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FUNDING SHORTFALLS CAUSING CUTS IN HOUSING VOUCHERS

Tens of Thousands of Low-Income Families Facing Higher Rents, Loss of Assistance This Year

By Douglas Rice

As a result of a shortfall in funding for the Housing Choice Voucher Program for calendar year 2009, an estimated 400 state and local housing agencies across the country will be forced to reduce or eliminate rental assistance for a significant number of the 500,000 low-income families they serve. While landlords may absorb some of the cuts through reduced rents, the burden will fall primarily on low-income families, often in the form of sharply increased rental costs. Most of these housing agencies are also reducing the number of low-income families they serve, despite rising need as a result of increasing unemployment and poverty. By the end of this year, it is likely that through program attrition alone, about 15,000 fewer low-income families will be receiving assistance from these agencies than in May. These cuts are being made in the face of growing waiting lists for rental assistance, as the economy continues to shed jobs and hardship increases.

To avoid cuts in rental assistance — and to restore assistance where cuts have already been made — state and local housing agencies will need an additional \$130 million in funding for vouchers in 2009, according to Center estimates.¹ Additional renewal funding for vouchers that Congress approved as part of the 2009 Department of Housing and Urban Development (HUD) appropriations act will become available on October 1 and could be used to address this problem.² But for that to occur, Congress will need to give HUD the authority to use a portion of these funds to help the agencies with the most severe shortfalls. Congress should provide this authority as part of the HUD appropriations bill for fiscal year 2010, which it must complete by October 1, or if the bill is not ready by then, as part of a continuing resolution to maintain HUD funding into fiscal year 2010.

Declines in Tenant Incomes Have Exacerbated Voucher Funding Shortfall

The voucher program helps 2 million low-income families lease modest housing in the private market at rents they can afford. Voucher holders generally contribute about 30 percent of their income for rent and basic utilities; the voucher covers the gap between this contribution and the actual housing costs, within reasonable limits set by the local housing agency and HUD. Nearly one-third of voucher holders are elderly or people with disabilities; more than half are families with children.

Studies have shown that vouchers are highly effective in reducing housing instability, homelessness, and poverty. Amid evidence that poverty and homelessness are on the rise during the recession, it is critical that housing agencies receive adequate funding to prevent cuts in rental assistance.

Unfortunately, most agencies are experiencing shortfalls in funding for housing vouchers in 2009. Several factors are contributing to shortfalls. First, the funding Congress provided to renew vouchers for calendar year 2009 was several hundred million dollars less than the amount for which agencies were eligible, based on their voucher usage and costs during 2008. Second, declines in tenant incomes — most likely due to recent job losses caused by the recession — appear to be driving up voucher costs in many regions of the country, worsening the financial crunch. The average cost of a voucher was more than 5 percent higher than in the first quarter of 2009 than 12 months earlier, despite weakening in most rental housing markets. And while reliable data on tenant incomes are not available, numerous housing agencies have reported to HUD that declines in tenant incomes have been a significant factor in the rise in voucher costs.³ (Economists agree that rising unemployment and the general weakening of the economy are causing a significant decline in household income.)

In addition, because Congress did not complete the HUD appropriations act for 2009 until March, HUD did not notify agencies of their 2009 renewal funding allocations until May, five months into the program funding year. This left agencies with little time to adjust their budgets, making it much more difficult for them to address funding shortfalls in ways that would minimize the harm to low-income families.⁴

Due to Shortfalls, Agencies Are Raising Rents and Serving Fewer Low-Income Families

The situation is most severe for an estimated 400 state and local housing agencies that lack sufficient reserves to make up for renewal funding shortfalls.⁵ As of May, these agencies were providing voucher assistance to 500,000 low-income families. If recent trends in voucher costs continue through the remainder of 2009, these agencies will need \$130 million in supplemental funding to avoid cuts in assistance, according to Center estimates.

If these agencies receive no supplemental funding, they will be compelled to cut costs in ways that harm the low-income families they serve — indeed, most have already begun to do so. Such cost-cutting measures include:

- **Reducing the number of low-income families they assist by not reissuing vouchers to families on the waiting list when other families leave the program.** If, after receiving their renewal funding allocations in May, the agencies facing severe shortfalls had immediately ceased reissuing vouchers, this would have reduced the 2009 funding gap by more than \$40 million, according to Center estimates.⁶ But these savings would be achieved at a significant loss to low-income families: by December, 15,000 *fewer* low-income families would be receiving rental assistance from these agencies than in May. As a result, more families who are unable to afford housing on their own would be forced to double up with relatives or friends, or to live in shelters, in overcrowded hotel rooms, or on the streets. Because vouchers play a major role in helping families transition out of homeless shelters, agency decisions to freeze issuance of new

vouchers could cause more shelters — which are already struggling to respond to the ongoing surge in homelessness — to reach capacity and be forced to turn away other needy families.

- **Raising rents on voucher families.** Under certain conditions, HUD permits agencies to impose immediate reductions in the value of the voucher subsidy (or “payment standards”) for some all or all families using vouchers.⁷ When a housing agency reduces payment standards to cut costs, low-income families using vouchers must increase their own rent contribution to make up the difference between the lower payment standard and the rent. The potential cost savings for agencies can be considerable — but every dollar saved is an extra dollar in rent that low-income families using vouchers must pay. Indeed, low-income families may end up paying housing costs that far exceed 30 percent of their income and are therefore unaffordable.⁸

If agencies attempted to close the funding gap entirely through reductions in payment standards, voucher holders would have to pay an extra \$260 for rent in 2009, on average, according to Center estimates. This would represent a monthly increase in rent of \$37 to \$260 per household, depending on how soon after May the reductions in payment standards were imposed, and would constitute a substantial burden for families that, on average, have monthly incomes of only about \$1,050 and are currently paying less than \$300 per month for housing.⁹ Many families would be able to cover the added cost only by diverting scarce resources from other basic needs, such as food, medications, or clothing for school or work. Others would be unable to make the increased payments and be forced to leave their homes.

- **Reducing rents paid to property owners.** Agencies may seek to cut costs by asking property owners to accept less rent than they are due under the current lease, by refusing to accept rent increases when a lease is renewed, or by enforcing more aggressive standards for “rent reasonableness.” (Federal law requires agencies to ensure that rents paid within the voucher program are “reasonable” — i.e., that the rents do not exceed rents for comparable units in the area.) The potential for savings may be significant in some housing markets where rents are softening considerably, but *overall* savings are likely to be limited. In particular, because inflation in voucher costs has lagged behind inflation in the general rental housing market in recent years, many property owners may be reluctant to accept rent reductions.¹⁰ Moreover, the more aggressively an agency seeks to reduce payments to property owners, the less likely they will be to continue to participate in the program. This can make it difficult for voucher holders to secure affordable housing in the future.
- **Terminating vouchers.** As a last resort, agencies facing shortfalls may terminate assistance for families currently relying on vouchers to pay their rent. To address their shortfalls through terminations alone, the 400 housing agencies facing severe shortfalls would have had to terminate voucher assistance for 33,000 low-income families immediately following the receipt of their funding allocations in May (or for a greater number of families later in the year), according to Center estimates.

To its credit, HUD has distributed the available funds judiciously, diminishing the risk that a large number of low-income families will be terminated from the program. Yet hundreds of housing agencies are reducing assistance, most often through a combination of the other strategies outlined above, as well as other measures that typically yield less significant cost savings. For example:

- **Monterey Housing Authority (CA):** Forced to choose between raising rents for nearly 3,900 families with vouchers and eliminating assistance for 800 of those families, the agency announced in August that it was reducing payment standards by about 20 percent as of September 1. As a result, voucher holders' rents are likely to increase by an average of about \$67 per month, or 18 percent. For some tenants, this will mean paying as much as 60 percent of their income for housing, according to a local official. The agency has also stopped issuing vouchers to families on its waiting list; as a result, it could be serving 60 to 180 fewer families at the end of the year than in May, depending on the rate of program attrition.¹¹
- **Housing Authority of Birmingham (AL):** In July, the agency stopped issuing vouchers and cancelled 300 vouchers it had issued recently to low-income families. As a result of the cancellations, some families faced eviction from apartments into which they had just moved. Through program attrition, the agency could be serving roughly 60 to 190 fewer families by the end of this year than in May. The agency also announced a steep reduction in voucher payment standards that could raise the rent for low-income families by as much as \$140 per month for a two-bedroom apartment.¹²
- **Columbia Housing Authority (MO):** The agency recently notified 963 low-income families using vouchers that their monthly rent will increase by \$50 to \$80 a month on October 1. This is a dramatic increase for families that have monthly incomes of about \$834, on average, and are currently paying about \$220 per month for housing. The alternative, according to the agency, was to cut 225 families from the program by the end of the year.¹³
- **Omaha Housing Authority (NE):** In July, the agency announced that funding shortfalls would require it to terminate voucher assistance for 432 families on September 1 and sharply raise rents for thousands of additional families. Fortunately, an allocation of contingency funding enabled the agency to retract these plans. The agency is still raising the share of utility costs that voucher holders pay, however, and shrinking its voucher program through attrition. By the end of the year, the agency could be assisting 60 to 180 fewer families than at mid-year.¹⁴

Conclusion

If recent trends in voucher costs continue through the remainder of 2009, more than 400 housing agencies will need \$130 million in supplemental funding to avoid reducing or eliminating assistance this year for a substantial number of the 500,000 low-income families they serve. Fortunately, additional renewal funding for vouchers that Congress approved as part of the 2009 HUD appropriations act will become available on October 1. To enable HUD to use a portion of these funds to help agencies with the most severe shortfalls, Congress should provide the required authority as part of the HUD appropriations bill for fiscal year 2010 or the continuing resolution, if necessary.

Appendix: State by State Impact of the 2009 Voucher Funding Shortfall*

State	No. of Housing Agencies Facing Voucher Funding Shortfalls	No. of Low-Income Families Using Vouchers at These Agencies as of May 2009	Amount of Voucher Funding Shortfall	No. of Vouchers in Use Left Unfunded Due to Shortfall
Alabama	22	14,983	\$7,793,880	2,210
Arkansas	2	959	\$66,810	34
Arizona	3	2,300	\$508,612	121
California	19	70,037	\$13,242,869	2,538
Colorado	6	3,776	\$1,119,946	298
Connecticut	3	6,240	\$1,273,131	238
Florida	20	33,143	\$10,855,080	2,328
Georgia	3	4,965	\$1,479,003	400
Hawaii	1	3,793	\$1,069,653	172
Iowa	10	5,159	\$732,064	354
Idaho	2	4,042	\$577,533	219
Illinois	5	3,880	\$1,276,365	287
Indiana	9	4,809	\$977,845	325
Kansas	5	1,684	\$155,115	96
Kentucky	9	7,143	\$903,099	308
Louisiana	9	1,493	\$333,288	115
Massachusetts	21	6,885	\$3,585,861	715
Maryland	2	146	\$81,655	17
Maine	5	5,919	\$1,577,273	450
Michigan	12	9,023	\$7,838,331	1,752
Minnesota	11	8,025	\$698,418	260
Missouri	17	11,219	\$1,711,160	599
Mississippi	7	13,441	\$3,366,089	1,027
Montana	1	337	\$7,447	3
North Carolina	11	9,792	\$772,354	264
North Dakota	8	2,775	\$432,972	172
Nebraska	2	4,090	\$472,979	138
New Hampshire	5	5,834	\$274,466	67
New Jersey	12	11,840	\$1,902,627	354
New Mexico	2	298	\$93,978	31
Nevada	1	3,011	\$716,595	140
New York	30	105,223	\$22,062,868	4,034
Ohio	16	12,657	\$2,413,750	894
Oklahoma	3	4,815	\$804,245	293
Oregon	7	8,989	\$1,626,620	561
Pennsylvania	16	12,818	\$5,078,370	1,277
Rhode Island	6	4,269	\$2,041,371	403
South Carolina	5	5,170	\$1,084,083	323
South Dakota	3	233	\$117,927	47
Tennessee	7	8,355	\$2,528,644	826
Texas	19	13,853	\$3,933,683	1,008

State	No. of Housing Agencies Facing Voucher Funding Shortfalls	No. of Low-Income Families Using Vouchers at These Agencies as of May 2009	Amount of Voucher Funding Shortfall	No. of Vouchers in Use Left Unfunded Due to Shortfall
Utah	5	7,704	\$1,814,939	523
Virginia	9	18,038	\$2,565,742	678
Vermont	2	193	\$37,906	12
Washington	7	11,550	\$1,596,206	404
Wisconsin	13	9,907	\$2,193,994	657
West Virginia	4	6,344	\$554,638	203
Wyoming	1	490	\$140,308	59

* The figures in this table are estimates by the Center on Budget and Policy Priorities using data through May 2009 from HUD's Voucher Management System. The funding shortfall estimates assume that: (1) agencies sustain voucher usage at the May 2009 level; (2) per-voucher costs for each agency change during the June to December period at the same monthly rate as they changed from October 2008 to May 2009; and (3) agencies draw down all available voucher funding reserves, excluding an amount equal to 1 percent of their total estimated expenditures for 2009. Agencies participating in the Moving to Work demonstration were excluded from the analysis, as their funding eligibility is not based on actual voucher usage and costs.

Notes

¹ This estimate assumes that: (1) agencies sustain voucher usage at the May 2009 level; (2) per-voucher costs change during the June to December period at the same monthly rate as they changed from October 2008 to May 2009; and (3) agencies draw down all available voucher funding reserves, excluding an amount equal to 1 percent of their total estimated expenditures for 2009. Agencies participating in the Moving to Work demonstration were excluded from the analysis, as their funding eligibility is not based on actual voucher usage and costs.

² The Housing Choice Voucher program is funded on a calendar-year basis, in part through an advance appropriation that covers most of the program costs from October through December of the following fiscal year. The fiscal year 2009 appropriations act included \$4 billion in advance funding for vouchers that will become available on October 1, 2009 (i.e., at the beginning of fiscal year 2010). A small portion of these funds could be used to address current voucher funding shortfalls at some agencies, while leaving adequate funds to meet other program needs. However, HUD requires explicit authority from Congress to allocate the funds in this manner.

³ Other factors, including an increase in the number of families using vouchers in late 2008 and early 2009 and, in some local areas, rising rents, have exacerbated funding shortfalls at some agencies.

⁴ Not anticipating a shortfall in funding, some agencies also drew down funding reserves to assist additional families early in the year in the face of rising need, which reduced resources that otherwise could have been used later to fill shortfalls.

⁵ The shortfall figures are Center estimates based on data from HUD's Voucher Management System. Reserves are unspent voucher funds received in prior years. It is good program management for agencies to maintain modest funding reserves to serve as a backstop against unanticipated cost increases.

⁶ The rate of program attrition is declining due to the recession, as the poor job market is making it more difficult for families to increase their incomes and exit the program. This estimate — as well as the attrition estimates provided in the examples below — assume that 6 percent of the families using vouchers will exit the program this year, which is roughly half of the typical attrition rate during non-recession years and consistent with anecdotal reports received from housing agencies. While nearly all housing agencies facing shortfalls are no longer reissuing vouchers upon turnover, many did not implement this policy until later months, which reduced the potential cost savings.

⁷ "Payment standards" are the maximum rents that may be subsidized using a housing voucher, and are set by local housing agencies. In other words, the housing assistance payment cannot exceed the difference between the mandated contribution of the low-income family (an amount equal to roughly 30 percent of family income) and the payment standard. If the rent is higher than the payment standard, then the low-income family must pay the difference, in addition to the mandated contribution. In normal circumstances, reductions in payment standards apply immediately only to families who are new to the program or moving to a new apartment. For current tenants remaining in place, changes in payment standards apply at the second annual review. This means that significant savings can be achieved only over an extended period of time.

⁸ Families can avoid rent increases only by moving to a lower-cost apartment, if one can be found and the owner will accept a housing voucher.

⁹ HUD Resident Characteristics Report as of August 31, 2009.

¹⁰ From 2003 to 2008, the Consumer Price Indices for residential rents and utility costs rose 3.7 and 8.5 percent per year, respectively, while the average cost of a housing voucher rose 2.5 percent per year (all figures are nominal). The voucher cost figure is based on the Center's analysis of data from HUD's Voucher Management System, excluding data from agencies participating in the Moving to Work Demonstration.

¹¹ See Leslie Griffy, "Monterey County Agency Votes to Increase Section 8 Rent," *The Californian*, August 5, 2009; Jim Johnson, "Low-Income Renters Face Increase," *Monterey County Herald*, August 15, 2009; and press releases from the Monterey Housing Authority on July 31 and August 17, 2009. Figures not reported in these sources are Center estimates.

¹² Jeremy Gray, "Some Birmingham Tenants Will Get Evicted Due to Lack of Federal Funding," *Birmingham News*, July 21, 2009. Figures not reported in the article are Center estimates.

¹³ T.J. Greaney, "CHA to Raise Section 8 Rent; Agency is Facing Budget Squeeze," *Columbia Daily Tribune*, September 1, 2009. Figures not reported in the article are Center estimates.

¹⁴ Erin Grace, “A Section 8 Funding Reprieve,” *Omaha World Herald*, July 31, 2009. Figures not reported in the article are Center estimates.