



To: Interested Parties
From: Center on Budget and Policy Priorities
Date: September 22, 2009
Re: Housing Voucher Funding in the HUD Bill for 2010

The House of Representatives and the Senate have begun work on a final HUD spending bill for fiscal year 2010. This memo outlines the Center's recommendations for funding the renewal of Housing Choice Vouchers in that bill.

The funding levels provided in the House and Senate bills represent a strong commitment to the voucher program (and, indeed, to low-income housing programs overall). As explained below, however, new voucher cost data indicate that the renewal funding provided in the House and Senate bills will be inadequate to renew all vouchers currently in use. Unless a substantial amount of additional funding is provided in the final bill, vouchers now used by tens of thousands of low-income families will not receive funding in 2010, according to the Center's estimates.

The main points explained below are as follows:

- **Based on our estimates, at least \$16.6 billion will be required for housing voucher renewals in 2010, and the actual need could be as high as \$16.9 billion**, depending on the amount of funding needed to renew the substantial number of new tenant protection, incremental, and disaster-related vouchers issued to families in 2008 and 2009. The House and Senate bills provide \$16.4 billion and \$16.3 billion, respectively, for voucher renewals. New data showing sharp increases in per-voucher costs — driven most likely by declines in tenant incomes due to job losses — coupled with significant growth in the number of renewal units are the primary reasons that our estimate has increased considerably since the Administration introduced its budget request.
- **Congress also should provide HUD with flexible authority to reduce the renewal funding eligibility of housing agencies that have large balances of net restricted assets**, if such reductions are needed to prevent or reduce shortfalls in renewal funding in 2010 (i.e., to prevent a negative proration of formula funding).
- **Congress should authorize HUD to use up to \$200 million of the advance funding that will become available on October 1, 2009 to prevent cuts in rental assistance to tens of thousands of low-income families in the current year.** The Senate bill included such a provision, but Congress should strengthen it to direct HUD to use these funds not only to prevent terminations of existing voucher holders, but also to avert cuts in payment standards that increase rent burdens on low-income families or the loss of rental assistance through program attrition.

Housing Voucher Renewal Funding Needs for 2010

Based on reported voucher usage and costs as of May 2009, *at least* \$16.6 billion will be required for voucher renewals in 2010, and the actual need could be as high as \$16.9 billion. The low-end estimate is \$449 million higher than the President's budget request, \$251 million higher than the amount in the House bill, and \$299 million above the allocation in the Senate bill.

A range of estimates is provided because there is significant uncertainty about the cost of renewing between \$550 million and \$650 million in new vouchers issued in 2008 and 2009. These include new tenant protection vouchers, incremental vouchers (VASH, FUP, and NED), and regular vouchers issued to families in the Gulf region that were formerly assisted under programs such as the Disaster Voucher Program (DVP). (HUD should be able to provide appropriations committees with reliable information on the renewal costs of these vouchers.)

Even the low-end estimate of \$16.6 billion, however, is about \$390 million higher than the estimate produced by the Center last fall (which was in turn about \$50 million higher than the Administration's request). The following factors explain most of the increase in our estimate:

- Per-voucher costs have increased at a rate higher than anticipated by the Annual Adjustment Factors (AAFs) for 2009, which we used to project inflation. Among housing agencies that are not participating in the Moving to Work demonstration, the average cost of a voucher will be about 5.8 percent higher in 2009 than in 2008, according to our estimates based on recent VMS data. This is well above the weighted average 2009 AAF of 3.9 percent. According to reports from housing agencies, this sharp uptick in the growth of voucher costs is due largely to the recession, as tenant incomes are declining because of job losses. And unlike house prices, average rents nationally have continued to rise in 2009 (although rent inflation has slowed considerably).
- To its credit, HUD appears to be committed to providing Housing Choice vouchers to eligible families that are currently, or were recently, assisted under the DVP and Disaster Housing Assistance Program (DHAP). As many as 20,000 to 30,000 low-income families could be absorbed into the voucher program in this way, although we cannot estimate the number precisely. (Again, HUD should have reliable data on this.) Nevertheless, the cost of renewing these vouchers in 2010 was not included in our original estimate, and could be substantial.
- Based on HUD's preliminary FMRs for FY 2010, the average 2010 AAF is now anticipated to be about 4.7 percent, somewhat higher than our previous estimate. This change increases expected funding eligibility under the renewal formula.¹

¹ Other factors not mentioned in this list are a modest increase in voucher leasing, changes in our assumptions about the renewal costs of tenant protection vouchers, and incorporation of HUD's proposal to provide \$150 million in contingency funding (we had assumed only \$100 million in set aside funding for our original estimate).

Even a shortfall of only \$251 million (the gap between our low-end estimate and the House bill level) would leave more than 30,000 housing vouchers now used by low-income families without renewal funding next year. To prevent such an outcome—which would be particularly unwelcome at a time when poverty and homelessness are rising due to the economic recession—Congress should:

- Provide at least \$16.6 billion for voucher renewals — or a higher amount if HUD confirms that additional funds are needed to meet the costs of renewing the tenant protection and other new vouchers issued in 2008 and 2009. (We encourage the Committee to increase the overall allocation for the HUD title, as needed, to allow for the full renewal of vouchers while also ensuring that public housing and other critical programs may be funded at the increased levels in the House and Senate bills.)
- Provide HUD with flexible authority to reduce the renewal funding eligibility of housing agencies that have large balances of net restricted assets (funding reserves), if such reductions are needed to prevent or reduce an overall negative proration of renewal funding. It will be particularly important for HUD to have such authority if, because of overall funding constraints, Congress is unable to provide at least \$16.6 billion for voucher renewals in the final bill.

Addressing the 2009 Housing Voucher Funding Shortfall

Last week, the Center posted a report concluding that more than 400 agencies serving about 500,000 families are facing severe funding shortfalls in 2009. According to our estimates, these agencies will need an additional \$130 million to avoid terminating families from the program, increasing rent burdens on low-income families by cutting payment standards, or cutting the number of families they serve through program attrition. The paper is available here: <http://www.cbpp.org/cms/index.cfm?fa=view&id=2916>.

To prevent such cuts in rental assistance, Congress could provide HUD with authority to use up to \$200 million of the advance funding that will become available on October 1, 2009 to provide supplemental funding to agencies facing shortfalls. Such a provision was included in the bill passed by the Senate, and should be included in the final bill, with modifications to broaden the direction given to HUD. Specifically, while it is critical for HUD to prevent terminations of assistance due to funding shortfalls, it is also important to prevent reductions in payment standards that increase rent burdens for families and cuts in the number of families served through program attrition. In addition, if, after meeting these needs, there are “excess” funds available, then HUD should distribute them to agencies that will use them to assist additional families (which would often mean restoring cuts agencies made in earlier years).