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THE MYTH OF SPIRALING VOUCHER COSTS

U.S. Department of Housing and Urban Development (HUD) officials and some Members of Congress have expressed concern about "spiraling costs" for "Section 8" housing vouchers. Proposals to make deep cuts in voucher funding and to convert the program to a block grant have been rationalized on the grounds that such far-reaching measures are needed to curb rapidly rising voucher costs that, if left uncontained, would eventually consume the entire HUD budget.

A careful look at the data demonstrates, however, that housing voucher costs are not spiraling out of control and that the claims being made to this effect rest on selective and misleading use of budget data. There has indeed been an upward trend in overall Section 8 costs over the past few years, but much of this cost increase has been due to temporary factors that are now abating. The Congressional Budget Office projects that Section 8 costs will level off in the years ahead.

- **A temporary uptick in average voucher costs in recent years was to be expected, given the "perfect storm" of a hot housing market and a cooling economy**. Voucher subsidies fill the gap between rents and limited incomes; a family contributes 30 percent of its income toward the rent, and the voucher covers the remaining cost of a modest rent in the private market. As a result, when incomes fall or rent and utility costs rise, voucher costs temporarily increase. This is what happened in the late 1990s and early 2000s. Rents were rising rapidly as the housing market boomed, while the economy headed into recession and job losses led to an erosion of tenant income. In addition, in the same period, Congress pressed housing agencies to "lease up" their unused vouchers and authorized these agencies to pay somewhat higher rents if necessary to accomplish that goal.

  The rental housing market has now started to cool off, although rents are not declining as much in the low end of the market as in the luxury market. The labor market is beginning to recover, as well. Voucher costs consequently are expected to start leveling off this year.

- **CBO projects that Section 8 spending will flatten out in the years ahead.** The Congressional Budget Office recently examined rent and income trends to estimate the costs of the Section 8 program in coming years (including both vouchers and project-based housing subsidies). CBO found that actual Section 8 expenditures, or outlays, will rise *only 1.8 percent* in fiscal year 2005, about the rate of inflation. In 2006 and beyond, CBO projects that spending rates will remain low — growing by 2.5 percent or less. Moreover, contrary to claims that Section 8 is devouring more and more of the HUD budget, Section 8 outlays have been holding steady at 50 percent to 55 percent of the HUD budget since 1996.

Unfortunately, in promoting its budget proposals, HUD has been using misleading *budget authority* figures for the Section 8 program that mask these basic trends, rather than using actual expenditure data. Budget authority levels have been rising more quickly than actual spending for the Section 8 program, because of expiring multi-year Section 8 contracts that must be renewed each year. Most Section 8 units were initially funded in the 1970s and 1980s through long-term contracts, under which Congress provided up-front all of the budget authority expected to be needed to support the rental units for a period of many years. For a long time thereafter, the amount of annual budget authority needed for Section 8 was artificially *low* (i.e., well below the level of actual Section 8 expenditures), since so many units had been pre-funded. Beginning in the mid-1990s, however, these long-term contracts started to expire, and Congress had to add more budget authority to the appropriations bills to cover the expiring units. As a result, the budget authority needed just to support *existing* Section 8 units has been growing at a substantial clip. But this growth in budget authority does *not* reflect an increase in actual program costs or in the level of assistance provided. To track whether Section 8 costs are rising rapidly, one thus must use the figures on actual program expenditures, not the budget authority figures, which fluctuate from year to year in ways not related to changes in actual expenditures.

- **Voucher expenditures also increased because Congress *chose* to shift more families into the voucher program.** From 1995 to 2003, Congress funded about 550,000 new vouchers. About 225,000 of these new vouchers protected families that would otherwise have lost their federal housing assistance due to the demolition of public housing or the ending of federal subsidies that had kept rents affordable in certain privately-owned buildings. These moves raised voucher program costs in part by *shifting costs* from other federal housing programs to the voucher program.

  Congress also created about 325,000 additional vouchers in this period. Some 205,000 of these were "incremental" vouchers created to help more of the low-income families languishing on long voucher waiting lists. Most of the remaining vouchers were targeted on particular groups, such as people with disabilities who were losing access to public housing that was being restricted to occupancy by the elderly and parents in need of housing assistance to regain custody of their children from foster care. These were deliberate policy choices Congress made to increase the number of families in the voucher program; they do not indicate any inherent spiraling of voucher costs. Moreover, Congress did not create any incremental vouchers in 2003 or 2004, and none are expected in 2005.

The bottom line? Claims of out-of-control voucher costs rest on misleading presentations that confuse temporary with ongoing factors and use budget authority figures rather than actual expenditure levels. These misuses of data may be designed to pave the way for block grants and deep funding cuts. As other Center analyses indicate, deep funding cuts and conversion of the program to a block grant would likely cause significant harm to many of the two million families with children, senior citizens, and people with disabilities whom the voucher program serves.