Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

November 1, 2006

FIXING THE HOUSING VOUCHER FORMULA
A No-Cost Way to Strengthen the "Section 8" Program

by Barbara Sard and Martha Coven

Introduction

Congress will reconvene in mid-November for a "lame duck" session to finish work on the nine unfinished appropriations bills for fiscal year 2007. Among the bills to be completed is the Transportation-Treasury-HUD bill, which includes funding for most federal housing programs.

A key item in the bill is the appropriation for Section 8 vouchers, the nation's leading form of housing assistance for low-income families. Over the past three years, Congress and the U.S. Department of Housing and Urban Development (HUD) have made a series of changes in the formula that determines how voucher funds are distributed among the 2,400 state and local housing agencies that administer the program. These changes have had the unintended effect of destabilizing the program and causing shortfalls at many housing agencies, even as other agencies have received more voucher funding than they can use.

As a result, 130,000 vouchers have been lost nationally since early 2004. (See Figure 1.) And voucher "utilization" rates — i.e., the percentage of authorized vouchers actually in use, a standard that is used to measure the program's success — have fallen significantly. Contributing to this decline, many agencies have sought to protect themselves against

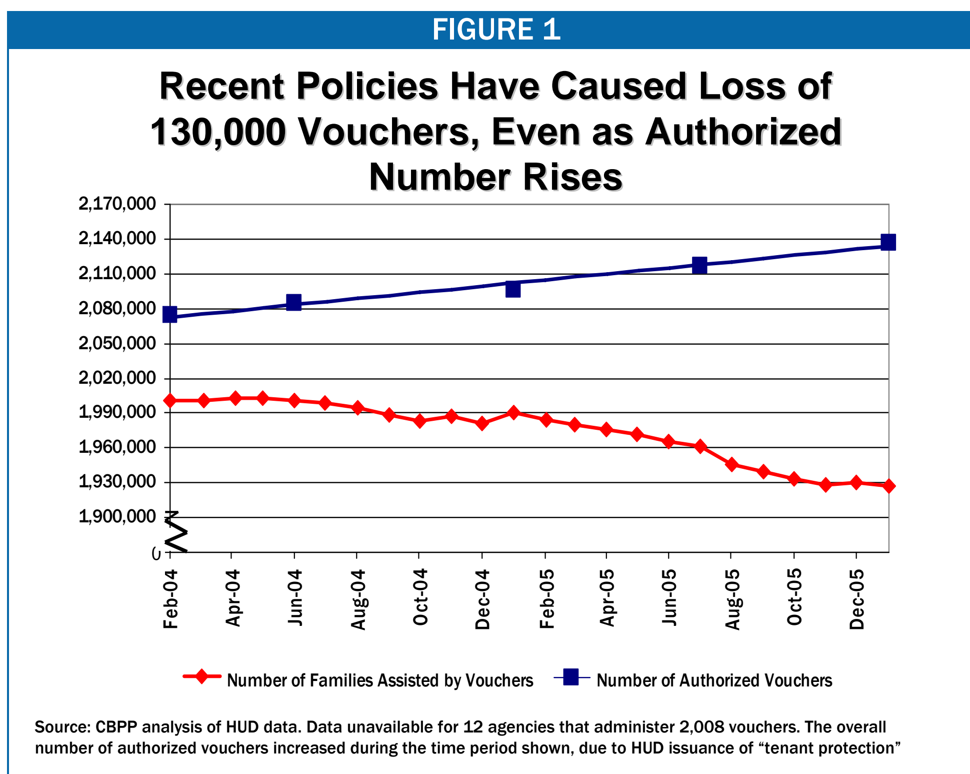
KEY FINDINGS

- **Congress reconvenes in mid-November to complete work on the annual appropriations bills, including the bill that (among other things) provides funding for "Section 8" housing vouchers. A key issue will be how to distribute the voucher funds that the bill provides.**
- **The formula for distributing funds included in legislation that the House Financial Services Committee recently approved would make the most efficient use of these funds. Under the funding level Congress seems likely to provide for housing vouchers in 2007, this formula would avoid any cuts in the number of vouchers in use and allow agencies to restore many of the vouchers lost in recent years.**
- **In contrast, maintaining the existing distribution formula, as a bill approved by the House Appropriations Committee would do, would result in the loss of 26,000 vouchers, despite spending the same amount of money.**
- **The Senate Appropriations Committee has approved a bill that contains some, but not all, of the changes contained in the Financial Services Committee bill; under it, new voucher cuts would not occur, but most of the earlier voucher cuts would not be restored.**

Note: This report is accompanied by state-by-state fact sheets which show the impact of the competing formulas on each public housing agency in the state.

possible future funding shortfalls by leasing fewer vouchers than they are authorized to administer. Nationwide, voucher utilization fell from 98.5 percent of the authorized vouchers in 2003-04 to about 92.5 percent in 2006.

The President's budget requested $14.4 billion to renew housing vouchers in fiscal year 2007, and the House and Senate Appropriations Committees included that amount in their appropriations bills. This should be enough funding to renew all of the vouchers that are currently in use — *but only if the existing formula for distributing voucher funds is replaced with one that distributes funds efficiently, based on agencies' actual needs.* If, on the other hand, the funding formula is not improved, another round of voucher cuts will ensue, even though the appropriations bills include sufficient funds to avoid that.



Source: CBPP analysis of HUD data. Data unavailable for 12 agencies that administer 2,008 vouchers. The overall number of authorized vouchers increased during the time period shown, due to HUD issuance of "tenant protection"

What Funding Approach to Use?

A major issue that will confront Congress when it fashions the final HUD appropriations bill is thus what approach to use to allocate funding for existing housing vouchers. The position taken earlier this year by HUD and the House Appropriations Committee was that the current funding formula, which distributes funds on the basis of data that in 2007 will be up to three years old, should be retained despite its flaws. (Since 2005, each agency's funding has been based on its number of authorized vouchers in use during the three-month period of May-July 2004 and their cost at that time, adjusted by a HUD inflation factor and with other minor adjustments.)

In June, however, the House Financial Services Committee, which is responsible for setting housing policy, approved a bill — H. R. 5443, the Section 8 Voucher Reform Act (or SEVRA) — that contains a much improved funding formula. SEVRA also contains a series of incentives to encourage housing agencies to serve as many families as their funding allows, including a mechanism

to reallocate unspent voucher funds from agencies that cannot use them to agencies that can.[1] When the Senate Appropriations Committee crafted its version of the Transportation-Treasury-HUD appropriations bill one month later, it included the essence of SEVRA's new funding formula but *only one* of SEVRA's incentives for agencies. The Senate bill does not include one of the most important incentives in the SEVRA bill — a provision to recapture funds that agencies have failed to use after one year, and to redistribute those funds to high-performing agencies so those agencies can put more of their authorized vouchers to use.

Members of the House-Senate appropriations conference committee will have to decide whether to incorporate the SEVRA approach in whole or in part into the final Transportation-Treasury-HUD appropriations bill. The decision they make will determine whether the voucher program continues down the path of serving fewer families despite a substantial unmet need for affordable housing — or whether program stability is restored, more families are able to use the vouchers Congress has authorized, and more of the funds Congress has appropriated are used for their intended purpose.

SEVRA Formula Makes Most Efficient Use of Federal Dollars, According to Latest HUD Data

We estimated the impact of the three different funding approaches — the approach in the SEVRA bill, the approach in the House's 2007 HUD appropriations bill, and the approach in the Senate's 2007 HUD appropriations bill[2] — on each of the 2,400 state and local housing agencies, using the latest available HUD data on voucher use and cost. We assumed that $14.2 billion in fiscal year 2007 funding would be available for allocation under each of the formulas.[3] In addition, for the SEVRA formula, we estimated that HUD would recapture a portion of unspent prior-year funds and provide them to high-performing agencies, as the SEVRA bill calls for, so those agencies can lease more of their authorized vouchers.[4] (Appendix A summarizes the key features of the three proposed policies.)

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[1] For a more detailed analysis of the SEVRA bill, including both the voucher formula and other elements of the legislation not discussed here, see Barbara Sard and Will Fischer, "Bipartisan Bill in House Would Make Marked Improvements in Housing Voucher Program," Center on Budget and Policy Priorities, May 30, 2006, available at http://www.cbpp.org/5-30-06hous.htm.

[2] The House of Representatives approved H.R. 5576 on June 14, 2006. The Senate Appropriations Committee approved its version of the bill on July 20, 2006. The full Senate has not considered the bill and likely will not vote on the bill before a final version is agreed to by House and Senate conferees.

[3] The President's budget requested $14.4 billion for renewal of housing vouchers, with $100 million set aside for certain cost adjustments and unforeseen "exigencies" and the remaining $14.3 billion allocated among all agencies by formula. The bills approved by the House and Senate Appropriations Committees include these same amounts (though the Senate bill would allocate funds under a different formula). The final House bill increased the total available for voucher renewals by $70 million. Our analysis assumes that the final bill will provide $14,178,501,800 in voucher renewal funding for distribution under a formula. This is the amount in the President's budget and the House and Senate committee bills, reduced by 1.1 percent, which is the amount each remaining appropriations bill would have to be cut below the level the Senate Appropriations Committee provided for that bill to make up for the $5.3 billion that Congress added to the defense and homeland security appropriations bills in September. See James Horney, Martha Coven, and Matt Fiedler, "Recent Action by Congress Sets Up Larger Appropriations Cuts in Lame-Duck Session," Center on Budget and Policy Priorities, October 13, 2006, available at http://www.cbpp.org/10-13-06bud.htm.

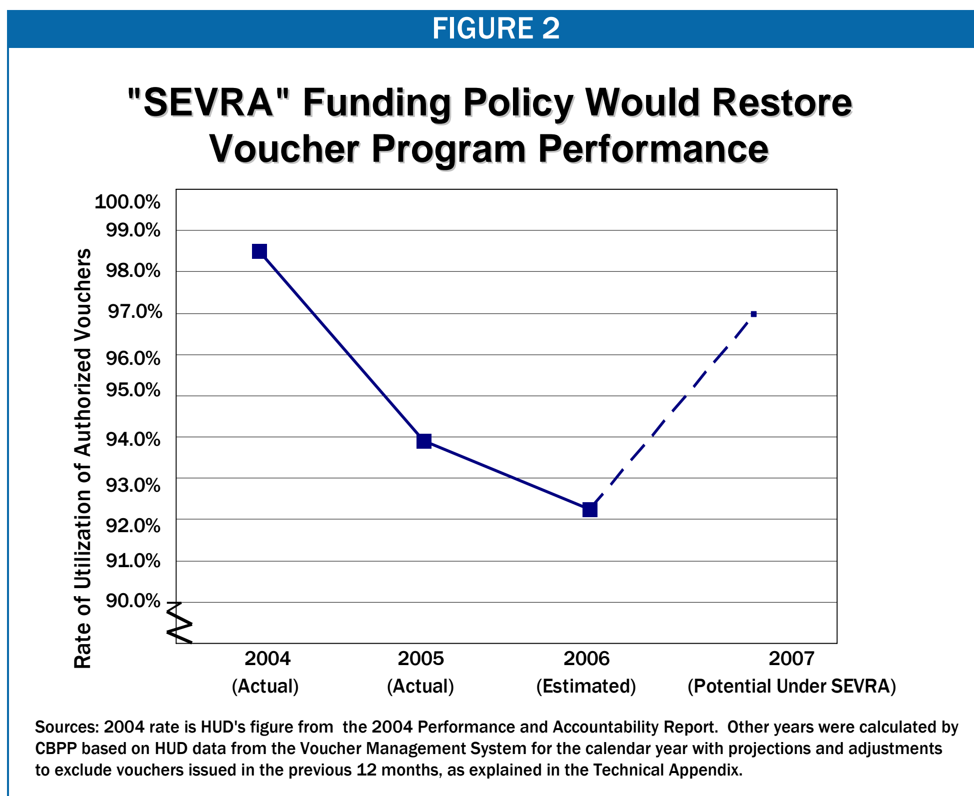
[4] This analysis relies on data through March 2006 provided by agencies to HUD through the Voucher Management System. The Technical Appendix explains how we estimated voucher leasing and costs for the remainder of 2006 and provides the details on how we modeled the effect of each funding policy.

We now proceed to the results of this analysis, looking first at the SEVRA approach, then at the House appropriations bill, and finally at the Senate bill.

SEVRA Approach Would Avoid Voucher Cuts in 2007 and Reverse Most of the Recent Cuts

If Congress chooses to use the SEVRA approach for 2007, our analysis finds that:

- there would be sufficient funding to renew all vouchers in use in 2006;
- the national voucher utilization rate could be raised from 92.5 percent to 97 percent, making up for three-quarters of the vouchers lost since 2004 (see Figure 2);
- 70,000 authorized vouchers could be put into use that would go unfunded under the other two formulas; and
- in nearly every state, agencies would be able to lease more of their currently authorized vouchers than under the other two formulas.

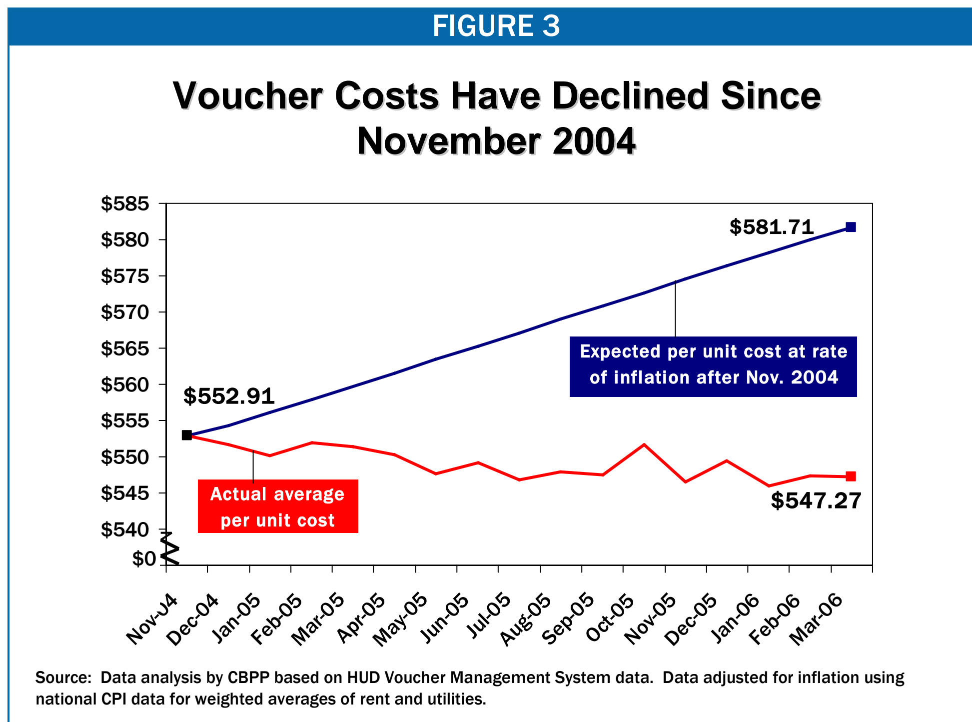


Sources: 2004 rate is HUD's figure from the 2004 Performance and Accountability Report. Other years were calculated by CBPP based on HUD data from the Voucher Management System for the calendar year with projections and adjustments to exclude vouchers issued in the previous 12 months, as explained in the Technical Appendix.

There are three reasons why the SEVRA formula accomplishes these results. First, it bases housing agencies' annual budgets on their voucher leasing rates and costs in the *previous year*, rather than (as under the existing formula) on data that will be *up to three years old* in 2007. Basing the allocation of funds on more current data ensures that scarce dollars will be better targeted to the

agencies that will need the funds in 2007 and are likely to put the funds to use assisting families. Moreover, since the average cost per voucher and the number of families served have been falling for the past two years (see Figures 1 and 3), basing agency budgets on more recent data means that providing each agency with 100 percent of what it is due "under the formula" — i.e., with 100 percent of what the formula says an agency needs to maintain all vouchers in use — can be accomplished for a lower cost. This enables a portion of the funding that Congress is expected to provide to be used to increase voucher utilization rates and restore some of the vouchers that have been lost in recent years.

FIGURE 3



Source: Data analysis by CBPP based on HUD Voucher Management System data. Data adjusted for inflation using national CPI data for weighted averages of rent and utilities.

Second, the SEVRA formula specifically targets the allocation of funds that remain from the 2007 appropriation, after each agency receives 100 percent of the amount it is due under the formula, to high-performing agencies that need and are likely to use the funds to put more of their authorized vouchers to use.

Third, the SEVRA formula establishes a new procedure under which HUD is directed to recapture funds that were previously allocated to agencies but remain unspent after one year, and to reallocate those funds to high-performing agencies.[5] This would increase the amount of funds that are actually being used to support vouchers, rather than lying unused.

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[5] Some of the recaptured funds (as well as some of any current-year funds that are left over after each agency receives the full amount of funding it is due under the formula to maintain vouchers currently in use) are also distributed to agencies that (1) need the funds to cover costs related to "portability," or the movement of voucher holders from one agency's jurisdiction to another's, or (2) need the funds to cover costs under HUD's Family Self-Sufficiency (FSS) asset-development program. However, the amount of funds needed for these two purposes is likely to be small.

SEVRA thus has several attractive features. It avoids allocating resources *beyond* what agencies need and can use to support currently authorized vouchers.[6] In addition, the recapture of unused funds after one year and the targeting of these funds (as well as any funds that remain after agencies receive what they are due under the formula[7]) to high-performing agencies that can use them should serve as a strong incentive that encourages agencies to utilize funds more fully. As a result, SEVRA should reverse the downward spiral in voucher utilization that has occurred in the last three years and produce much efficient use of program dollars.

Also of importance, SEVRA would reform the allocation of administrative fees to agencies. The Section 8 authorizing statute calls for agencies to be provided a fee for each voucher actually used during the year. But beginning in 2004, the annual appropriations acts have overridden this policy and required fees to be based, in effect, on the fees agencies earned in 2003, regardless of the number of vouchers now in use. SEVRA would replace this system, under which agencies receive the same amount of administrative fees regardless of whether they perform well or poorly in putting their voucher funds to use, with a system that ties an agency's administrative fee payments to its voucher utilization (see box on next page).

As a result, under the SEVRA approach, many agencies would be able and likely to utilize their authorized vouchers more fully, and thereby to provide much-needed assistance to needy applicants who often have been on voucher waiting lists for years.

House Appropriations Approach Would Mean More Voucher Cuts and Wasted Funds

In contrast to the SEVRA funding approach, the approach in the House appropriations bill, which is essentially unchanged from the approach used in 2005 and 2006, would result in a continuation of the downward spiral that has destabilized local programs. It would lead to the loss of an estimated 26,000 vouchers and waste scarce voucher funds by allocating a substantial amount of funds to agencies that cannot or would not use them.

Under the House appropriations bill, due to the inefficient distribution of appropriated funds, housing agencies would have to cut in 2007 an estimated 26,000 vouchers that were in use in 2006. More than 1,100 agencies, located in 49 states and the District of Columbia and administering 40 percent of all vouchers nationally, would face cuts.

These cuts would occur because the total funds available to renew vouchers would be insufficient to fully fund the bill's costly funding formula — that is, to provide each agency with enough funding to renew all of its vouchers in use. HUD would be able to provide each agency with only 91 percent of the funding the agency would be due under that formula. (In 2006, HUD provided agencies with 94.6 percent of the funding due.)

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[6] About half of the 18 agencies that have special block-grant-style funding agreements with HUD under the Moving to Work demonstration would receive more funds than needed for authorized vouchers under the SEVRA formula (as well as under the Senate policy.) Some of these agencies' contracts with HUD may allow them to provide vouchers to additional families, even if Congress were to retain the recent prohibition on using appropriations for more than the authorized number of vouchers. (The Senate bill includes such a prohibition.) Whether or not the MTW agencies could provide vouchers to additional families, they are permitted to use voucher funds to provide various services to families and for other housing-related purposes, consistent with their contracts with HUD, so these funds are likely to be used.

[7] As explained in footnote 5, some of these funds also are also distributed to agencies that need them for costs related to "portability" or the Family Self-Sufficiency program.

SEVRA Funding Policy Includes Key Cost-Free Incentives to Serve Additional Families

Increasing voucher utilization rates can require housing agencies to invest time and resources. To encourage agencies to serve the maximum number of families consistent with their available funds, SEVRA creates three incentives, none of which raises federal costs:

- a clear policy of recapturing agencies' unused funds each year;
- a reward of additional funding — through the reallocation of recaptured funds — for agencies that achieve high utilization rates; and
- payment of more administrative fees to agencies that succeed in using more of their vouchers.

SEVRA has another cost-free feature to encourage agencies to use all of their voucher funds. It would work like overdraft protection: an agency that has insufficient funds in the last quarter of the calendar year to make all of the rent payments that are due to owners could borrow a small portion of its next year's funding, which would then be subtracted from the funding allocated to the agency a few months later. Without this advance option, many agencies will have no choice but to aim for substantially less than 100 percent voucher utilization, for fear that a sudden market change or other event beyond their control would cause a temporary uptick in their expenses and cause them to exceed their budgets. (Agencies' expenses can unexpectedly grow when rents or utility costs in the local market rise more than had been expected or when tenants' incomes fall — or rise more slowly — than had been expected due to a weakening in the economy.)

In contrast, under the policy in place since 2004 (which the House appropriations bill would continue), agencies receive the same amount of funding for administrative fees regardless of the number of families they serve. In addition, agencies are strictly limited to their annual budgets (unless they have amassed unspent funds from prior years), without any reward or penalty for performing well or poorly.

It is important to emphasize that these cuts would *not* be the result of a funding shortfall. Rather, they would reflect the inefficient allocation of funds among agencies. Even as more than 1,100 agencies would face cuts in the number of vouchers they could support, nearly 500 other agencies would receive $144 million *more* than they could spend for vouchers for which they are currently authorized. (If the final appropriations bill again contains a prohibition on agencies' using more than their authorized number of vouchers, as the Senate bill does and as appropriations bills since 2003 have done, these excess funds could not be used to assist additional families. The House appropriations bill would lift this prohibition, in effect authorizing new vouchers in a select number of areas while many other agencies continue to face cuts.) Furthermore, most of the nearly 500 agencies that would receive excess funds already have substantial fund balances, in large part because they failed to use all of their authorized vouchers in 2005 and 2006.

Many of the nearly 500 agencies that would receive more funds than are needed to cover all their authorized vouchers would — once again — be unlikely even to fully use the vouchers for which they are authorized. In the last two years, under the policy that the House bill would continue, about two-thirds (67 percent) of the unspent fund balances that local agencies have accumulated

could have been used to lease authorized vouchers, but were not.[8] (HUD is starting to take some steps to encourage agencies to more fully utilize their available funds,[9] but it is unlikely these modest measures will result in a significant change in agency behavior, in light of the lack of incentives for agencies to more fully utilize their allocations and the continuing instability caused by the ever-deepening federal prorations of formula funding.)

Senate Appropriations Approach Would Mean No 2007 Cuts, But Few Prior Cuts Restored

Like SEVRA, the Senate's 2007 HUD appropriations bill would base agency funding allocations on leasing and cost data from the previous year, rather than on data from a period that occurred several years ago. Among its other virtues, this approach would encourage agencies to use their funds as fully as possible in 2007, since they would anticipate that their 2008 funding levels would be based on their actual 2007 utilization.

In addition, like SEVRA, the Senate bill would return to the longstanding policy of basing administrative fees on the number of vouchers used, thereby creating an incentive for agencies to serve additional families rather than to leave funds unspent.

Because it includes the SEVRA funding formula, the Senate bill — unlike the House bill — would likely enable housing agencies to continue supporting all of the vouchers in use in 2006. In this way, the Senate bill would bring some much-needed stability to the voucher program.

The Senate bill does not, however, include the other new incentives in SEVRA (besides the change in administrative fees) to encourage housing agencies to serve as many families as their funding allows. Thus, the Senate bill is unlikely by itself to lead to the restoration of many of the vouchers lost in recent years. There are two reasons why this is so.

First, the SEVRA provision to recapture and reallocate unused prior-year funds makes more funds available to agencies that can use them than would otherwise be the case. The Senate bill lacks this provision. As a result, while SEVRA would provide agencies with sufficient funding to raise the national voucher utilization rate to 97 percent in 2007, the Senate bill would provide sufficient funding to raise the voucher utilization rate to just 94 percent. (It should be noted that these figures assume agencies use *all* of their available funds; actual utilization rates would be somewhat lower.) Second, the SEVRA reallocation provision — as well as the other agency incentives included in SEVRA but missing from the Senate bill — encourage agencies to spend more of their available funds.

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[8] The remaining 33 percent of the unspent fund balances that various local agencies have accumulated could not have been used, due to the prohibition on agencies' leasing more than their authorized number of vouchers.

[9] In April, HUD sent an e-mail to agencies informing them that HUD would review data on voucher use quarterly to help ensure that agencies were not under- or over-utilizing available funds. In August, HUD issued a notice summarizing policy changes that agencies should consider if they are underutilizing available funds. The notice included a threat to penalize such agencies with administrative fee sanctions (for which the authority is unclear). See PIH Notice 2006-32, August 21, 2006. In the last few weeks, HUD notified about 1,600 agencies that they appeared to have used less than 95 percent of their available funds in the first half of 2006, and asked agencies to confirm the data and indicate their plans to serve more families. To date there is no indication, however, that HUD has imposed administrative fee sanctions or recaptured any 2005 unspent funds.

Put another way, not only would there be more funds available for agencies under SEVRA than under the Senate bill, but agencies would have greater incentives to use all of their available funds. This means that the difference in *actual* voucher utilization under SEVRA and the Senate bill would likely be larger than three percentage points.

The Senate bill also lacks the SEVRA provision that allocates any funds remaining after the formula has been fully funded (as well as unspent prior-year funds that have been recaptured) to high-performing agencies that are likely to use the funds. Under the Senate bill, any funds remaining after the formula is fully funded would be apportioned among low-performing and high-performing agencies alike, including some agencies that already are using all or nearly all of their authorized vouchers. As a result, the Senate bill would provide about 580 agencies with a total of $66 million in excess funding — that is, $66 million more than they need to support all of their authorized vouchers — despite the bill's prohibition on agencies using more than their authorized number of vouchers.[10] The excess funding that could not be used would be sufficient to support about 9,200 vouchers.

No "Losers" and More "Winners" Under the SEVRA Approach

Formula issues sometimes are looked at through the lens of "winners" and "losers." Under the SEVRA approach, no housing agency is a loser, because every agency would get sufficient funding to renew all vouchers currently in use. By contrast, under the House appropriations bill, 40 percent of agencies would be losers; they would have to cut the number of vouchers in use.

In addition, the SEVRA approach would create more winners than either the House or Senate appropriations bills because its policy of reallocating unused prior-year funds would, as explained in the Technical Appendix to this paper, enable many agencies to restore a significant share of the vouchers they have cut since 2004. (No agency would lose from the reallocation policy, since agencies would still be allowed to retain up to one month's worth of the funds that remain unspent at the end of 2006, which is all that agencies were allowed to retain under recent rules.[11])

The "winning" nature of the SEVRA approach is even more evident at the state level: for a given amount of federal funding, more authorized vouchers would be funded under SEVRA than under the Senate or House appropriations bills *in all or nearly all states*.[12] SEVRA would fund more

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[10] If, for example, total voucher funding were 2 percent greater than the amount needed to fully fund the formula, the Senate bill would provide each agency with 2 percent more funding than it is entitled to under the formula. An agency that is already using 99–100 percent of its authorized vouchers would be unable to use these extra funds (unless housing costs rose more than HUD's inflation adjustment or tenant incomes fell). Under SEVRA, in contrast, any funds in excess of the amount needed to fully fund the formula would be allocated to agencies that used a high proportion of their funds in the previous year and could use additional funds to put more of their authorized vouchers to use, but no agency would receive more funds that it needed to fund all of its authorized vouchers.

[11] In the 2005 appropriations act, Congress changed that policy and directed HUD to reduce agency reserve accounts from one month to one week's worth of funds by September 30, 2005.

[12] There are four states that under our estimates would be funded for fewer authorized vouchers under the SEVRA policy than under the House bill. Three of them are Gulf Coast states where estimated voucher use in 2006 declined due to the 2005 hurricanes. HUD would have authority under the SEVRA policy — as well as under language included in the Senate appropriations bill — to adjust the voucher funding due to these agencies in light of their special

authorized vouchers not only because it reallocates unspent funds from the prior year to agencies that can use them, but also because it eliminates the waste that occurs when agencies receive more funds than it would cost to use all of their authorized vouchers. Estimates of the vouchers funded at the agencies in each state under the three pending approaches are available at http://www.cbpp.org/11-1-06hous-states.htm.

Moreover, SEVRA's reallocation of unused funds and its incentives for agencies to more fully use their funds — combined with its improvements in the allocation formula — would result in housing assistance being provided to more needy families, at no additional federal cost.

Conclusion

Approximately two million low-income households participate in the voucher program, with the vast majority of them being elderly individuals, people with disabilities, or working families with children. Because the program's funding is limited, it serves fewer than one in three of the eligible families, and there are long waiting lists for vouchers in communities across the nation.

With housing priced out of reach for many low-income Americans, Congress should do what it can to maximize the voucher program's performance. Congress could take a major step toward doing so by including, in the final Transportation-Treasury-HUD appropriations bill for 2007, the formula and related incentives for distributing voucher funds that the House Financial Services Committee has approved as part of the Section 8 Voucher Reform Act.

Analysis of the latest HUD data demonstrates that this formula makes the best use of scarce dollars and would put an end to the voucher cuts that have been taking place at the local level — and would do so at no added cost to the federal government. The SEVRA formula also contains important incentives to enhance agency performance and restore program stability. It would benefit not only the families assisted by the program but also the agencies that administer it and the private-sector landlords whose confidence in the program is critical to its success.

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circumstances, and it is highly likely that HUD would do so. The SEVRA and Senate bill policies also could be slightly modified to direct HUD to make such an adjustment.

Appendix A

Three Pending Approaches to Voucher Renewal Funding

Section 8 Voucher Reform Act (SEVRA, H.R. 5443)

SEVRA would distribute renewal funding under a formula based on the number of the agency's vouchers that were in use and the average cost of those vouchers in the most recent calendar year for which data are "available, substantially verifiable, and complete." (HUD would be required to update the formula at least every two years. Accordingly, we have assumed that in 2007, the formula would rely on 2006 data.) Leasing and cost data would be adjusted by the applicable annual HUD inflation factor, with additional adjustments for: (1) the cost of "tenant protection" vouchers issued to replace other federal housing assistance, and (2) vouchers that were not in use during the calendar year because they had been committed to provide "project-based" assistance in particular buildings in the near future.

If funds appropriated were insufficient to fully fund the renewal formula, HUD would reduce each agency's funding by the same percentage. Agencies with special funding agreements under the Moving to Work Demonstration would be subject to the same pro-rata reduction as other agencies.

If funds appropriated *exceeded* the amount needed for the formula (as we anticipate will be the case in 2007), HUD would allocate the remaining funds to other agencies that (1) need the funds to cover costs related to "portability," or the movement of voucher holders from one agency's jurisdiction to another's, (2) need the funds to cover costs under HUD's Family Self-Sufficiency (FSS) asset-development program, or (3) used a high proportion of their funds in the previous year and could use additional funds to put more of their authorized vouchers to use serving needy families. (The bill language on reallocation is somewhat ambiguous; this is our understanding of the intent of the provision.) In addition, HUD would be directed to recapture funds from agencies that did not use them in the previous year and reallocate them to other agencies for the same purposes. In the first year, each agency would be allowed to retain prior-year funds of up to one month of its 2007 renewal funding.

In addition, housing agencies seeking to put all of their voucher funds to use would have access in the final months of the year to temporary funding advances, in amounts of up to 2 percent of their annual funding. These advances would serve as contingency funds to cover unexpected cost overruns stemming from local rent surges or other factors and would be paid back out of the agency's funding allocation for the following year.

SEVRA does not contain an explicit provision on how administrative fees are to be distributed among agencies; it does not need such a provision because the authorizing statute already contains one. The intention of SEVRA evidently is to follow the formula already established by the Section 8 authorizing statute, under which agencies receive a fee for each voucher actually used during the year. (As noted on page 6, since 2004 the annual appropriations acts have overridden this policy, instead essentially basing fees on the fees agencies earned in 2003.)

House FY 2007 Appropriations Bill

The House appropriations bill would distribute renewal funding under a formula based on each agency's eligibility for renewal funding in 2006, adjusted by the applicable 2007 HUD inflation factor, and with additional adjustments for the cost of "tenant protection" vouchers and the cost of special savings accounts for FSS participants. (In 2006, each agency's eligibility for funding was based on the agency's actual voucher costs in May-July 2004, adjusted for inflation, plus the initial cost of renewing any newly-allocated tenant protection vouchers. Agencies with higher voucher program costs during their 2004 fiscal year as a whole than during this three-month "snapshot" period also received an adjustment.)

If funds appropriated were insufficient to fully fund the renewal formula, HUD would reduce each agency's funding by the same percentage. (In 2006 the proration was 94.6 percent; in 2007 we estimate it will be 91 percent.) Agencies with special funding agreements under the Moving to Work Demonstration would be subject to the same pro-rata reduction as other agencies. A sum of $100 million would be set aside for HUD to use for "unforeseen exigencies" and for "one-time" portability-related costs.

Each agency would have a fixed annual budget, which it could use to provide assistance without regard to its number of authorized vouchers. The House bill is silent concerning agencies' retention of unspent prior-year funds. (Beginning in 2005, HUD has allowed agencies to keep such funds without limitation.) Administrative fees would also be distributed by formula, based on each agency's eligibility for fee payments in 2006, which in turn was based on administrative fees for vouchers used in 2003.

Senate FY 2007 Appropriations Bill

The Senate appropriations bill would distribute renewal funding under a formula based on each agency's costs for vouchers leased in "the most recent 12 consecutive month period for which [HUD] determines the data is verifiable and complete," adjusted by the applicable 2007 HUD inflation factor, and with additional adjustments for the costs of "tenant protection" vouchers, FSS savings, and vouchers that were not in use during the 12-month period because they had been committed to provide "project-based" assistance in the near future.

HUD would be required to distribute all renewal funds under this formula, except for $100 million that would be reserved for certain cost adjustments (see below). If the appropriation were more or less than the cost of the formula, each agency would receive its pro-rata share. (In 2007, we estimate each agency would receive 101.65 percent of the funding due under the formula.) Agencies with special funding agreements under the Moving to Work Demonstration would be subject to the same pro-rata adjustment as other agencies.

A sum of $100 million would be set aside for HUD to use both for adjustments requested by agencies (this provision may be intended to allow HUD to provide supplemental funding to agencies that had unusually low 2006 leasing rates due to the 2005 Gulf Coast hurricanes) and to compensate agencies that experience significantly increased costs due to "unforeseen circumstances" or the

portability provisions of the Housing Act. (Unlike the House bill, the Senate bill would not limit portability-related adjustments to a "one-time" change.)

Each agency would have a fixed annual budget and would not be allowed to use more than its number of authorized vouchers. The Senate bill is silent concerning agencies' retention of unspent prior-year funds. Administrative fees, based on a rate determined by formula, would be paid to each agency based on the number of vouchers it leases each month.

Summary of Findings on Estimated Impact of Pending Approaches for Distributing 2007 Voucher Renewal Funding

	SEVRA (H.R. 5443)	Senate Appropriations Bill	House Appropriations Bill
Voucher cuts			
Vouchers Cut That Were In Use In 2006	0	0	25,900
Number of Public Housing Authorities With Cuts	0	0	1,120 PHAs administering 40% of authorized vouchers
Prorated Cut in Funding in the Formula Used Under Each Approach	0	0	8.96% (i.e. only 91.04% of formula is funded)
Vouchers funded			
Currently Authorized Vouchers That Would be Funded if Every Dollar of Available Funds Were Used*	2,084,700	2,014,300	2,016,500
Percent of Currently Authorized Vouchers Funded if Every Dollar of Available Funds Were Used*	97.0%	93.7%	93.8%
Funding that goes to unauthorized vouchers			
Currently Unauthorized Vouchers Funded	7,425 (all at Moving-to-Work (MTW) agencies)	16,600 (includes 7,425 at MTW agencies)	24,930 (includes 2,050 at MTW agencies)
Funding Allocated for Currently Unauthorized Vouchers	$55.2 million (all of which goes to MTW agencies)	$121 million (includes $55.2 million for MTW agencies)	$158.2 million (includes $14.5 million for MTW agencies)

* The actual utilization rate and number of authorized vouchers leased are likely to be lower, particularly under the House appropriations bill, because of flaws in its formula for distributing funds and a lack of sufficient incentives for public housing agencies to lease their vouchers.