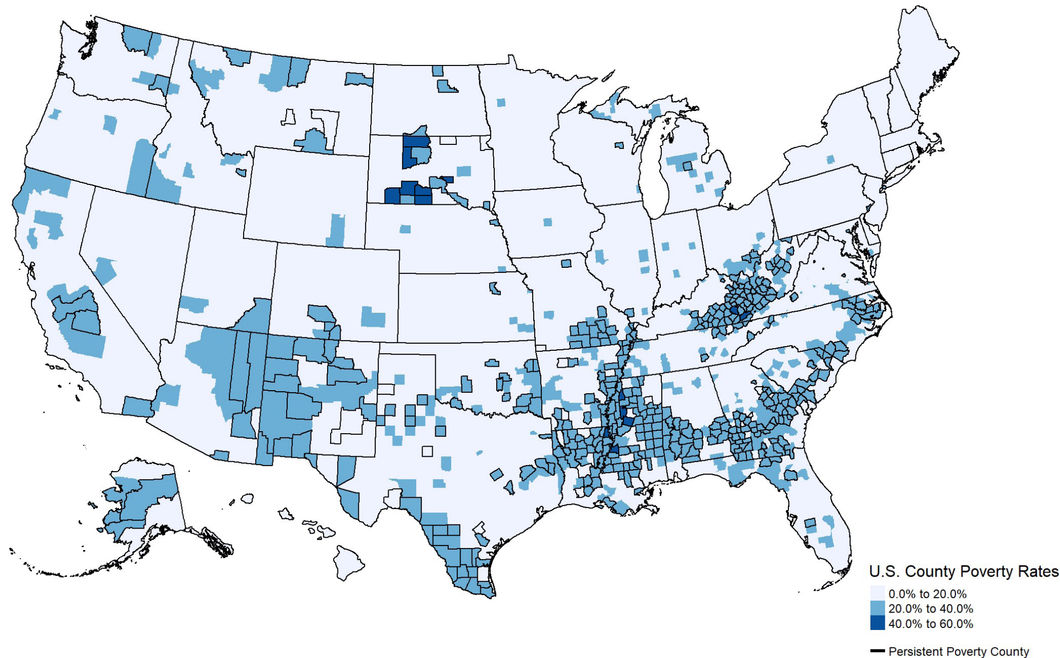
Simply put, if the income limits were calculated in Harlan County, Kentucky with the same bonuses available in neighboring Appalachian Ohio, this grandmother and her family would already own a home.

Congress intended to prevent this issue by including a "state floor"

In the authorizing language contained in Section 567 of the Housing and Community Development Act of 1987 (P.L. 100-242), Congress placed a "state floor" into the calculation of non-metropolitan county AMIs to prevent a particularly poor county from suffering from a depressed AMI. This state floor mechanism stated, when calculating a rural county's AMI, if the median income of the entire nonmetropolitan area of the state was higher than the median income in the county, then the county shall use the higher number. This state floor mechanism works very well in states with relatively affluent non-metropolitan areas, and only a few isolated poor counties. For instance, the states of California, New York, and North Dakota are all examples of the system working as intended.

Unintended effects: communities doubly disadvantaged

The system breaks down, however, in states with concentrations of rural poverty. In regions like Appalachia (e.g., Kentucky, West Virginia), the Mississippi Delta (e.g., Mississippi, Louisiana), and along the southern border (e.g., New Mexico, Arizona) concentrations of rural poverty artificially lower AMI calculations statewide. Map 1 provides a snapshot of persistent poverty and severe economic distress in America.



Source: County Poverty Rates - U.S. Census Bureau, Small Area Income and Poverty Estimates (2018). 2017 Poverty and Median Household Income Estimates - Counties, States, and National. Retrieved from https://www2.census.gov/programssurveys/saipe/datasets/2017/2017-state-and-county/est17all.xls. Map by Kiyadh Burt.

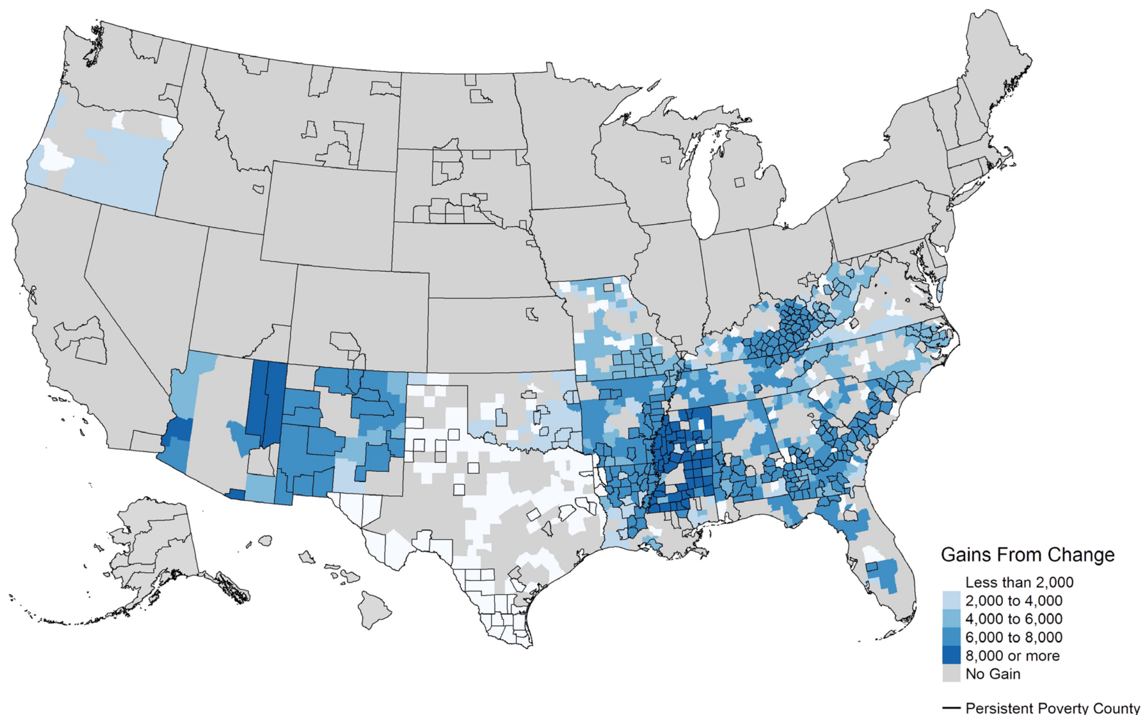
In these instances, Congress's intended safety mechanism fails. The people in those communities are doubly disadvantaged by living in a poor county and a poor state. The result is that in affected communities, federal assistance does not reach the people most in need, as intended by Congress.

The solution: a national floor

This disparities in funding for low-income rural communities in poor states can be addressed by revising the state floor mechanism to include a national floor.

Currently, when calculating AMI, HUD must use the higher of either the county AMI or the non-metro statewide AMI. Congress can ensure that its original intent is carried out by inserting a new requirement that HUD also include the "national nonmetropolitan median income" number ($62,400 in 2021)[2] into the Housing and Community Development Act of 1987. In places where the state nonmetropolitan median income is depressed by concentrated rural poverty, the national floor would bring those communities' AMI up to the national average—wiping out disparity without privileging any community.

The national floor proposed here would increase the AMIs for 998 counties across the country. 245 of those counties are in Appalachia, and 190 are in the Delta region of the Deep South, where these income limit issues are most acute due to concentrated rural poverty and low state AMI floors. Map 2 illustrates the gains in the number of people who would become eligible as a result of the change.



Source: Persistent Poverty County - Department of Treasury, CDFI Fund (2019). Persistent Poverty Counties Using 1990 Census, 2000 Census, and American Community Survey 5 - year estimates for 2011-2015. Retrieved from https://www.cdfifund.gov/sites/cdfi/files/documents/persistent-poverty-counties-(ppcs)-(2011-2015-acs-and-island-areas-decennial-census).xlsx. Map by Kiyadh Burt.

Proposed income limit changes vary from state to state. The largest increases, for a family of four, would raise the amount of money a family can make and still qualify as "low income" by $8,928. The smallest increase would raise the same metric by $28. This unevenness of the impact is directly related to the existing unfairness—the proposed change here levels the playing field, and reverses that unfairness, by affecting most those counties that are currently most disadvantaged.

This proposal compares directly with recent one-time emergency appropriations made by Congress in the wake of the COVID-19 pandemic. In March of 2021, Congress passed the American Rescue Act of 2021, which contained provisions creating the Homeowners Assistance Fund (HAF). This program provided temporary financial assistance to homeowners facing foreclosure due to economic pain linked to the coronavirus. Crucially, the HAF allows eligibility for a family's assistance to be based on either their local AMI or the median income of the United States. Including this provision allows more rural homeowners to be considered eligible at a time when the federal government was invested in preventing economic privation and loss of housing for as many people as possible. Crucially, this is an even larger increase than our current proposal, because the HAF provision uses the median of the entire United States, not just the nonmetropolitan part of the United States, called for here.

Impacts on necessary funding levels

Instituting a national floor means more families and individuals in the 998 affected counties will be eligible for assistance, both directly and as beneficiaries of community and economic development investments. Depending on how one accounts for such government spending, this may increase the "score" or cost of certain federal investments.

Existing federal investments in housing and other community development initiatives are already over-subscribed, and historically insufficient. Families already spend years on waiting lists for HUD Section 8 Housing Choice Vouchers, and competition for priority for CDBG funding within communities is fierce – often leading only to incremental investments that fall well short of meeting existing needs.

Righting inequity in the funding system for people living in nonmetropolitan areas in poor states, need not be at the expense of metropolitan resident. Coupling a change in the income calculation system with meaningful investments that meet the measure of the need in this country would be an opportunity for all communities and people to prosper.

Policy Recommendations

In 1937, Congress created the first federal definition of "families of low income", in the United States Housing Act of 1937:

'The term "families of low income" means families who are in the lowest income group and who cannot afford to pay enough to cause private enterprise in their locality or metropolitan area to build an adequate supply to decent, safe, and sanitary dwellings for their use.'

Though this definition has been altered in successive decades of legislation, it speaks to the enduring mission of housing work—and the central problem inherent with the current AMI system. Across the country, families in every community struggle to find decent and safe housing that they can afford. In particular, low-income families in these nonmetropolitan areas cannot afford market-rate housing, but they also do not qualify for governmental assistance. They are doubly disadvantaged by the system that governs eligibility.

To remedy this inequity, the method of calculating income limits for determining program eligibility should be changed to use the higher of county AMI, the state non-metropolitan AMI, or the national non-metropolitan AMI.

Every family, no matter where they live, deserves to have a fair shot at a home, starting a business if they choose, accessing affordable broadband internet connections, and necessary infrastructure like running water. Reforming income limits remains a critical step to building thriving rural communities with all of these opportunities. To accomplish this goal, national programs designed to assist people in need should work equally well for all—no matter where they live.

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[1] More information, including levels and methodology of calculations, is available
https://www.huduser.gov/portal/datasets/il.html#2021_data

[2] https://www.huduser.gov/portal/datasets/il/il21/Medians2021.pdf

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