Federal Income Limit Fairness – A "National Floor" Proposal

Despite Congress' best intentions when they created the system that disburses federal housing and community development dollars, there is a deep unfairness inherent in that system. Poor rural counties in poor states do not have the same safety mechanism that poor rural counties in rich states have. This proposal outlines that unfairness, and suggests a legislative reform to ensure that the safety mechanism, as Congress originally intended, actually works for everyone in the nation.

Area median income and income limits

Many federal programs rely on community economic information produced by the U.S. Department of Housing and Urban Development (HUD) for targeting and eligibility based on incomes of families. These include crucial housing and community development programs that low-income families and entire towns and counties rely upon, for example the HOME Investment Partnerships program through HUD, and the Single Family Housing Direct Home Loans program ("Section 502") through the U.S. Department of Agriculture.

HUD produces, for every Metropolitan Statistical Area (MSA) and non-metropolitan county, a measure known as the Median Family Income, more popularly referred to as Area Median Income (AMI). This measure reflects the median income for families living in the area in question, and is used as the basis of the calculations which establish "income limits". The most common income limits are set at 80%, 50%, and 30% of AMI for an MSA or county, and are used to determine which families are "low-income", "very low-income", and "extremely low-income" respectively.

Because income limits are set as percentages of the AMI if the AMI calculation for a community is flawed, so too are the income limits for any program which bases eligibility on the HUD AMI figure.

MSA's and non-metropolitan counties are affected differently

In a major metropolitan area like Washington, D.C. with a high AMI, the fractional calculations set income limits with a lot of range in between them –

see the table below for details. In places like Perry County, Kentucky however those income limit brackets are right on top of one another – the difference between an average family and a low income family is considered to be only $4,450 per year. The closer these numbers are to one another, the higher the indication that a community is struggling.

	Perry KY	**Randolph WV**	**Washington DC**
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

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. If the AMI system was calculated correctly, then the percentage share of the population considered "low-income" in both urban and rural areas should be roughly equal. As you can see from the table below, that was 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. Clearly, the system is not treating urban and rural areas the same.

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 Pop Included	% of Urban Pop 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%

Source: OFN, 2019; US Census Bureau, 2019; PolicyMap, 2019.

This targeting failure can be tied directly to the way we calculate the AMI's for those different areas. With a lower AMI, the income bands which make a family eligible are not only closer together, but also in real dollar terms are lower than they are in places with higher AMI. But cost of living differences are not that stark: food staples, car repair bills, and college tuition prices are broadly similar across the country. In effect, we are unjustly defining-out low-income households in rural counties. This pattern holds true in rural persistent poverty counties and is in fact even more prominent.

Congress intended to prevent this issue

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 that in calculating such a county's AMI, if the median income of the entire nonmetropolitan area of the state was higher, that 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

Where the system breaks down, however, is 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 state wide.

In these instances, living in a poorer state means that 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 is not reaching exactly the people it needs to reach, as it was intended to by Congress.

The solution – a national floor

This disparity can be erased and communities in economically distressed counties in poorer states can receive the federal funding they should already be receiving by revising the original mechanism put in place by Congress. This mechanism – the state floor – can be extended to include a national floor.

Currently, when calculating AMI, HUD must use the higher of either the county number or the state number. By inserting into the Housing and Community Development Act of 1987 a new requirement that HUD also include the "national nonmetropolitan median income" number in this "higher of" check, Congress can ensure that its original intent is carried out. In places where the state nonmetropolitan median income is depressed by concentrated rural poverty, the national floor would bring that community's 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 Mississippi Delta, where these income limit issues are most acute due to concentrated rural poverty and low state AMI floors.

The amount that the proposed change raises the income limits varies from state to state. The largest increases to the income limit, 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.

What should Congress do?

To solve the unfairness in the income limit system, Congress should return to its original legislation and insert language that causes income limit calculations to use the higher of the county AMI, the state non-metropolitan AMI, or the national non-metropolitan AMI. Proposed legislative language that would actualize this change is below.

Section 567 of the Housing and Community Development Act of 1987 (P.L. 100-242) is amended to strike at the end:

"the State.",

And insert "the State; or

(3) the median income of the entire nonmetropolitan area of the Nation."

For more information on this issue, including data on affected counties and states, please contact Joshua Stewart, Senior Advocacy Manager at Fahe, via email at jstewart@fahe.org or via phone at 859.986.2321 ext. 6261