

To: Interested Parties
From: Center on Budget and Policy Priorities
Re: Update on 2010 Funding for Housing Vouchers and Other HUD Programs
Date: December 23, 2009

Overview

On December 16, the President signed into law an omnibus funding bill for fiscal year 2010 that includes funding for affordable housing and community development programs administered by the Department of Housing and Urban Development (HUD). This law provides a total of \$46.1 billion for HUD for fiscal year 2010, an increase of \$4.5 billion (10.9 percent) above the 2009 level and \$578 million (1.3 percent) above the President's request.¹

These amounts do not include the \$13.7 billion for HUD programs allocated under the American Recovery and Reinvestment Act of 2009 (ARRA). Taken together, ARRA and the HUD funding law for 2010 clearly express, on the part of Congress and the Obama Administration, a renewed commitment to the stability and viability of affordable housing and community development programs.

The following are the highlights of the 2010 funding law for the three major federal rental assistance programs:

- **Housing Choice Vouchers:** the funding law provides \$18.18 billion for housing vouchers, including up to \$16.34 billion for voucher renewals, both considerable increases over 2009 funding levels. When combined with available funds carried over from the current year, this amount is probably sufficient to renew all vouchers used by families in 2009, according to the Center's analysis of program cost data. (See below for more details.)
- **Public Housing:** \$4.78 billion is included for the **Operating Fund**, an increase of 7 percent above the 2009 level. This amount likely will fund agencies at or close to 100 percent of their eligibility under HUD's operating formula, according to the Center's current estimates. Agencies have not received full operating funding since 2002. The bill also provides \$2.5 billion for the **Capital Fund**, \$50 million above the 2009 funding level. **HOPE VI** is funded at \$200 million, although \$65 million of this amount is set aside for the Administration's **Choice Neighborhoods Initiative**.
- **Section 8 Project-Based Rental Assistance:** \$8.55 billion is provided for 2010, including an advance appropriation of \$394 million for fiscal year 2011. The total includes \$8.33 billion for contract renewals, an increase of \$1.1 billion, or nearly 15 percent.

¹ Funding amounts are for discretionary accounts only. In the 2009 law, Congress rescinded \$750 million in funding for the Housing Choice Voucher program, thereby reducing the total amount of new funding provided for HUD. The very sizeable increase in funding for 2010 reflects in part the fact that, for the first time in many years, the HUD funding law includes no major rescissions of fund balances from the Section 8 rental assistance programs. This will make HUD budgeting significantly easier and more transparent for 2011 and later years.

The sections below provide a more thorough review of funding for the housing voucher program. At the bottom is a table showing funding levels for most major HUD programs.

Housing Choice Vouchers

For 2010, the Housing Choice Voucher program will be funded at \$18.18 billion, an increase of just over 8 percent above the 2009 level. This amount includes up to \$16.34 billion for voucher renewals.

The increase in funding primarily reflects increases in renewal costs, although the bill also increases funding for administrative expenses. As of June 2009, the program was assisting about 45,000 more low-income families than it did in 2008, mostly because housing agencies were using reserve funds to serve additional families. Approximately 30,000 new tenant protection and VASH vouchers issued in 2008 and 2009 (and funded separately from renewals) also will require renewal funding for the first time in 2010. Finally, we estimate that the 2010 inflation factors applied in the renewal funding formula will average 4.7 percent.

Renewal Funding Based on Fiscal Year 2009 Costs

The law directs HUD to notify agencies of their 2010 funding levels within 60 days (i.e., by February 14, 2010). For the great majority of housing agencies, calendar year 2010 renewal funding will be based on actual leasing and costs during federal fiscal year 2009 (October 2008 – September 2009), with adjustments for inflation and for certain costs that are not fully captured by the fiscal year base. The latter include deposits to escrow accounts under the Family Self Sufficiency program (FSS) and costs associated with the first-time renewal of tenant protection vouchers and other vouchers that were initially funded in 2008 and 2009 (e.g., VASH or Family Unification Program vouchers). The law continues to prohibit the use of funds for voucher units exceeding agencies' authorized limits.²

No renewal funding offset will be applied in the 2010 renewal formula — that is, in contrast to 2008 and 2009, the law does not authorize HUD to reduce 2010 renewal funding eligibility for agencies with “excess” balances of funding reserves (“net restricted assets”). This eliminates one potential source of uncertainty for housing agencies that are planning their voucher budgets for next year. (If they are predictable and allow agencies to retain a reasonable level of reserves, renewal funding offsets can increase the efficiency of the voucher program by encouraging agencies to put available voucher funds to use and, when resources are scarce, minimizing the impact on low-income families. However, the 2009 renewal funding offset unintentionally worsened funding shortfalls at some agencies, primarily because agencies were not notified of the offsets until May, five months into the budget year.)

Of the \$16.34 billion for renewals, \$150 million is set aside for funding awards to cover four categories of contingencies: (1) increases in costs due to portability or “unforeseen circumstances”; (2) costs associated with significant increases in voucher leasing at the end of the 2009 calendar year; (3) costs related to renewal of VASH vouchers; and (4) for project-based voucher commitments that

² The law makes clear that this prohibition does not apply to housing agencies participating in the Moving to Work demonstration. In general, MTW agencies will be funded in 2010 in accord with their MTW agreements.

are not captured in the fiscal year base. The law also sets aside up to \$100 million of voucher renewal funds for the Administration's Transformation Initiative. The report accompanying the bill indicates that these funds are to be used solely for IT improvements, such as upgrading the Voucher Management System (VMS).

The use of a recent-cost renewal formula extends the basic policy set by Congress in 2007, 2008, and 2009. This policy, which promotes a fair and effective distribution of renewal funds and encourages housing agencies to use available funds to assist more families, has contributed to improved program performance. As a result, tens of thousands of additional low-income families have received voucher assistance since 2006.

Will Voucher Renewals Be Fully Funded in 2010?

The 2010 funding law provides \$16.09 billion for the voucher renewal formula, after \$250 million is deducted from the total renewal amount for the set asides. Based on an analysis of program cost data, the Center estimates that renewal funding eligibility under the formula will total between \$16.4 and \$16.5 billion, well above the amount provided in the law.³

In spite of this apparent shortfall, we project that housing agencies will receive between 99 and 100 percent of the funding for which they are eligible under the renewal formula — and are more likely than not to receive 100 percent. This optimism is warranted by two considerations. First, nearly \$300 million in “carryover” funds (i.e., unobligated fund balances) is available to the voucher program as of the beginning of fiscal year 2010.⁴ If needed to achieve full funding of vouchers under the renewal formula, HUD is likely to use at least a portion of these funds for that purpose. In addition, while the 2010 law sets aside *up to* \$100 million of voucher renewal funds for the Transformation Initiative, HUD could choose to use less than this amount for that purpose, in order to increase the amount available for renewals.

With these considerations in mind, we anticipate that voucher renewal funding allocations in 2010 will enable the great majority of housing agencies to continue to serve roughly the same number of families as were assisted in 2009. Housing agencies that still have substantial reserves of unspent funds at the end of 2009 should also be encouraged to use a portion of those funds to serve additional families.

Still, some agencies may find it difficult to continue to serve the same number of families in 2010, even if, as we anticipate, housing agencies receive close to 100 percent of the funds for which they are eligible under the renewal formula. In particular, recent reports indicate that some agencies are experiencing cost increases at rates that are likely to exceed the inflation factors used in the renewal

³ This includes eligibility for MTW agencies. A range is provided due to uncertainty in two components of our calculation. First, the estimates are based on HUD VMS data through June 2009, the latest available to us. Because 2010 renewal funding eligibility for most agencies will be determined by leasing and cost data through September 2009, we projected costs for the final quarter of the fiscal year based on alternative assumptions, which yielded a range of estimates. Second, renewal funding eligibility is determined in part by costs that are not captured by the VMS data — in particular, the costs for first-time renewal of new incremental and tenant protection vouchers but also for various sets of disaster vouchers. We were able to estimate these costs only very roughly, due to a lack of data.

⁴ Source is the White House Office of Management and Budget report on budget execution and budgetary resources for FY 2009.

formula. (HUD's inflation factors do not, for example, take into account changes in tenant incomes, which anecdotal reports suggest are falling in some regions due to the weak economy.) Such agencies may be eligible, however, for funding from the pool of funds set aside to cover increased costs due to "unforeseen circumstances."

Administrative Expenses for Vouchers

The 2010 law provides \$1.575 billion for voucher administrative fees. This amount includes \$1.525 billion for administrative fee allocations via the leasing-based formula (compared to \$1.4 billion provided for this purpose in 2009). This represents an 8.9 percent increase in formula funding for 2010. It also includes \$50 million for administrative fee adjustments, such as those related to tenant protection vouchers or disaster vouchers.

The law also provides \$60 million for Family Self-Sufficiency program coordinators.

Other Voucher Provisions, Including Funding for "Incremental" Vouchers

The 2010 law provides \$90 million for new "incremental" vouchers, enough to fund about 11,000 new vouchers in 2010. This amount includes \$15 million for the Family Unification Program, which helps families with children that are under the care of child welfare service agencies, and \$75 million for vouchers tied to the development of supportive housing for veterans.

The 2010 law also requires HUD to allocate tenant protection vouchers for all otherwise-eligible units that were occupied during the previous 24 months.

2010 Funding Levels for Other Major HUD Programs

The Omnibus funding levels for other HUD programs are provided in the table on the next page.

(In millions)	2009	2010 Obama Budget	2010 Final
Housing Choice Vouchers	\$16,817	\$17,836	\$18,184
<i>Renewals</i>	\$15,034	\$16,189	\$16,339
<i>Administrative Fees</i>	\$1,450	\$1,494	\$1,575
<i>Incrementals</i>	\$125	-	\$90
Public Housing Capital	\$2,450	\$2,244	\$2,500
Public Housing Operating	\$4,455	\$4,600	\$4,775
HOPE VI	\$120	-	\$200
<i>Choice Neighborhoods</i>	-	\$250	\$65
Project-Based Section 8	\$7,500	\$8,100	\$8,552
<i>Renewals</i>	\$7,268	\$8,268	\$8,328
HOME	\$1,825	\$1,825	\$1,825
<i>Formula Grants</i>	\$1,809	\$1,825	\$1,825
CDBG	\$3,900	\$4,450	\$4,450
<i>Formula Grants</i>	\$3,642	\$4,185	\$3,990
<i>Sustainable Communities</i>	-	\$150	\$150
Homeless Assistance	\$1,677	\$1,794	\$1,865
HOPWA	\$310	\$310	\$335
Section 202	\$765	\$765	\$825
Section 811	\$250	\$250	\$300

Note: The figures for Housing Choice voucher administrative fees exclude all funding for FSS coordinators.