To: Interested Parties
From: Douglas Rice
Date: September 12, 2011
Re: Housing Choice Voucher funding for 2012

This memo is the first of a series on funding for low-income rental assistance programs in fiscal year 2012 that will be issued over coming weeks.

Introduction

Now that the debt limit battle has concluded and the Budget Control Act of 2011 (BCA) has been signed into law, Congress has turned to completing legislation to fund federal agencies and programs for FY 2012. In contrast to recent years, this process should go smoothly as the BCA has settled the main points of contention between the two chambers, the overall spending levels for defense/security and non-security programs. Funding for non-security programs, which includes low-income housing programs, is limited to $359 billion in FY 2012 under the BCA, a reduction of $20 billion, or 5.3 percent, below the nominal FY 2011 level.

The House T-HUD Subcommittee reported out a bill on September 8. Overall, the bill provides $38.1 billion for HUD in FY 2012, a cut of $3 billion, or 7.3 percent, below the nominal FY 2011 level. However, the impact of the reduction on spending for low-income housing and community development programs is significantly less than $3 billion due to anticipated improvement in FHA finances. The Senate T-HUD Subcommittee is expected to mark up legislation during the third week of September. The overall funding level of the Senate bill will be very similar to the House bill's, although the distribution of resources among agencies and programs is likely to differ.

To its credit, the House T-HUD Subcommittee has embraced the goal of providing sufficient funding "to renew [Section 8 and public housing assistance for] every individual and family in the program to ensure that no critical benefits are eliminated or cancelled."[1] Yet the provisions of the House bill fall significantly short of achieving this important goal in the Housing Choice Voucher program.[2] As a result, we estimate that housing vouchers used by more than 40,000 low-income families would not be renewed in 2012. Fortunately, cost-free revisions to the House bill could ensure that no low-income family loses housing voucher assistance in 2012.

Housing Choice Vouchers

The Center's analysis of Housing Voucher program cost data concludes that $17.37 billion will be required in 2012 to fully renew the 2,130,000 vouchers we estimate are used by low-income families

[1] See the Subcommittee press release on September 7: http://appropriations.house.gov/News/DocumentSingle.aspx?DocumentID=258659.

[2] And in the public housing program, which we will take up in a forthcoming memo.

in 2011. This amount includes the cost of first-time renewals of tenant protection, VASH and other new vouchers issued in 2011 but not yet fully leased throughout 2011, as well as $135 million for renewal funding adjustments, as requested by the Obama Administration.[3]

Our estimate is $220 million above the $17.14 billion requested by the Obama Administration for voucher renewals in its FY 2012 budget. However, the President's budget included reserve "offset" authority that would enable HUD to ensure that every agency has adequate resources to renew all vouchers in use, even if the amount of renewal funding is less than the amount for which agencies are eligible based on leasing and costs in 2011 (more on this below).

The bill reported out by the House T-HUD Subcommittee provides $18.5 billion for Housing Choice Vouchers, including $17.04 billion for renewals and $1.1 billion for administrative expenses. Although the bill is only $100 million below the President's request for voucher renewals, it is approximately $320 million below the amount required to fully renew vouchers in use, according to our estimates. Put another way, housing agencies would receive only 98 percent of the renewal funding they need to maintain vouchers in use, a 2 percent proration.[4]

We calculate that, for every one percent proration (or $172 million shortfall) in renewal funding, 22,000 vouchers in use will receive no renewal funding in 2012. **The House bill would therefore provide no renewal funding for approximately 42,000 housing vouchers now used by low-income families, on our estimates.**

Moreover, the House bill does not include the reserve offset authority requested by the President. This authority, which was used in 2008 and 2009, would enable HUD to reduce renewal funding eligibility for housing agencies that have large balances of reserves (unspent assistance funds from prior years), in order to prevent the underfunding of agencies that have used available funds most effectively. In effect, the policy ensures that every agency has adequate resources to renew vouchers in use. It is therefore wise policy, so long as the reserve offsets are not too deep and agencies are allowed to retain sufficient reserves to cover unanticipated costs to prevent the disruption of assistance to families. According to our estimates, an offset policy that targeted agency reserves above the one-month level would be more than adequate to ensure full funding of renewals, when combined with the new funding provided in the House bill.[5]

Finally, the renewal funding shortfall in the House bill is compounded by a very deep cut – about $300 million below the 2011 level and $500 million, or 31 percent, below the President's request – in funding for agency administrative expenses. Under the President's request, housing agencies would have received roughly 90 percent of the funding for which they are eligible under the administrative fee formula, according to HUD's estimates. At the House funding level, the proration would be

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[3] Our estimate is based on actual leasing and voucher costs through June 2011, as reported by housing agencies to the HUD Voucher Management System, and assumes that costs will continue to grow at the same rate in the final six months of 2011 as they have during previous months. It also assumes an average AAF (renewal formula inflation factor) of 1.014 in 2012.

[4] Under the formula described in the House bill, agency funding would be based on leasing and costs in calendar year 2011, with adjustments.

[5] More precisely, this policy would reduce agencies' renewal funding eligibility by an amount equal to reserve balances that exceed 8.3 percent of their renewal funding eligibility. The total amount of the reserve offset would not exceed the amount needed to increase the (post-offset) renewal proration to 100 percent of eligibility.

deepened to 60 percent of eligibility. Such deep cuts are likely to cause housing agencies to lay off staff, and many will be unable to avoid reducing the numbers of families they assist, as staffing shortages will delay the processing of new admissions, inspections, and the other work required to reissue housing vouchers when families exit the program. Insufficient staff also could cause payment errors to increase, wasting voucher funds.

Recommendations

As noted above, the House T-HUD Subcommittee has embraced the important goal of fully renewing assistance for low-income families that currently rely on the Housing Choice Voucher program to lease modest housing at affordable rents. To ensure that this important goal is achieved, Congress should approve the following cost-free revisions to the House bill:

1. **Provide HUD with the reserve offset authority requested by the President's budget.** By directing HUD to offset renewal funding for housing agencies with reserve balances exceeding one month of costs, every agency would receive sufficient resources to renew all vouchers currently used by low-income families. Moreover, the reserve offset authority would add no costs to the HUD funding bill, because it simply enables the program to make better use of funds that are already available to housing agencies.

2. **After ensuring that housing agencies will receive full renewal funding, any remaining resources made available through a reserve offset should be used by Congress to provide more adequate administrative funding for housing agencies.** As noted above, we believe that reserves exceeding the one-month level are more than sufficient to provide full renewal funding combined with the House bill level of new funds. Yet the House bill cuts the President's request for administrative fees by $500 million. To make substantial progress in filling such a large gap – after ensuring that 100 percent of renewal costs are covered – a deeper reserve offset would likely be required. Congress should consider offsetting all reserves above the 6 percent level if necessary to provide full renewal funding and 90 percent of administrative fees due.

3. **Any reserve offset should apply to agencies participating in the Moving to Work (MTW) program, as well as other agencies.** A renewal funding offset is, in effect, a targeted proration of funding, where prorations are greater for agencies with larger reserve balances than for those with few reserves. Congress has generally applied renewal funding prorations to MTW agencies, but it did not apply reserve offsets to MTW agencies in 2008 and 2009, the last time offsets were used. As a result, non-MTW agencies received about a 5 percent reduction in new renewal funding over the two-year period due to offsets, while MTW agencies received no corresponding reduction. In fairness to non-MTW agencies – and to increase the amount of resources available to prevent cuts elsewhere in the HUD bill – this precedent should not be followed in 2012.

4. **As budget pressures will continue to be severe over at least the next few years, setting a clear, permanent policy on voucher reserves and renewal funding policy in the FY 2012 bill would enable housing agencies to plan accordingly and make more efficient use of available funds.** While the funding policy changes made by Congress in the annual appropriations laws since 2006 have been generally positive and contributed to improved

utilization of funds, the uncertainty created by yearly modifications continues to place a drag on agency performance. Hence, while the percentage of authorized vouchers in use has increased from 89 to 92 percent since 2006, it remains well below the nearly 97 percent rate that existed in 2004, a gap that represents voucher assistance for more than 90,000 low-income families. Congress should therefore include in the FY 2012 bill a permanent authorization of renewal funding policies based on the key elements incorporated in a recent draft of the Section 8 Voucher Reform Act (SEVRA).[6]

[6] A discussion draft of SEVRA circulated by House and Senate staff in December 2010 includes important modifications to the version approved earlier by the House Financial Services Committee.