



# CENTER ON BUDGET AND POLICY PRIORITIES

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## **FUNDING LEVEL APPROVED BY HOUSE SUBCOMMITTEE WOULD REDUCE, BUT NOT ELIMINATE, SHORTFALL IN HOUSING VOUCHER FUNDING**

### **Reduction in Number of Families Assisted Would Be 85,000 Under House Subcommittee Bill, Compared to 184,000 Under President's Request**

On July 15, 2003, the House VA-HUD Appropriations Subcommittee approved a bill that would provide \$685 million in additional resources for renewal of existing housing vouchers in fiscal year 2004 beyond the amount that would be available under the Administration's budget request.

Note: The VA-HUD Appropriations bill approved by the full House on July 25, 2003, added a further \$150 million to the amount available for renewal of existing vouchers. For an analysis of the full House bill, see <<http://www.centeronbudget.org/8-13-03hous.htm>>

Nonetheless, data collected by the Department of Housing and Urban Development (HUD) in April 2003 from state and local housing agencies that administer nearly all federal housing vouchers indicate the funding level provided by the House bill is inadequate to fund all housing vouchers likely to be in use when the fiscal year starts in October 2003.

Analysis of these data shows that if the funding level approved by the subcommittee is enacted into law and additional resources do not become available from other sources, approximately 85,000 vouchers in use serving low-income families in October 2003 would not be funded. These cuts would fall primarily on low-income working families, the elderly, and the disabled, since these groups make up 70 percent of the population that the voucher program serves. The 85,000 vouchers in use that would be left unfunded under the House subcommittee bill is substantially below the 184,000 such vouchers that would be left unfunded under the Administration's budget request but would still constitute an unprecedented reduction in assistance under the voucher program.

The shortfall in the funding estimate in the House bill results in large part from the House subcommittee's use of a low estimate of the average cost of a voucher in fiscal year 2004. The subcommittee estimated that per-voucher costs would average \$6,575 in fiscal year 2004; this estimate was based on data from periods that largely preceded the period covered by the HUD data collected in April 2003. Analysis of the April HUD data indicates that per-voucher costs will average \$6,871 in fiscal year 2004, which is very close to the Congressional Budget Office's March 2003 baseline estimates that these costs will average \$6,842 in fiscal year 2004. The estimate the subcommittee used is nearly \$300 below these estimates.

## **House Subcommittee Bill Would Increase Amount of Funding Available to Renew Existing Vouchers Beyond Level Requested By Administration**

The House subcommittee bill would appropriate \$13.23 billion for the renewal of existing housing vouchers.<sup>1</sup> This represents an increase of approximately \$685 million above the amount that would be available under the Administration's budget request. The increase in funding for voucher renewals in the House bill was accomplished in two main ways: first, by shifting \$185 million away from other items in the voucher account; and second, by reducing the reliance of 2004 voucher funding on the availability of unspent funds from previous years. Both actions have potential downsides, although they would help to address some of the shortfall in the President's request.

First, \$185 million was added by reducing the funding levels provided for four other activities under the voucher account below the level the Administration requested and transferring these funds for use in renewing existing vouchers. Specifically, the House bill:

- eliminated new "incremental" vouchers (the President had requested 5,500 such vouchers);
- reduced funding for "tenant protection" vouchers for families who lose housing assistance under other federal housing programs;
- reduced funding for the Family Self-Sufficiency program (an asset development and employment services program for housing assistance recipients); and
- eliminated capacity-building grants to enable state governments to prepare for the proposed conversion of the housing voucher program to block grant.

With the exception of the state capacity-building grants, each of these reductions could have a direct negative impact on low-income families. It is likely, however, that the overall harm from these reductions would be less severe than the harm that would result from allowing a greater number of existing vouchers to be left unfunded, as would occur if the \$185 million were not transferred.

The remaining increase (approximately \$500 million) was accomplished by reducing the reliance of voucher funding for fiscal year 2004 on the carryover of unspent funds from previous years. The Administration's budget request identified \$1.07 billion in unspent funds from fiscal year 2002 and previous years that it indicated would be available in FY 2004 and relied on these carryover funds to help fund the voucher program in 2004. After the budget was submitted, however, Congress rescinded \$500 million of these unspent funds as part of the fiscal year 2003 appropriations act (based on Congressional assumptions at that time that the funds would not be needed). Consequently, only \$570 million of the unspent funds identified by the Administration were left available to be used in fiscal year 2004. While it is possible that the actual amount of prior year funds carried over to fiscal year 2004 will be higher (or lower) than \$570 million, the Administration has given no indication that this is likely to be the case.<sup>2</sup>

The House subcommittee bill would increase the appropriation of new budget authority for the voucher program by \$1.07 billion above the Administration's request, in effect directly appropriating the amount that the Administration had simply assumed would be available from carryover funds.<sup>3</sup> The House subcommittee bill also adds a rescission of \$1.07 billion in unspent funds from fiscal year 2003 or before. This rescission could be drawn from the voucher program or any other HUD program. The approach in the House bill provides certainty that the \$1.07 billion provided through the increase in the direct appropriation will be available to renew housing vouchers in fiscal year 2004. If, as the calculations in this analysis assume, the amount of available carryover funds would otherwise have been equal to the Administration's estimate minus the amount rescinded in the 2003 appropriations act, the House bill would provide \$500 million above the Administration's request for voucher renewals.

It is important to note that there is some risk that the approach in the House bill could have a negative impact on the voucher program in fiscal year 2003 or on other HUD programs. It is possible that HUD would end up meeting the terms of the rescission in a manner that reduces housing assistance for low-income families, whether in the voucher program or in other low-income housing programs such as public housing, elderly housing, or homelessness assistance grants to states and localities. Little information is publicly available about what funds might be available at HUD to meet the rescission target. To allow an accurate assessment of the effects the rescission would have, it is important that the Administration provide adequate information of this nature as soon as possible.

### **House Subcommittee Funding Level Falls Approximately \$580 Million Short of Amount Needed to Avoid Cutting Assistance**

The annual funding needs of the voucher program depend on two factors: the average cost per voucher and the proportion of vouchers that are in use (sometimes referred to as the utilization rate). Each of these factors depends on local economic and housing market conditions and therefore cannot be predicted with precision. As a result, timely data on voucher costs and utilization is critical to estimating the funding needs of the voucher program.

In April 2003, HUD required state and local housing agencies that administer the voucher program to report data on both voucher costs and utilization for the six-month period from August 2002 to January 2003.<sup>4</sup> Analysis of the April HUD data shows that the funding level requested in the Administration's budget, which relied on older cost and utilization data that were available at the time the budget was submitted, would fall approximately \$1.26 billion short of the amount need to support the vouchers likely to be in use when fiscal year 2004 begins in October 2003. As a result, the number of families receiving voucher assistance on average during fiscal year 2004 would need to be reduced by approximately 184,000.

The April HUD data were recently made available to Congressional staff. The House subcommittee, however, did not use the April HUD data in determining the funding level provided for the voucher program in the bill it approved on July 15. As shown in Table 1, the assumptions regarding fiscal year 2004 costs and utilization used in developing the House bill

differ from estimates based on the April HUD data.<sup>5</sup>

Most significantly, the House bill relies on an estimate of the average per-voucher cost in fiscal year 2004 of \$6,565, which is well below the \$6,871 estimate that results from the analysis of the April HUD data. The primary reason for this difference is that the House subcommittee developed its estimate using data that, while somewhat more recent than the data used in the Administration's budget request, are significantly less up-to-date than the April HUD data. The report accompanying the House bill indicates that the subcommittee's estimate of per-voucher costs in fiscal year 2004 relied on cost data from fiscal year-end statements from state and local housing agencies. Unlike the April HUD data, these statements are audited and are therefore likely to be more precise. In part because of the auditing process, however, agencies' year-end statements do not become available for some time after the end of the fiscal year they cover. A large majority of the data relied upon by the subcommittee dates from periods that precede the period covered by the April HUD data. It appears that the Subcommittee used some data from as early as April 2001, 16 months before the first month covered by the April HUD data.<sup>6</sup>

As a result, even though they may be somewhat more precise in describing per-voucher costs in the period they cover, the data relied on by the House subcommittee are less useful for estimating per-voucher costs and utilization in fiscal year 2004 than the April HUD data. In its March 2003 baseline, the Congressional Budget Office estimated that per-voucher costs in fiscal year 2004 would average \$6,842. This estimate is very similar to the estimate produced by the analysis of the April HUD data.

In large part because it was developed using out-of-date information on average voucher costs, the funding level provided for renewal of existing vouchers in the House bill would eliminate only part of the shortfall in voucher funding for fiscal year 2004 that would be likely to occur under the funding level in the Administration's budget request. The funding level the House bill provides (including funds in a central fund that is intended in part to allow additional vouchers to be put to use *after* the beginning of the year) is about \$583 million below the level needed to fund all vouchers in use at the beginning of the fiscal year. As a result, the bill would leave unfunded approximately 85,000 vouchers that will be in use.<sup>7</sup>

Many housing agencies will not immediately impose their share of the 85,000-voucher reduction that would result from the funding level in the House subcommittee bill. Some families leave the program each year as their incomes rise or for other reasons, and agencies would be likely to try to meet their share of the cut that would be required by gradually reducing the number of families served through such turnover. Agencies that do not impose the full reduction at the beginning of the year will have to reduce the number of families served by a greater number later in the year, however, to achieve the reduction in the average number of families served over the full year that would be necessitated by the level of funding the House Subcommittee bill provided. If the overall reduction is imposed evenly over the course of the fiscal year the number of families with vouchers would be 170,000 lower by the end of the fiscal year than when the fiscal year begins. (The 85,000 figure represents the *average* amount by which the number of families assisted over the course of the fiscal year will be below the number assisted at the start of the year.)

**Table 1**  
**Fiscal Year 2004 Voucher Funding in House Bill and Administration's Budget Request**

Cost per voucher in FY 2004	Funding available for voucher renewals	Number of renewal vouchers Funded	Number of renewal vouchers not funded <sup>8</sup>	Number of vouchers <i>in use</i> in October 2003 not funded <sup>9</sup>	Percent of authorized vouchers that would be funded	Shortfall if FY 2004 utilization is at its expected level in October 2003 <sup>10</sup>	
Analysis of House bill based on assumptions in bill	\$6,565 <sup>11</sup>	\$13.23 <sup>12</sup>	2,016,000	90,000	0	95.8%	
Analysis of House bill based on April HUD data	\$6,871	\$13.23	1,926,000	180,000	85,000	91.4%	\$583 million
Administration request	\$6,468	\$13.05 billion	2,017,000	89,000	0	95.8%	
Analysis of Administration request based on April HUD data and reflecting rescission enacted in February 2003	\$6,871	\$12.55 billion <sup>13</sup>	1,826,000	280,000	184,000	86.7%	\$1.26 billion

The great majority of the households with vouchers — seven out of ten according to the most recent available HUD data — are either working families with children or elderly or disabled households. As a result, the impact of such cuts in the voucher program would fall most heavily on these groups. If cuts were applied proportionately across all groups, the average number of households assisted during fiscal year 2004 would fall below the number assisted in October 2003 by the following amounts:

- 26,000 fewer working families would be assisted;
- 19,000 fewer disabled households would be served;
- 14,000 fewer elderly households would be served; and

- 26,000 fewer households that are not elderly or disabled and whose income is not derived primarily from earnings — including unemployed households — would be served.<sup>14</sup>

For a list of the cuts that would be required in each state under the House bill, see table 2.

### **House Bill Would Prevent Use of Vouchers that Have Been Previously Authorized by Congress but Are Not in Use in October 2003**

The House bill, like the Administration's budget request, provides for a central fund to cover unanticipated program costs and to enable state and local agencies to make fuller use of the number of vouchers they have been authorized to administer.<sup>15</sup> Unless the funding level provided for the program is increased, however, all of the money in this central fund would be required to support vouchers already in use at the beginning of fiscal year 2004 and, as a result, it would be impossible for state and local housing agencies to use vouchers that Congress has authorized but that are not in use in October 2003, to serve additional families.

In recent years, Congress has repeatedly urged HUD and state and local housing agencies to increase the proportion of authorized vouchers that are in use, so that vouchers do not sit unused while families remain on waiting lists for assistance. The newly released HUD data show that the voucher utilization rate rose during the period the data cover. This increase appears to have been caused in substantial part by the success of new policies put in place at the national, state, and local levels in recent years designed to raise the proportion of vouchers in use and by a loosening of housing markets in some sections of the country that has made it easier for families to find housing where they can use their vouchers. It is likely that the trend toward higher utilization will continue in fiscal year 2004 if adequate funding is available. Moreover, HUD has the ability to put to use more of the vouchers that Congress has authorized by "reallocating" vouchers from agencies that have consistently failed to use them to agencies whose track record demonstrates they would be able to put the vouchers to use promptly.

If additional funding is not provided, no further progress in raising utilization will be possible. Consequently, approximately 95,000 *additional* authorized vouchers — vouchers that are not likely to be in use at the start of fiscal year 2004 but could be used to serve families if utilization continues to rise — would be defunded. These 95,000 vouchers are in addition to the 85,000 vouchers in use at the start of the fiscal year that, as mentioned earlier, also would have to be defunded.

**Table 2**  
**Projected State Level Reductions in Voucher Assistance**  
**Under Funding Level in House Bill**

State	Number of Vouchers Projected to Be in Use in October 2003	Estimated Reduction in Average Number of Households Assisted During Fiscal Year 2004 if House Bill Funding Level is Enacted				
		Total Reduction	Working Families	Elderly Households	Disabled Households	Other Households
<b>Alaska</b>	3,785	159	49	27	35	49
<b>Alabama</b>	25,834	1,087	332	185	239	332
<b>Arkansas</b>	21,304	897	274	152	197	274
<b>Arizona</b>	19,814	834	254	142	183	254
<b>California</b>	286,609	12,065	3,680	2,051	2,654	3,680
<b>Colorado</b>	26,512	1,116	340	190	246	340
<b>Connecticut</b>	28,497	1,200	366	204	264	366
<b>District of Columbia</b>	8,935	376	115	64	83	115
<b>Delaware</b>	4,144	174	53	30	38	53
<b>Florida</b>	83,987	3,535	1,078	601	778	1,078
<b>Georgia</b>	45,557	1,918	585	326	422	585
<b>Hawaii</b>	10,797	454	139	77	100	139
<b>Iowa</b>	20,590	867	264	147	191	264
<b>Idaho</b>	6,438	271	83	46	60	83
<b>Illinois</b>	77,829	3,276	999	557	721	999
<b>Indiana</b>	34,608	1,457	444	248	320	444
<b>Kansas</b>	10,567	445	136	76	98	136
<b>Kentucky</b>	29,807	1,255	383	213	276	383
<b>Louisiana</b>	34,088	1,435	438	244	316	438
<b>Massachusetts</b>	68,626	2,889	881	491	636	881
<b>Maryland</b>	37,663	1,585	484	270	349	484
<b>Maine</b>	11,777	496	151	84	109	151
<b>Michigan</b>	43,181	1,818	554	309	400	554
<b>Minnesota</b>	28,413	1,196	365	203	263	365
<b>Missouri</b>	38,564	1,623	495	276	357	495
<b>Mississippi</b>	16,538	696	212	118	153	212
<b>Montana</b>	5,421	228	70	39	50	70
<b>North Carolina</b>	52,336	2,203	672	375	485	672
<b>North Dakota</b>	7,037	296	90	50	65	90
<b>Nebraska</b>	10,616	447	136	76	98	136
<b>New Hampshire</b>	8,914	375	114	64	83	114
<b>New Jersey</b>	62,336	2,624	800	446	577	800
<b>New Mexico</b>	13,301	560	171	95	123	171
<b>Nevada</b>	11,424	481	147	82	106	147
<b>New York</b>	192,908	8,120	2,477	1,380	1,787	2,477
<b>Ohio</b>	81,275	3,421	1,043	582	753	1,043
<b>Oklahoma</b>	21,968	925	282	157	203	282
<b>Oregon</b>	30,643	1,290	393	219	284	393
<b>Pennsylvania</b>	76,904	3,237	987	550	712	987
<b>Rhode Island</b>	8,691	366	112	62	80	112

<b>Puerto Rico</b>	26,060	1,097	335	186	241	335
<b>South Carolina</b>	21,931	923	282	157	203	282
<b>South Dakota</b>	5,560	234	71	40	51	71
<b>Tennessee</b>	29,160	1,227	374	209	270	374
<b>Texas</b>	133,257	5,609	1,711	954	1,234	1,711
<b>Utah</b>	9,843	414	126	70	91	126
<b>Virginia</b>	39,978	1,683	513	286	370	513
<b>Vermont</b>	5,943	250	76	43	55	76
<b>Washington</b>	44,160	1,859	567	316	409	567
<b>Wisconsin</b>	27,029	1,138	347	193	250	347
<b>West Virginia</b>	14,130	595	181	101	131	181
<b>Wyoming</b>	2,176	92	28	16	20	28
<b>Total</b>	2,019,232	85,000	26,000	14,000	19,000	26,000

Note: Projections assume that reductions in assistance would be distributed proportionately among states based on the number of vouchers in use in each state, and that cuts within states would be distributed based on the proportion of voucher holders in different demographic groups nationally. State projections do not add up to national totals because national projections include some vouchers that were missing from the recently released HUD data and therefore could not be assigned to any state. Estimates of reductions in each state are based on the number of expiring vouchers needing renewal that are likely to be in use in each state in October 2003.

<sup>1</sup> The House Subcommittee bill provides \$11.575 billion for renewal of housing vouchers. It also provides \$568.5 million for a central fund that can be used to meet unanticipated increases in voucher costs, to pay for additional vouchers that agencies lease during the fiscal year, and to replenish agencies' one-month reserve accounts, as well as \$1.2 billion for administrative fees. We assume that \$100 million of the amount set aside for the central fund that the Administration's budget indicates would be required to replenish state and local housing agencies' "program reserve" accounts would be used for this purpose, and that \$20 million of the amount set aside for administrative fees is needed for the 34,530 tenant protection vouchers the bill would fund. The remaining amounts total \$13.225 billion available for the renewal of existing housing vouchers.

<sup>2</sup> The likely use of a portion of these carryover funds to support the greater than anticipated number of vouchers leased in fiscal year 2003 is discussed in a text box on page 2 of our paper analyzing the likely shortfall in voucher funding in the Administration's budget request. Sard and Fischer, "New HUD Data Show Families Will Likely Lose Housing Vouchers If Congress Approves President's Budget Request," available on the internet at <<http://www.cbpp.org/7-11-03hous.htm>>.

<sup>3</sup> The Administration's budget requested new budget authority of \$12.535 billion to support total new obligations for the voucher program of \$13.607 billion, and relied on \$1.072 in unobligated balances to make up the remainder. Of the total amount requested for the voucher program, \$13.05 billion was requested to renew existing housing vouchers, including administrative fees. (For an explanation of the amount requested by the President to renew expiring housing vouchers, see Barbara Sard and Will Fischer, "President's Budget Requests Insufficient Funding for Housing Vouchers in 2004," Center on Budget and Policy Priorities, revised April 24, 2003, available on the internet at <<http://www.centeronbudget.org/3-27-03hous.pdf>>.)

<sup>4</sup> HUD compiled data from 2,449 of the approximately 2,550 local and state agencies that have voucher contracts with HUD. These agencies administer 1,942,000 of the approximately 2,066,000 vouchers awarded to local and state agencies as of January 2003 (including vouchers funded under multi-year contracts). An additional 94,955 vouchers are administered by 16 agencies that receive voucher funding under different rules, as part of the Moving to Work (MTW) demonstration. Using other data sources, we have been able to include these MTW vouchers in

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this analysis. For the approximately 29,000 authorized vouchers for which we have no data – only 1.4 percent of the total number of authorized vouchers – we applied the utilization and cost trends in the HUD data. For a description of our methodology, see “Estimating The Shortfall In Requested Voucher Funding For Fiscal Year 2004,” July 21, 2003, available on the internet at <<http://www.cbpp.org/housingvoucher.htm>>.

<sup>5</sup> The House bill and the Administration’s request both assume that the number of vouchers that will need renewal at the beginning of the fiscal year will be about 1,936,000 and that the maximum likely utilization rate that state and local agencies could achieve for the fiscal year as a whole will be 96 percent, or 2,016,000 to 2,017,000 vouchers. The April HUD data indicate that the utilization rate at the beginning of fiscal year 2004 will be 96.7 percent.

<sup>6</sup> The subcommittee appears to have relied on data for the housing agencies’ 2002 fiscal years. These fiscal years are staggered with quarterly year-end dates ranging from March 30, 2002 through December 30, 2002. For agencies administering more than half of all vouchers, the fiscal year-end statements relied on by the House subcommittee would have included data for some months in federal fiscal year 2001 and only three or six months of cost data for federal fiscal year 2002. Complete verified cost data for the 12 months of federal fiscal year 2002 will not be available until early in FY 2004.

<sup>7</sup> The report accompanying the House bill states that two additional sources of funding would be available to the voucher program in fiscal year 2004: \$1 billion from program reserve accounts and \$721 million from housing agencies’ administrative fee reserves. It is unlikely that these sources of funding would address adequately the shortfall identified in this analysis. Program reserves contain an amount of funding equal to one month of a housing agency’s voucher costs and are intended to enable housing agencies to cover unexpected funding needs, such as cost increases resulting from rent increases in the local housing market. It is not clear whether \$1 billion actually would be available in program reserve accounts in fiscal year 2004. This estimate in the House bill appears to assume that all program reserves used during fiscal year 2003 would be replenished with the \$100 million from the central reserve mentioned in this note. In light of the large per-voucher costs increases shown by the April HUD data, this is an uncertain assumption. Moreover, if program reserves are siphoned off to fund the ongoing needs of the voucher program, many state and local housing agencies would have no resources with which to meet unexpected funding needs – the purpose for which the reserves were originally intended. Administrative fee reserves also cannot be relied on to meet voucher renewal costs. The fiscal year 2003 appropriations act contained new provisions regarding administrative fee reserves (which contain the portion of the administrative fees earned by a housing agency that have not yet been spent) that if fully implemented would reduce the amount of money in these reserves far below \$721 million before the beginning of fiscal year 2004. A group of housing agencies has filed a lawsuit seeking to block the new provisions; if this lawsuit is successful HUD could not require housing agencies to use their fee reserves to support the ongoing needs of the voucher program in fiscal year 2004.

<sup>8</sup> We use HUD’s estimate that funding for 2,106,233 authorized vouchers expires in fiscal year 2004.

<sup>9</sup> This column uses our calculation that 2,020,000 vouchers will be in use in October 2003, of which 2,011,000 will require renewal funding. (The remainder have multi-year funding.) See “Estimating The Shortfall In Requested Voucher Funding For Fiscal Year 2004,” July 21, 2003, available on the internet at <<http://www.cbpp.org/housingvoucher.htm>>.

<sup>10</sup> The shortfall estimates are based on the estimate that 2,011,000 vouchers requiring renewal will be in use in October 2003.

<sup>11</sup> The House report states that it assumes that the average voucher subsidy in fiscal year 2004 will be \$5,980. We calculated that the House subcommittee bill assumes an average administrative fee of \$585 per year if average voucher costs do not exceed \$5,980 and if all the vouchers for which appropriations are provided are used. By comparison, the April HUD data show that from August 2002 through January 2003, the average annualized per voucher administrative fee was \$628. HUD is required to submit a report on the current administrative fee system to Congress on July 1, 2003. The information that will be provided in this report is needed in order to evaluate the potential impact on the operation of the voucher program of the administrative fee level set in the House bill.

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<sup>12</sup> See endnote 1.

<sup>13</sup> See Sard and Fischer, “New HUD Data Show Families Will Likely Lose Housing Vouchers If Congress Approves President’s Budget Request,” available on the internet at < <http://www.cbpp.org/7-11-03hous.htm>>.)

<sup>14</sup> For the sources of these demographic proportions, see endnote 9 of Sard and Fischer, *id.*

<sup>15</sup> The House bill also would authorize HUD to tap the central fund to replenish agencies’ reserve accounts at the start of their fiscal years. The Administration’s request included \$100 million for this purpose in the funds set aside for initial voucher renewals.