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# HOUSING VOUCHERS COULD BE AT RISK IN 2008

## Distribution Formula and Funding Level Are Key Issues

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### Introduction

This fall, Congress will seek to finalize its appropriations bills for fiscal year 2008, including the Transportation-HUD bill, which funds “Section 8” Housing Choice Vouchers and other affordable housing programs. Section 8 vouchers are the nation’s leading source of housing assistance for low-income elderly, people with disabilities, and families with children, helping approximately 2 million households to secure modest, affordable rental housing in the private market.

Congress will have two key issues to resolve in the Section 8 voucher portion of the HUD appropriations bill: how much money to provide to renew existing vouchers and how to distribute those funds among the 2,400 state and local housing agencies that administer the program. These decisions will be made against the backdrop of a potential presidential veto. The President insists that Congress not exceed the overall level of discretionary funding he proposed in his budget earlier this year — a level that would entail significant cuts in many domestic programs — and the White

### KEY FINDINGS

- Housing agencies began recently to assist more low-income families, reversing somewhat the loss of 150,000 Section 8 vouchers during 2004-2006.
- The President’s budget for fiscal year 2008 would fail to renew 80,000 housing vouchers likely to be used by families in 2007, and the House appropriations bill would fail to renew 55,000 vouchers. In contrast, the Senate bill would fund all vouchers in use in 2007.
- The potential cuts under the House bill are due primarily to the less efficient formula it uses to allocate voucher funding among housing agencies, which fails to account for recent increases in voucher use. The House bill also provides less funding for vouchers than the Senate bill. Both bills provide more than the President.
- Because the House bill does not fully fund its voucher formula, agencies would receive a pro rata reduction in renewal funding of about 3 percent. As a result, agency funding would be insufficient to keep pace with inflation in rents and utility costs, and one-quarter of agencies would receive less funding in 2008 than in 2007.
- The Senate funding formula is more cost-effective: for every given dollar of renewal funding allocated by Congress, the Senate formula would renew more vouchers than the formula prescribed by the House bill. The Senate bill also would encourage agencies to use available funds to assist more families. In contrast, the House bill would adversely affect agencies that improved their performance in 2007 and discourage agencies from performing better in 2008.

<sup>1</sup> Shafali Srivistava provided technical assistance with the analysis of data from HUD’s Voucher Management System.

House has threatened to veto both the House and Senate Transportation-HUD bills if they exceed these spending limits.<sup>2</sup>

On the first issue — the amount of renewal funding for vouchers — the House and Senate appropriations bills both improve significantly on the President’s budget request. The President proposed a hard freeze in voucher renewal funding (a freeze with no adjustment for rising costs), even though rents and utility costs continue to increase across the country. As a result, the President’s budget would fail to fund 80,000 vouchers expected to be used by families in 2007. The House bill (H.R. 3074) partially reverses this cut by providing \$300 million above the President’s request for voucher renewals. The Senate bill does better, fully funding all vouchers in use in 2007 by providing nearly \$500 million above the President’s request and by using a more cost-effective formula to distribute this funding to agencies.

In addition, the bills fund new “incremental” vouchers for the first time since 2002 and include certain reforms, some of which were proposed by the President, such as giving agencies an added incentive to serve more families by tying their administrative funding to the number of vouchers they use.<sup>3</sup>

The second issue — how to distribute voucher funds among state and local housing agencies — is more complex. From 2004 to 2006, the Administration and Congress took a series of actions that substantially altered the voucher funding formula, weakening the link between agencies’ funding allocations and their actual funding needs (thereby making the program more like a block grant) and eliminating incentives for agencies to help as many families as their funding would permit. These changes had many harmful consequences. The number of families with vouchers declined markedly, with approximately 150,000 vouchers lost. In addition, housing agencies, property owners, and families alike had to cope with funding unpredictability and shortfalls; many families faced higher rent burdens; and agency performance declined, with large balances of unspent federal funds accumulating at local agencies.<sup>4</sup>

In the 2007 appropriations act signed into law in February, Congress changed direction, restoring stability to the voucher program by directing the U.S. Department of Housing and Urban Development (HUD) to distribute voucher renewal funds based on an agency’s leasing rates and costs in the most recent 12-month period. (Congress also increased renewal funding by nearly \$500 million.) Partly as a result of the more efficient funding formula, housing agencies received — for the first time in three years — sufficient funding to renew all vouchers in use in the prior year. In July, the House also passed a bill that would make the new formula permanent by adding it to the U.S. Housing Act.<sup>5</sup>

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<sup>2</sup> See Richard Kogan, “The Fight Over Appropriations: Myths and Realities,” Center on Budget and Policy Priorities, June 21, 2007. Available at: <http://www.cbpp.org/6-21-07bud.htm>.

<sup>3</sup> Funding for incremental vouchers and voucher renewals is allocated separately in both bills.

<sup>4</sup> See Douglas Rice and Barbara Sard, “The Effects of the Federal Budget Squeeze on Low-Income Housing Assistance,” Center on Budget and Policy Priorities, February 1, 2007.

<sup>5</sup> See Barbara Sard and Will Fischer, “Bipartisan Legislation Would Build on Voucher Program’s Success; But Worthwhile Reform Bill Holds Risks Due to Expanded Deregulatory Authority,” Center on Budget and Policy Priorities, July 26, 2007, for an analysis of H.R. 1851, the Section 8 Voucher Reform Act, which passed the House on July 12 by a vote of 333 to 83.

The Senate's 2008 HUD appropriations bill continues this reform, directing HUD to distribute funding based on agencies' leasing and costs over the most recent 12 months. In contrast, the House appropriations bill halts this progress, directing HUD to base agencies' share of voucher renewal funding for 2008 on their dollar allocation of renewal funding for 2007.

The House approach makes less cost-effective use of voucher funding and could lead to substantial cuts in vouchers in 2008. Our estimate, based on the latest available HUD data on leasing rates and costs, is that the House bill would fail to renew 55,000 vouchers that families are expected to use in 2007. The Senate bill, by contrast, would fully fund all vouchers in use in 2007. (Even if one controls for the difference in renewal funding between the two bills by assuming that the House bill provided the full Senate funding amount, the House bill would still fail to renew 44,000 vouchers due to the flaws in its formula.)

| <b>TABLE 1: COMPARING VOUCHER FUNDING PROPOSALS FOR 2008</b>                               |   |                     |   |  |
|--|---|---------------------|---|--|
|  | <b>Senate bill</b>  | <b>House bill</b>   | <b>House bill, if renewals funded at Senate level</b> | <b>Bush budget</b>                         |
| <b>Total funding for voucher program</b>   | \$16.6 billion  | \$16.3 billion      | —   | \$16.0 billion                             |
| <b>Voucher renewal funding</b>   | \$14.9 billion  | \$14.7 billion      | —   | \$14.4 billion                             |
| <b>Administrative expense funding</b>  | \$1.35 billion  | \$1.35 billion      | —   | \$1.35 billion                             |
| <b>Incremental voucher funding</b>   | \$105 million   | \$30 million        | —   | None                                       |
| <b>Number of authorized vouchers funded (excluding incrementals)</b>                       | 2,012,000   | 1,976,000           | 1,991,000   | 1,941,000                                  |
| <b>Number of vouchers used by families in 2007 that would <i>not</i> be funded in 2008</b> | <b>No cut</b>   | <b>55,000</b>       | <b>44,000</b>   | 80,000                                     |
| <b>Number of housing agencies with unfunded voucher renewals in 2008</b>                   | <b>None</b>   | <b>1,300</b>        | <b>1,100</b>  | 1,600                                      |
| <b>Pro rata cut in 2008 voucher funding under the formula</b>                              | <b>No cut</b>   | <b>3.2 percent</b>  | <b>2.1 percent</b>                                    | 5.3 percent                                |
| <b>Voucher funding formula used</b>  | Agency funding based on actual leasing and costs during most recent 12 months | Same as Bush budget | Same as Bush budget                                   | Agency funding based on 2007 funding level |

Voucher funding would be less stable under the House bill for a second reason, as well. The overall amount of renewal funding the bill provides for 2008 is insufficient to provide each agency with the allocation it is due under the bill's funding formula. As a result, agencies would face an across-the-board funding cut of more than 3 percent, according to CBPP estimates, which means they would receive an inflation adjustment of only about 1 percent, on average — well below the likely rate of inflation for rents and utilities. Indeed, about one-quarter of all agencies would actually receive *less* funding in 2008 than they did in 2007.

The decisions about the voucher formula and funding levels that Congress makes this fall — and the President's decision about whether to veto the HUD appropriations bill — will therefore have significant implications for tens of thousands of low-income people across the nation who are struggling to afford decent housing.

### **Senate HUD Bill Would Fully Fund Vouchers and Strengthen 2007 Reforms**

On September 12, 2007, the Senate approved a HUD funding bill that would provide \$14.9 billion for housing voucher renewals in 2008, an increase of \$500 million (3.5 percent) above the 2007 level.<sup>6</sup> The bill includes the improved renewal funding formula adopted in 2007 that bases each housing agency's share of voucher funding on its actual leasing and costs during the most recent 12-month period. The bill thus continues the important reform implemented in the 2007 appropriations law.

#### **All Vouchers in Use in 2007 Would Be Renewed**

Under the Senate bill, all vouchers expected to be in use in 2007 would be fully funded in 2008, according to CBPP estimates. In late 2006 and early 2007, agencies began to rebuild their voucher programs, reversing the recent decline in the number of families receiving voucher assistance, and as explained below, there are good reasons to expect that the number of families served will continue to rise throughout the year. The Senate bill would provide sufficient funding — and prescribe an efficient formula to distribute this funding — to continue these gains in 2008.

By continuing the 2007 reforms, the Senate bill would also help to stabilize the voucher program after years of volatility and decline. Funding allocations in 2008 would be based on the same policy in effect in 2007, creating the sense of security that comes from predictable rules. In addition, every agency would receive sufficient funding in 2008 to maintain its vouchers in use (including the anticipated increase in rent and utility costs), enabling it to sustain its program size in 2008. For the first time since Congress began altering the voucher renewal funding policy in 2003, agencies would operate under the same funding policy and without renewal funding shortfalls for two consecutive years.

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<sup>6</sup> Both House and Senate bills have the same bill number (H.R. 3074). Each version is available at <http://thomas.loc.gov>.

## Senate Bill Would Encourage Agencies to Assist More Families in 2008

The Senate bill's funding formula also encourages agencies to assist more families. In 2006, agencies used only about 90 percent of their authorized vouchers, a sharp decline from the greater than 98 percent utilization rate in 2003-2004, even as many agencies accumulated growing reserves of unspent voucher funding.<sup>7</sup> This weakening performance primarily reflected two factors. First, funding cuts and instability in 2004 and 2005 caused many agencies to administer their programs with increasing caution to hedge against potential funding shortfalls. Secondly, the "dollar-based" funding formula used in 2006 (which based agencies' renewal funding on their 2005 allocations rather than their actual leasing performance and costs) gave agencies no incentive to assist more families even if they had adequate funding to do so, since their future funding allocations would not be directly tied to the number of families they served.

Congress corrected these problems in the 2007 appropriations act, providing every agency with adequate renewal funding and adopting a funding formula that ties funding allocations to recent leasing and costs. The use of a recent-cost formula encourages agencies to assist more families, because agencies can reasonably expect that recent leasing increases will be taken into account when renewal funding is allocated in future years. By providing stable renewal funding and an incentive to assist more families, the 2007 act encouraged agencies to reverse the precipitous decline in voucher use that began in early 2004.

The Senate bill would ensure that agencies that have responded by using available funding to serve additional families would receive adequate renewal funding in 2008. If Congress instead were to leave these high performers in the lurch, forcing the very agencies that had responded as Congress intended to scramble to reduce the number of families served, agencies would likely revert to the overly cautious behavior that has been widespread in recent years, hoarding funds to guard against future funding shortfalls.

## Senate Bill Retains Strong Controls on Voucher Costs

Contrary to statements by some Members of Congress and the Administration, the recent-cost formula in the Senate bill remains "budget-based" in the same way that the 2005-2007 formulas were, and is not a reversion to the unit-based formulas used in 2002 and earlier. Under the Senate bill, each agency would receive a fixed voucher budget for 2008 based on its leasing performance and actual spending in 2007, without the possibility of an automatic draw on the federal treasury for each "unit" or voucher it is authorized to administer. Nor is there a cost-reimbursement policy like that in effect in 2003, when agencies' funding was adjusted every quarter based on their spending in the prior quarter.<sup>8</sup> Agencies will have no access, under the Senate bill, to supplemental funds from HUD, even if their costs increase in 2008 beyond HUD's formula inflation factor.

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<sup>7</sup> For an explanation of how the utilization figures were calculated, see the technical appendix to Barbara Sard and Martha Coven, "Fixing the Voucher Formula: A No-Cost Way to Strengthen the "Section 8" Program," Center on Budget and Policy Priorities, November 1, 2006; available at <http://www.cbpp.org/11-1-06hous.htm>.

<sup>8</sup> Moreover, concerns about the need to control program costs are overstated. A recent GAO report concludes that the rate of growth of costs in the voucher program had already fallen sharply prior to the implementation of budget-basing in 2004 and 2005. See GAO Report 06-405, *Rental Housing Assistance: Policy Decisions and Market Factors Explain Changes in the Costs of the Section 8 Programs* (April 2006).

Moreover, the Senate bill includes an important additional incentive proposed by the Administration to control per-voucher costs. The Senate bill would revert to the policy of basing agencies' administrative funding on the number of vouchers they use rather than their administrative funding in the prior year, as has been the case since 2003. This will encourage agencies to stretch their renewal funds to serve as many families as possible, keeping unit costs in check.

### **House Bill Would Suspend 2007 Reforms and Cause Voucher Cuts in Some Communities**

The HUD appropriations bill approved in July by the House of Representatives (H.R. 3074) would provide \$14.7 billion for housing voucher renewals in 2008, some \$308 million more than the 2007 funding level and \$300 million more than the Administration requested. (Overall, the House bill provides \$330 million more for the housing voucher program than the Administration requested, as it also includes \$30 million for new "incremental" vouchers.)

Unlike the Senate bill, the House bill would suspend the 2007 voucher renewal funding formula reforms in 2008. Each agency's 2008 voucher funding would be based on its 2007 funding level rather than its recent actual recent leasing performance and costs. In effect, the House formula would base 2008 renewal funding on agency performance in 2006 since agencies' 2007 allocations were based on leasing and cost data from 2006.<sup>9</sup>

Importantly, the House Appropriations Committee report on the 2008 HUD bill expresses support for the 2007 funding formula reforms.<sup>10</sup> Yet the report also notes that HUD resisted the change in funding policy and did not inform agencies until late June — four months after the change was signed into law and six months into the funding year — of the allocations they would receive under the improved formula. During the interim, agencies were funded at their 2006 levels, with no adjustments for inflation or changes in voucher usage. The report raises the concern that agencies have had too little time to transition to the 2007 formula. This concern is likely premised on the belief that agencies have remained frozen in place for most of this year while waiting for HUD to notify them of their 2007 allocations; the House Committee may have concluded that it would be unfair to tie agencies' 2008 allocations to their 2007 performance.

A review of HUD data reveals, however, that most agencies have *not* remained frozen in place in 2007. Indeed, as of March 2007, most agencies were serving significantly more families than they had in 2006, and voucher usage is likely to increase further in the second half of 2007. Moreover, suspending the 2007 voucher formula reforms would have troubling consequences for many agencies and the families they assist. Most importantly, it would force some agencies to cut the number of low-income families using vouchers in 2008.

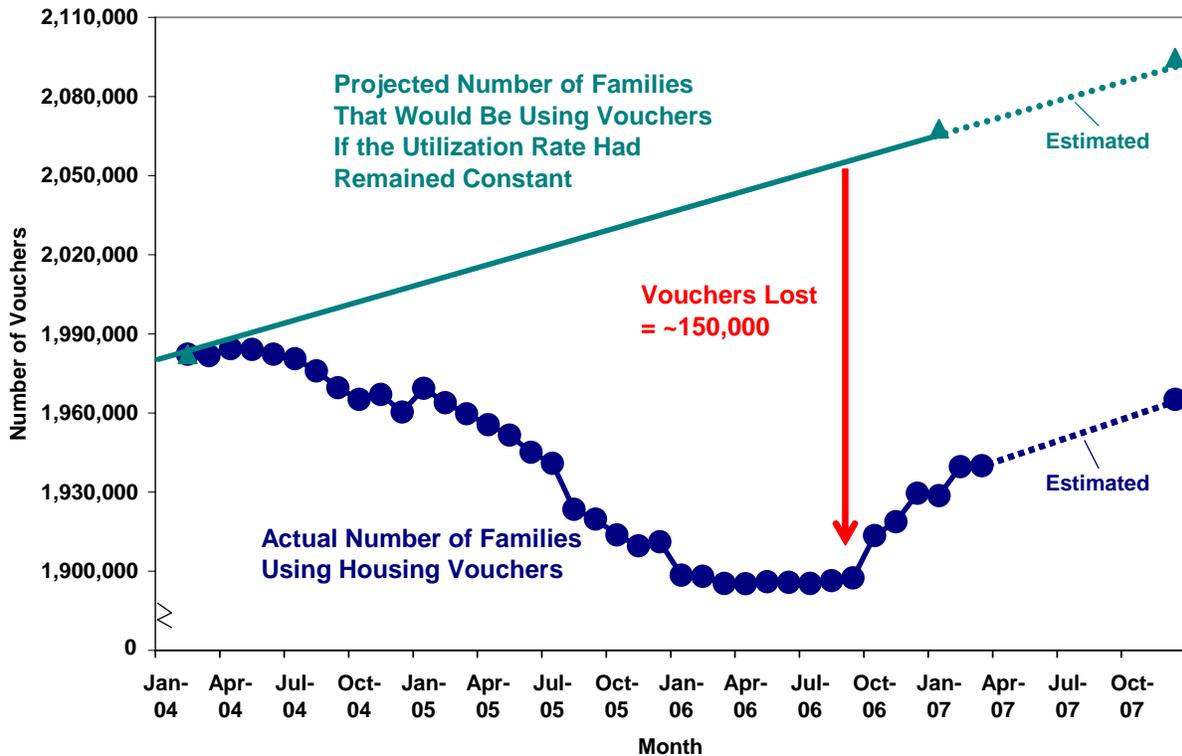
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<sup>9</sup> Similar to the Senate bill, the House voucher funding formula would apply HUD's Annual Adjustment Factor and other adjustments.

<sup>10</sup> See House Report 110-238, p. 128.

FIGURE 1

Despite Recent Gains, Number of Families Assisted by Vouchers Remains Far Below 2004 Level



Source: Calculations by CBPP based on HUD data. Voucher use figures exclude data from 16 agencies (administering 4,896 vouchers) for which data were incomplete and 14 Gulf Coast agencies most affected by Hurricane Katrina. The “Projected Number of Families That Would Be Using Vouchers...” was estimated by assuming that the voucher utilization rate (i.e., the percent of total authorized vouchers that are actually being used) during February-April 2004 would remain constant through the end of 2007. The estimate also takes into account the addition of new tenant protection vouchers issued to replace federally-assisted housing units that have been lost, which increases the number of authorized vouchers.

**House Bill Would Penalize Agencies That Improved Their Performance in 2007**

In the last quarter of 2006 and first quarter of 2007, most agencies had begun to rebuild their voucher programs and to assist additional families. By March 2007, 1,300 agencies had increased the number of families they served by nearly 50,000, in comparison to 2006.<sup>11</sup>

There are good reasons to expect that agencies will continue to restore vouchers to use throughout the remainder of 2007. As noted above, the 2007 law provided a substantial increase in voucher funding, as well as a recent-cost funding formula that improved incentives for agencies to serve more families. Following HUD’s implementation of the law in June, most agencies are likely to respond by increasing the number of families they assist in the second half of 2007. Using

<sup>11</sup> These figures are based on CBPP analysis of data from HUD’s Voucher Management System. The data from March 2007 are the most recent available to CBPP.

conservative assumptions about agency behavior in the second half of 2007, we estimate that by the end of the year, agencies will be assisting 80,000 more families than their average caseload for 2006.<sup>12</sup>

The House bill would penalize the agencies that have achieved these gains, however, and place some families at risk of losing their assistance in 2008. Under the House bill, agencies that assisted more families in 2007 than in 2006 would be denied an increased share of funding in 2008 to cover the costs of renewing the additional vouchers, because renewal funding would be based on outdated 2006 voucher leasing and cost data. (The accompanying textboxes provide examples of housing agencies that improved their performance in 2007 and would be penalized in this way under the House bill.)

Consequently, many agencies that improved their performance in 2007 would be required to cut back on the number of families they assist in 2008, by shelving vouchers when families leave the program and, if necessary, by terminating assistance for some families currently using vouchers.<sup>13</sup> Penalizing these agencies would discourage agencies from serving more families, contrary to the goals of the 2007 reforms.

#### **Example: Pittsfield Housing Authority**

The Pittsfield Housing Authority is a small agency in western Massachusetts that was using 99 percent of its 580 vouchers in early 2004, before unexpected changes in the voucher renewal funding policy precipitated a sharp decline in the number of families served. By 2005, voucher utilization had fallen to 84 percent, a loss of about 100 vouchers, due to a shortfall in federal funding. The agency has improved its leasing in 2007 and is on track to serve 98 percent of the number of families it is authorized to assist. Yet the House bill would provide no renewal funding for some of these vouchers, because its formula bases funding on outdated leasing data. (Under the Senate formula, Pittsfield would receive enough funding to renew all its vouchers.)

### **Up to 55,000 Families Could Lose Assistance Under House Bill**

Although the House bill would increase funding for voucher renewals by more than \$300 million in 2008, it would fail to fund approximately 55,000 housing vouchers likely to be in use at the end of 2007, according to CBPP estimates. More than half of all agencies would confront renewal funding shortfalls.

The Center's estimate is based on the conservative assumption that voucher usage will increase by a modest 3.5 percent overall by the end of 2007, in comparison to 2006. (Voucher usage had already increased by 2.1 percent as of March 2007, and, as explained above, many agencies are likely to have increased the number of families they assist after they received official notice of their 2007 funding allocations from HUD.) Even if voucher usage remained flat at the March 2007 level, about 36,000 vouchers in use at the end of 2007 would be unfunded in 2008 under the House bill.<sup>14</sup>

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<sup>12</sup> Like the figures in the preceding paragraph, this figure is not a "net" leasing figure — i.e., it represents gains at housing agencies with leasing gains, ignoring declines in leasing at other agencies. The assumptions underlying the analysis yielded the projection of a net gain of 3.5 percent by the fourth quarter of 2007, in comparison to 2006. See the technical appendix for an explanation of the methodology.

<sup>13</sup> Some agencies would be able to draw on funding reserves to prevent voucher losses, but many would not. See below for a fuller explanation of this point.

<sup>14</sup> The House bill sets aside an additional \$75 million in voucher funds for "unforeseen exigencies" and other purposes, and it is possible that HUD could direct a portion of these funds to agencies to alleviate renewal funding shortfalls. But

The main reason for these shortfalls is the House bill's inefficient renewal funding formula. Even if the House bill provided the same amount of renewal funding as the Senate bill, its formula for distributing this funding would still leave vouchers assisting 44,000 families at the end of 2007 unfunded for 2008.

### Many Agencies Will Not Have Sufficient Reserves to Avoid Cutting Vouchers

Faced with the renewal funding shortfalls that would result under the House bill, some agencies could draw on funding reserves to avoid terminating assistance to low-income families.<sup>15</sup> It would be a mistake, however, for Congress to assume that every agency could avoid cuts in 2008 by using its reserves.

One-third of the agencies that would confront renewal funding shortfalls under the House bill will have funding reserves of less than 5 percent at the beginning of 2008, according to CBPP estimates, and one-seventh will have reserves of less than 1 percent. Nearly all of these agencies would have to reduce the number of families they assist in 2008 to make up for renewal funding shortfalls, as their reserves would be insufficient to fill the gap.<sup>16</sup> (Outlined in the nearby textboxes are two examples of agencies whose reserves are likely to be insufficient to make up for renewal funding shortfalls — the Michigan State Housing and Development Agency and the Cook County Housing Authority.)

In addition, as a matter of policy, agencies should not be forced to rely on reserves to cover basic renewal costs. In general, reserves are intended to address costs that cannot be anticipated, such as unexpected increases in voucher leasing or local rents due to rental market changes. If agencies are forced to rely on reserves to cover *foreseeable* shortfalls as well, they are likely to respond by assisting fewer families than they otherwise would in order to build their reserves. This type of behavior has been evident among agencies since 2004, as many have accumulated large reserves even as the number of families using vouchers declined. Forcing agencies to rely on funding reserves to

#### Example: Michigan State Housing and Development Agency (MSHDA)

MSHDA, which is authorized to serve nearly 24,000 families throughout the state, was severely underfunded by the leasing and cost snapshots used when voucher funding policy was modified in 2004 and 2005. MSHDA benefited substantially from the 2007 reform in renewal funding policy, however, and expects to serve at least 2,000 more families in 2007 than in 2006. Under the House bill, vouchers for at least 700 of these families would receive no renewal funding in 2008. In addition, the agency would not have reserve funds to make up the shortfall — placing these families at risk of losing their housing assistance.

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\$75 million would be far too little to fill the likely funding gap — renewing 55,000 vouchers would cost close to \$400 million — and in any event, HUD would not be required under the bill to use the funds for this purpose.

<sup>15</sup> Funding reserves consist of agency-held unspent voucher funding from prior years. HUD's latest name for these reserves is the "HAP Equity Account." ("HAP" is an acronym for "housing assistance payments.") In 2005 and 2006, HUD labeled these funds as an "undesignated fund balance." Previously, they were known as the "project reserve," and were held in federal accounts, not by the agency.

<sup>16</sup> While agencies are likely to spend down their reserves below the 5 percent level if needed to avoid terminating families currently using vouchers, they are unlikely to do so if voucher usage can be reduced through attrition, i.e., by not reissuing vouchers that become available when families leave the program, in part because it is good business practice to maintain some reserves to address future costs that cannot be anticipated.

cover renewal costs in 2008 would reinforce such behavior.<sup>17</sup>

## **Senate Bill Would Not Harm Agencies Slow to Respond to 2007 Reforms**

As explained above, the House bill would suspend the use of the recent-cost funding formula out of concern that it might unfairly harm agencies whose voucher leasing rate in 2007 has been dampened by HUD's delay in implementing the new funding policy. Yet such agencies are unlikely to be harmed under the funding formula employed under Senate bill, for at least two reasons.

First, agencies that have *not* increased the number of families they assist in 2007 are likely to have substantial reserves. (While it is poor policy to require agencies to rely on funding reserves to cover basic renewal costs, it is reasonable to expect them to use a portion of reserves to expand their programs, at least when resources are scarce.) Like all other agencies, these agencies received a 2007 funding allocation that is approximately 5 percent greater than the amount needed to renew every voucher in use in 2006. In addition, among the agencies that were serving the same number or fewer families in March 2007 than they had in 2006, the median agency already had funding reserves equal to more than 7 percent of its annual spending as of January 2007. Therefore, the great majority of agencies that have not increased their voucher usage in 2007 will have substantial funding available to assist more families next year, even without additional funding they might receive under the House formula.

Rather than suspending the use of the recent-cost voucher formula, a better approach would be to protect agencies' reserves at a level sufficient to enable agencies to use them, if needed, to fund additional authorized vouchers in 2008. The House report took a step in this direction by instructing HUD not to recapture reserves from any agency in 2008.<sup>18</sup> Instead of an absolute prohibition, however, it would probably be sufficient to protect reserves below a specific modest level, as under the Section 8 Voucher Reform Act of 2007 approved by the House on July 12.<sup>19</sup>

Secondly, the Senate bill sets aside \$100 million in renewal funding that can be used to provide funding adjustments for agencies that were slow to respond to the 2007 reforms but ultimately succeeded in increasing the number of families served by the end of the year, and which could face the loss of voucher units under the recent-cost formula.<sup>20</sup> An identical provision was included in the 2007 voucher funding law, and HUD implemented the provision so as to provide a funding

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<sup>17</sup> In theory, agencies also could reduce spending by using the flexibility available under current law to reduce average subsidy payments. However, the funding shortfalls of the previous three years have already driven agencies to shave per-voucher costs, and it is unrealistic to expect that agencies could achieve significant further savings in this way. Over the three-year period ending in March 2007, average per-voucher costs increased by only 2 percent, far below the actual rate of inflation for rent and utility costs. At the same time, there is evidence that rent burdens of families participating in the program are high, suggesting that reduced per-voucher subsidy levels are forcing families to pay more costs out-of-pocket in order to secure housing using a voucher. Based on HUD data, the Congressional Budget Office estimates that nearly half of the families using vouchers pay more than 30 percent of their income for housing costs and about one in five pays more than 40 percent. See House report 110-216, p. 51.

<sup>18</sup> See House Report 110-238, July 18, 2007, p. 128.

<sup>19</sup> See H.R. 1851, the Section 8 Voucher Reform Act of 2007 (SEVRA). Under SEVRA, reserves of unspent funding less than an amount equal to 12.5 percent of each agency's annual funding allocation would be protected in 2008.

<sup>20</sup> See H.R. 3074, as agreed to by the Senate, p. 84.

adjustment for every agency that had increased the number of families served by at least 3 percent by the end of the 12-month base period, in comparison to the average caseload during the full 12 months.<sup>21</sup>

This provision would help agencies that remained frozen in place temporarily as a result of HUD's delayed implementation of the 2007 appropriations law but succeeded in serving additional families later in the year, after they were formally notified by HUD of their 2007 funding allocations. In contrast to the solution advanced in the House bill, however, this provision would *not* provide additional funds to agencies that *failed* to lease additional vouchers by the end of the year. Nor would it penalize the majority of agencies that have assisted more families in 2007 despite HUD's delays.

### **Voucher Funding Would Be More Predictable and Stable Under Senate Bill**

Some have argued that the House approach of basing each agency's share of voucher renewal funding on its dollar allocation in the previous year would provide agencies with more predictable and stable funding. Presumably, this view is based on the fact that each agency knows its previous year's allocation and thus could project its future allocation. Yet this line of reasoning ignores an important complication in the House approach.

Under the House bill, each agency's allocation would be determined by the prior year's funding allocation *only if Congress fully funded the House formula*, i.e., provided a total amount of renewal funding equal to the 2007 allocation plus enough additional funding to cover both HUD's inflation factor (called the annual adjustment factor, or AAF) and the renewal of "tenant-protection" vouchers issued in the previous year to replace other federal housing assistance. Full funding of the House voucher formula for 2008 would require more than \$15.2 billion, or about \$500 million more than the House has provided in its bill and \$300 million more than the amount included in the Senate bill.

Because the House bill does not fully fund its voucher renewal formula — and it would be an unwise use of scarce funds to do so — each agency's share of renewal funding would be prorated (i.e., cut) below the funding level the agency is due to receive under the House formula. And because the depth of the cut is difficult, if not impossible, for agencies to predict in

#### **Example: Cook County (IL) Housing Authority**

Cook County HA served 600 fewer families in 2006 than in early 2004, despite being awarded 870 new vouchers to replace other federally-assisted housing in the community that was lost. This year the agency will reverse this loss: it expects to serve about 1,240 more families than last year, using 98 percent of its authorized vouchers. To achieve this impressive turnaround, the agency will draw down much of the funding it holds in reserves. Because of the pro rata cut in funding that would result under the House bill, the agency would receive less funding in 2008 than in 2007 — and none of the additional vouchers used in 2007 would be funded. Moreover, the agency would have insufficient reserve funds to make up the gap, forcing it to shrink its program by about 1,000 families during 2008. To provide enough renewal funding to prevent this loss would require — for this one agency alone— 12 percent of the \$75 million in adjustment funds the House bill provides.

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<sup>21</sup> See HUD notice PIH 2007-14.

advance, they would face considerable uncertainty about their 2008 funding allocations under the House bill.

In 2008, the pro rata cut in renewal funding would be 3.2 percent under the House bill, according to CBPP estimates. CBPP estimates that HUD's AAF for 2008 will average 4.36 percent, so the 3.2 percent cut means that agencies would receive, on average, an inflation adjustment of slightly more than 1 percent next year — well below the amount needed to cover the costs of rent and utility inflation.<sup>22</sup> Voucher renewal funding that fails to cover inflation in rents and utility costs can hardly be considered stable.

Indeed, more than 600 agencies, or one-quarter of all agencies administering voucher programs, would receive *less* funding in 2008 under the House bill than they did in 2007, according to our estimates, because their inflation adjustments would be smaller than the 3.2 percent funding proration. (The nearby textbox includes an example of one such agency — the Cook County Housing Authority.) Even if renewal funding in the House bill were increased by nearly \$200 million to match the amount provided in the Senate bill, the inefficient funding formula in the House bill would still yield a prorated funding cut of 2.1 percent, according to CBPP estimates.

In contrast, there would be *no* prorated funding cut under the Senate bill, and every agency would receive sufficient funding to renew the vouchers expected to be in use by the end of 2007. The Senate bill would thus provide the voucher program with superior funding stability.

## Other Voucher-Related Improvements in the Two Bills

Both the House and Senate bills make important improvements in the voucher program in four key areas not directly related to the core issues of funding and distribution formulas that are discussed above:

- **New, “incremental” vouchers.** Rising housing costs and stagnating incomes have created serious housing affordability problems for large numbers of low-income families over the past two decades, and the number of families confronting such problems has grown substantially since 2000.<sup>23</sup> Responding to this disturbing trend, Congress funded approximately 300,000 new housing vouchers between 1996 and 2002, on top of the “tenant-protection” vouchers that were issued to replace other types of federal housing assistance. Yet Congress has funded no incremental vouchers since 2002.

Both the House and Senate bills would reverse this trend by providing \$30 million and \$105 million, respectively, to fund new incremental vouchers in 2008.<sup>24</sup> While these amounts are

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<sup>22</sup> In 2007 the average inflation adjustment was 4.05. See the technical appendix for an explanation of the estimated 2008 inflation adjustments.

<sup>23</sup> See Douglas Rice and Barbara Sard, “The Effects of the Federal Budget Squeeze on Low-Income Housing Assistance,” Center on Budget and Policy Priorities, February 1, 2007.

<sup>24</sup> In the House bill, the incremental vouchers are targeted to nonelderly disabled families and homeless veterans. The Senate bill sets aside \$30 million for vouchers under the Family Unification Program, which providing rental assistance to help children in foster care to reunify with their families, and \$75 million for the HUD-VASH program, which funds supportive housing for veterans with mental illness and substance abuse disorders.

modest — the House bill would fund fewer than 4,000 new vouchers, while the Senate bill would fund a bit more than 13,000 — this funding provides an important signal that the current Congress intends to break with the recent history of neglect of the nation’s affordable housing problems.

- **Administrative fees.** Both the House and Senate bills adopt a proposal from the President’s budget proposal to distribute administrative funding to agencies based on how many vouchers they use. This provision, which would return to the policy in place prior to 2004, would provide agencies with an important incentive to assist more families with their voucher allocations and thus to reduce their per-voucher costs.
- **“One-for-one” replacement of lost housing with tenant-protection vouchers.** The Senate bill would require HUD to issue tenant-protection vouchers for every lost unit of assisted housing, reversing a policy change that HUD recently made without authority from Congress.<sup>25</sup> The House included a similar requirement in the committee report accompanying the Transportation-HUD appropriations bill. Because the Senate provision is included in the bill itself, rather than in the committee report, it would have the force of law and is therefore stronger. (HUD can legally ignore report language.) This change would help to prevent the loss of affordable housing resources in communities where public housing is being demolished or sold, or where private assisted housing is being converted to market-rate housing.
- **Voluntary consolidation initiative.** In its budget, the Administration proposes to set aside \$5 million in 2008 on a pilot basis to provide bonus administrative fees to agencies that volunteer to consolidate the administration of their voucher programs. While the details of this proposal have not yet been released, the idea represents very sound policy, and both the House and Senate bills would authorize the initiative. About 1,700 housing agencies administer fewer than 600 vouchers apiece; some of these agencies could achieve significant savings (for themselves and the federal government) by consolidating the administration of their voucher programs. The pilot program would also help to identify program and policy changes that could be beneficial to implement on a larger scale.

## Conclusion

The President’s 2008 budget would fail to renew 80,000 vouchers expected to be in use by low-income families at the end of 2007, perpetuating the funding instability and voucher losses that have plagued the voucher program in recent years. The House appropriations bill would increase voucher renewal funding by \$300 million above the President’s request, but it would fail to renew 55,000 vouchers in use at the end of 2007 (according to CBPP estimates) because of the inefficient formula it would use to distribute this funding.

In contrast, the Senate bill would restore stability to the voucher program by continuing the reformed voucher renewal formula that Congress adopted earlier this year and increasing the President’s renewal funding request by nearly \$500 million. In large part because each agency’s

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<sup>25</sup> For a fuller explanation of this issue, see Douglas Rice and Barbara Sard, “The Effects of the Federal Budget Squeeze on Low-Income Housing Assistance,” Center on Budget and Policy Priorities, February 1, 2007.

funding would be based on its recent leasing rates and costs, the Senate bill would provide adequate funding to renew every voucher in use at every agency in the country. In addition, the Senate bill would encourage agencies to make better use of their funding to assist more families, thereby continuing the process begun in 2007 to reverse the sharp decline in voucher usage experienced since 2004.

Adopting the Senate's recent-cost funding formula in the final HUD bill would become even more critical if the voucher renewal funding amount provided in the final bill were significantly below the Senate level. This is because the Senate funding formula is more cost-effective: *for every given dollar of renewal funding allocated by Congress, the Senate formula would renew more vouchers than the outdated formula prescribed by the House bill.*

A number of factors could drive the voucher renewal funding level down in the final bill. Most significantly, the White House has threatened to veto any appropriations bill for 2008 that does not adopt the overall discretionary funding levels proposed in the President's budget request. The President's budget would reduce total funding for HUD programs by \$2.2 billion (or 5.5 percent) below the 2007 funding levels, adjusted for inflation.<sup>26</sup> The Administration also has issued specific veto threats against the Transportation-HUD appropriations bills approved by the House and Senate, which would increase funding for HUD programs by an average of less than 1 percent over 2007 levels, adjusted for inflation. Even with the modest increases in the House and Senate bills, funding for HUD programs under those bills would remain about 4.5 percent below the 2004 levels, adjusted for inflation.<sup>27</sup>

Because of this dispute between the White House and Congress, it is unlikely that the HUD bill will be completed by the start of the fiscal year on October 1, and the final outcome remains uncertain. In the meantime, Congress and the President are expected to fund the voucher program through one or more short-term continuing resolutions (CRs), under which agencies administering vouchers would continue to receive funding at their 2007 levels.

Short-term CRs are not likely to disrupt the voucher program, but if the program is frozen well into 2008, some agencies — especially those that are assisting more families in 2007 than in 2006 — could be forced to cut back on the number of families they help.<sup>28</sup> A long-term CR would be equivalent to the President's proposed budget cut for vouchers, and would risk the loss of assistance of up to 80,000 families next year.

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<sup>26</sup> The figures are for gross budget authority (i.e., prior to the netting of receipts and rescissions), which, in this context, provides a more accurate picture of changes in program funding levels. The analysis is based on data provided by the House and Senate Appropriations Committees in House Report 110-238 and Senate Report 110-131.

<sup>27</sup> Another factor that may create pressure to reduce funding for vouchers (and many other HUD programs) is that the project-based Section 8 program faces an unexpected shortfall — approximately \$2 billion by some estimates — that Congress must address within the next few months. The shortfall, apparently the result of poor federal program management, surfaced in the summer of 2007 when HUD failed to provide payments to about half of the private owners of the nearly 1.3 million affordable apartments funded under the program. It is to be hoped, in light of the shortfall's sudden and unexpected nature, that Congress and the Administration will provide supplemental funding to cover the shortfall rather than redistributing funding already allocated in the current HUD appropriations bills for other programs, but the outcome remains uncertain and risks consequently remain for other programs funded under the bill.

<sup>28</sup> Short-term CRs are unlikely to disrupt the voucher program because it operates on a calendar year basis, and so funding from the 2008 HUD bill will not be needed until January 1, 2008.