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PRESIDENT'S BUDGET REQUESTS INSUFFICIENT FUNDING FOR HOUSING VOUCHERS IN 2004

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Executive Summary

The President's fiscal year 2004 budget request would leave more than 100,000 housing vouchers unfunded, including many vouchers that are likely to be in use. It also would make other changes that would weaken the voucher program.

Although the voucher program is the cornerstone of federal housing assistance for low-income families, it serves only a fraction of those in need. Census data show that approximately five million households that do not receive housing assistance either pay more than half of their income for rent and utilities or live in severely substandard rental housing. The President's budget request would exacerbate this problem.

Specifically, the President's budget:

- requests a level of appropriations that would leave approximately 113,000 - 137,000 previously authorized vouchers unfunded, even though a substantial number of these vouchers are likely to be in use in fiscal year 2003 and to require renewal funding in fiscal year 2004;

- relies on outdated data (primarily from fiscal year 2001) to estimate the proportion of authorized vouchers in use and hence the amount of renewal funding needed for housing vouchers;

- may reverse recent progress that housing agencies have made in increasing voucher utilization;

- requests only 5,500 new ("incremental") vouchers, compared with the 34,000 new vouchers the Administration requested in each of its first two budgets;

- appears to provide the HUD Secretary with virtually unlimited authority to grant states waivers of federal statutes and regulations affecting the voucher program;

- requires housing agencies to impose minimum monthly payments on families with little or no income who participate in the major federal housing assistance programs; and

- separates funding for the voucher program from funding for the project-based Section 8 program and places the voucher program in a new account called Housing Assistance for Needy Families. The budget indicates that the name change is the first step in an Administration plan to convert the voucher program to a state-administered block grant in fiscal year 2005. The budget provides few details on the block grant; most details remain to be filled in when the Administration submits legislation. (See the Center's web site, http://www.cbpp.org/housingvoucher.htm, for analysis of the block grant proposal.)

The Housing Voucher Program

Housing vouchers, also referred to as "tenant-based Section 8" vouchers, are the nation's principal form of assistance to low-income renter families and elderly and disabled people. Voucher holders generally pay 30 percent of their income to live in modestly priced private housing, with the voucher covering the remainder of the rent and utility costs. The voucher program has proven to be highly effective in providing needed housing assistance. Research indicates that vouchers not only make housing affordable to low-income families and elderly and disabled individuals, but also may reduce welfare receipt and have positive effects on employment, earnings, educational outcomes, and child well-being.[1] The bi-partisan, Congressionally-chartered Millennial Housing Commission concluded in a recent report that the housing voucher program is "flexible, cost-effective, and successful in its mission" and should be the "linchpin" of national housing policy.

Over the nearly 30 years since the inception of the Section 8 tenant-based assistance program, Congress has authorized more than two million housing vouchers. Due to funding limitations, however, the voucher program reaches only a fraction of the low-income households eligible for it. About three-fourths of the low-income households that are eligible for vouchers do not receive any form of federal housing assistance, and in most locations, there are long and growing waiting lists (frequently several years long) for the voucher program.

The unmet need for housing vouchers is consequently large. A HUD analysis of Census data shows that in 1999, nearly five million households that did not receive housing assistance and had incomes below half of the median income in their local area faced what HUD terms "worst case housing needs," which means they either paid more than half of their income for rent and utilities or lived in severely substandard rental housing. Most of the low-income families (as distinguished from the elderly and disabled individuals) with "worst case" housing needs are low-income *working* families.

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[1] For a summary of this research, see Barbara Sard and Margy Waller, "Housing Strategies to Strengthen Welfare Policy and Support Working Families," Center on Budget and Policy Priorities and Brookings Institution Center on Urban and Metropolitan Policy, 2002, available on the internet at http://www.cbpp.org/4-15-02hous.htm.

The housing affordability problem is likely to be even more severe today, since housing costs have increased faster than incomes since 1999 without an offsetting increase in the supply of subsidized housing. Recent data show that the share of extremely low-income families (those with incomes below 30 percent of the area median income, which nationally is roughly equivalent to the poverty line) with worst case housing needs increased slightly between 1999 and 2001.[2]

The vast bulk of the families with "worst case needs" have these needs because they are unable to obtain affordable housing and must pay more than half of their income for rent and utilities. Vouchers directly address this problem by reducing the rental costs that families bear.

The Budget Would Fail to Fund More Than 100,000 Authorized Vouchers

While the Administration's budget essentially follows a new funding model initiated in the fiscal year 2003 appropriations act, *it does so without providing the resources necessary to ensure that use of this model does not lead to the loss of vouchers.* Under this new methodology, HUD renews expiring voucher contracts with public housing agencies (PHAs) based on the number of vouchers under lease at the time of contract renewal.[3] This is a change from the historical practice of providing each PHA with budget authority for all authorized vouchers at the time of contract renewal, and is intended to eliminate the problem of unutilized voucher funds. Nevertheless, the conference report that accompanies the 2003 bill indicates that PHAs continue to have the legal right to issue unused vouchers that they are authorized to administer, and HUD has sufficient Section 8 funds available this year to provide PHAs with the funding they need to support additional vouchers that they are able to put into use during the course of fiscal year 2003, beyond the number of vouchers for which PHAs initially received funding. The language of the Administration's fiscal year 2004 budget request appears to affirm this legal right. But as explained below, the budget probably fails to provide sufficient funding to support all of the authorized vouchers that can be used in 2004.

The Administration requests an appropriation of $13.047 billion in fiscal year 2004 for voucher renewals, including administrative fees. Of this amount, $12.520 billion would be designated to provide initial funding to housing agencies for vouchers that are in use at the time of contract renewal, while the remaining $527 million would be available to agencies that increase the number of vouchers in use over the course of the year.[4]

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[2] U.S. Department of Housing and Urban Development, Fiscal Year 2002 Performance and Accountability Report, 2-22 – 2-26, available on the internet at http://www.hud.gov/offices/cfo/reports/2002par.pdf.

[3] Unlike the FY 2003 appropriations act, the Administration's budget specifies that PHAs should receive funds for vouchers that they have contractually committed to use as project-based vouchers at particular developments. This is a helpful addition that is likely to encourage owners to make commitments to accept project-based vouchers, knowing that PHAs will be able to keep their side of the deal when units are ready for occupancy.

[4] The budget divides voucher renewal funding into three funds: an initial contract renewal fund, a central fund that includes funds for agencies that increase the number of vouchers in use over the course of the year, and an administrative fee fund. The budget would allow HUD to transfer appropriations among these three funds. The administrative fee fund would be used to pay for administrative fees for vouchers funded under both of the other funds. The figures of $12.520 billion for initial contract renewals and $527 million for additional contract renewals

Based on a conservative assumption that the average cost of each voucher will be $6,545, the $13.047 billion requested by the Administration's budget would fund approximately 1,993,000 vouchers. This is 93.6 percent to 94.6 percent of the vouchers that Congress has authorized. (HUD recently estimated that 2,106,233 vouchers expire in fiscal year 2004, 24,000 fewer than the 2,130,000 indicated by Congressional Budget Office data. The ranges used in this paper are based on the differing HUD and CBO estimates of the number of authorized vouchers that expire in fiscal year 2004.) The Administration's request is $740 million to $900 million below the roughly $13.9 billion that would be needed to fund all authorized vouchers.[5]

In other words, *funding would not be provided for approximately 113,000 - 137,000 authorized vouchers.* (Appendix A explains the calculation of the number of vouchers that can be renewed under the Administration's budget.) Evidence of recent substantial increases in voucher utilization suggests that a large portion of these unfunded vouchers is likely to be in use in fiscal year 2003 and thus to require renewal funding in fiscal year 2004.

Some Vouchers Left Unfunded by the Administration's Budget Request Would Otherwise Be Used to Assist Needy Families

The Administration justifies its funding request by arguing that the request will be adequate to fund all vouchers that will actually be in use in fiscal year 2004. This statement is based on four premises.

1) On average, each voucher will cost $6,468 in fiscal year 2004;

2) 2,106,233 vouchers expire in fiscal year 2004;[6]

3) the percentage of all authorized vouchers in use at the time HUD enters into fiscal year 2004 contracts with PHAs will not exceed the level that can be supported by the $12.520 billion that the Administration requested

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that are cited here include the portion of the administrative fee fund that would be used for these purposes. See Appendix A for additional discussion of the appropriations requested in these three funds.

[5] Of the total requested appropriation of $13.607 billion for the voucher program (including funds, such as those set-aside for new vouchers and to assist states with transitions to the HANF block grant, that would not be part of the $13.047 billion available to renew existing vouchers), $1.072 billion is assumed to be carried over from recaptures of voucher appropriations from prior years. If the full amount of assumed carry-over funding is not in fact available to fund voucher renewals in fiscal year 2004, additional budget authority would be required. Additional appropriations also may be needed if the average cost of renewal vouchers turns out to be greater than the amount assumed in this analysis, as could well be the case. If either of these developments occurred and additional appropriations were not forthcoming, the number of vouchers left unfunded would be higher than the approximately 113,000 - 137,000 cited here. See Appendix A.

[6] Unlike previous years, HUD's budget documents do not specify the number of authorized vouchers that expire unless renewed in fiscal year 2004. In recent e-mail correspondence, HUD staff stated that their data indicate that 2,106,233 vouchers expire in FY 2004. HUD suggested some possible reasons why their current data indicate that 24,000 fewer vouchers require renewal than CBO has projected, based on data HUD provided last year. HUD's explanation does not, in our view, resolve the actual number of vouchers expiring in fiscal year 2004. See Appendix A.

for this purpose (this level would be 91.9 percent if the Administration's estimates of per-voucher cost and the number of voucher renewals proved accurate);[7] and

4) average voucher utilization during fiscal year 2004 will not rise beyond the level that can be supported by the total budget request of $13.047 billion for voucher renewals. (This level would be 95.8 percent under the Administration's estimates of per-voucher cost and the number of voucher renewals.)

If the Administration's assumptions regarding per-voucher costs or overall utilization are too low, the funding requested will be inadequate to support all of the vouchers that would otherwise be used.

It is very likely that per-voucher costs in 2004 will exceed $6,468. The Administration has itself used a higher figure ($6,545) to estimate the cost of the new incremental vouchers for which it seeks funding in the FY 2004 budget. Furthermore, in its newly released March 2003 budget baseline, the Congressional Budget Office estimates that outlays per voucher will be $6,842 in fiscal year 2004. The middle level of $6,545 is used for most calculations in this analysis. (See Appendix A for further discussion of per-voucher cost estimates.)

HUD's calculation that 91.9 percent of vouchers will be in use at the beginning of fiscal year 2004 also appears to be too low. This estimate is based on outdated data, primarily concerning voucher usage in fiscal year 2001; some of the data are from as early as July 2000. HUD's budget assumes there will have been no increase in the percentage of vouchers used since this period about three years earlier, except for a portion of the vouchers newly funded by Congress. (Appendix B analyzes HUD's calculation of the number of vouchers in use.)

The Administration's own reports, and recent data on voucher use and expenditures, indicate that there has, in fact, been a substantial increase in voucher use since fiscal year 2001.

- HUD's Fiscal Year 2002 Performance and Accountability Report states that voucher utilization reached 94 percent that year,[8] and the Budget Justifications

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[7] In its Budget Justifications, HUD states that 1,935,649 vouchers will be in use and require renewal in fiscal year 2004. This represents 91.9 percent of HUD's estimate of the 2.106,233 vouchers that will require renewal funding in fiscal year 2004, and 90.9 percent of the 2,130,000 expiring authorized vouchers estimated by CBO. See Appendix A.

[8] The utilization rate cited here is based on PHA scores in the Section Eight Management Assessment Program (SEMAP). For each agency, SEMAP uses the higher of the percentage of authorized vouchers or budget authority used. (An agency that has experienced rapid increases in rental costs may use a higher percentage of its budget authority than of its vouchers. The actual percentage of vouchers used nationally may be less than the composite SEMAP score, because the latter is raised by the scores of agencies that use a higher percentage of their budget authority than of their authorized vouchers.) In addition, the SEMAP utilization rates exclude new vouchers that were recently allocated to the PHA. HUD uses PHA-reported data for a PHA's last completed fiscal year to determine voucher utilization. For the FY 2002 report, HUD used data that encompassed a 12-month period for each PHA beginning as early as October 1, 2000 and ending no later than June 30, 2002. About half of the data

submitted by HUD to Congress in February 2003 indicate that HUD anticipates continued improvement in voucher utilization, to 95 percent and 96 percent respectively, in fiscal years 2003 and 2004.[9] The 2002 report covers a different period and uses a somewhat different methodology to estimate utilization than the Administration used in determining its budget request and thus does not directly contradict the fiscal year 2001 utilization level that the budget assumes. The projected increase, however, does contradict the budget assumption that utilization has not risen since fiscal year 2001.

- Another indication that voucher utilization has risen since the period on which the FY 2004 budget request is based is that HUD reports a substantial increase between 2001 and 2002 in the share of vouchers administered by housing agencies that are using at least 95 percent of their vouchers or voucher funding.[10]

- A recent study commissioned by HUD to gain a better understanding of the reasons for the differences among PHAs in voucher utilization found that utilization rates were increasing rapidly during calendar years 2001 and 2002.[11]

- Furthermore, data submitted in October and November 2002 by 343 state and local housing agencies that responded to a survey show that these agencies' average voucher leasing rate had risen from 90.8 percent during the agencies' last completed fiscal year to 96.8 percent at the time of the survey.[12]

- Data on housing voucher expenditures also point to an increase in voucher utilization. Outlays for the voucher program were more than 10 percent higher during fiscal year 2002 than during fiscal year 2001. This trend appears to be continuing in the first six months of fiscal year 2003.[13] While a portion of these increased expenditures reflects the cost of newly authorized vouchers and increased per-voucher costs due to rising rents, such a significant increase in outlays likely also reflects an increased rate of voucher utilization.

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reflects voucher utilization in fiscal year 2001, and half in fiscal year 2002. These data are more recent than the data that HUD's budget office relied upon to calculate the number of vouchers in use. See Appendix B.

[9] See HUD's Budget Justifications, A-15, and OMB Program Assessment Rating Tool for Housing Vouchers, p. 5. These projected improvements appear to be based on SEMAP utilization rates. If these projections are accurate, approximately 96 percent of authorized vouchers would require renewal funding in fiscal year 2004.

[10] HUD, *FY 2002 Performance and Accountability Report,* at page 2-28.

[11] Meryl Finkel, Jill Khadduri, Victoria Main, Linda Pistilli, Claudia Solari, Kristin Winkel, and Michelle Wood, *Costs and Utilization in the Housing Choice Voucher Program*, Abt Associates 2002 (unpublished report).

[12] The survey was conducted by the Council of Large Public Housing Authorities, the National Association of Housing and Redevelopment Officials, the National Leased Housing Association, and the Public Housing Authorities Directors Association. The local agencies that responded to the survey administer about one-third of the total number of authorized vouchers nationally.

[13] See Appendix A and note 22.

This apparent increase in voucher utilization can be attributed primarily to two trends. First, Congress, HUD and public housing agencies have made a number of policy changes in the last several years that have encouraged greater use of vouchers. These changes include: the establishment of a new performance measurement system; the targeting of incremental vouchers to agencies with utilization rates of 97 percent or higher; increases in the Fair Market Rent (HUD's annual measure of costs for a modest rental unit, which determines how much rent a voucher can cover) in areas where such increases were needed to ensure that voucher holders are able to afford an adequate share of the housing units in the local market; and the beginning of implementation of a policy to reallocate vouchers from agencies that fail to achieve adequate voucher utilization to agencies whose track record shows they will put the additional vouchers to use. Second, the softening economy has moderated rents and increased vacancy rates in many housing markets, making it easier for families to use vouchers.

Because HUD's budget request for fiscal year 2004 relies on several year-old data and on the assumption that the voucher utilization rate has not increased since fiscal year 2001, the budget request very likely underestimates the number of vouchers that will be in use during 2004. As the data discussed above indicate, it is almost certain that more than the 91.9 percent of authorized vouchers that could be supported by the Administration's budget request for initial renewal funding (at its own low estimates of per-voucher costs and number of expiring vouchers) will be in use at the beginning of fiscal year 2004. The data also suggest that there is significant possibility that the proportion of vouchers in use will rise during 2004 well beyond the 95.8 percent of authorized vouchers covered by the total amount in the Administration's funding request, including the central fund (at the Administration's low estimates of per-voucher costs and number of expiring vouchers.)

Moreover, the shortfall in the budget request takes on larger dimensions when more realistic figures are used for average costs per voucher in 2004. As noted, at the more likely per-voucher cost of $6,545, the Administration's total request would be sufficient only to support the use of 93.6 percent to 94.6 percent of authorized vouchers, rather than 94.7 percent to 95.8 percent. At the even higher per-voucher cost of $6,842 used by the Congressional Budget Office, funding would be available to support just 89.5 percent to 90.5 percent of vouchers, in either case a percentage even lower than the percentage that HUD's data show to have been in use three years earlier. There is thus a large risk that the total funding requested by the Administration will be insufficient to fund all of the vouchers that would otherwise be used during fiscal year 2004. See Table 1 on the next page.

If Congress provides insufficient appropriations for the voucher program and HUD does not have other funds available from previous years that it can use to provide additional voucher funding, it is likely that some vouchers in use will not be funded and the trend of increased voucher utilization will be reversed. (Individual "program reserve" funds that are assigned to each PHA could be used to offset a portion of the shortfall in renewal funding, but, as explained in Appendix A, it is impossible to quantify the number of vouchers that could be supported by

Table 1
Estimated Voucher Funding Shortfall in Fiscal Year 2004 At Different Estimates of Renewal Numbers and Costs

Cost per voucher in FY 2004	Number of renewal vouchers funded by President (at $13.047 billion)	Number of renewal vouchers not funded	Percent of authorized vouchers funded	Shortfall from full funding of authorized vouchers	Shortfall if FY 2004 utilization is 97 percent
$6,468 (Administration estimate)	2,017,161	113,000 (CBO data) or 89,000 (HUD data)	94.7% (95.8%)	$730 million ($576 million)	$317 million ($168 million)
$6,545 (CBPP estimate based on HUD budget for incremental vouchers)	1,993,430	137,000 (CBO data) or 113,000 (HUD data)	93.6% (94.6%)	$900 million ($740 million)	$478 million ($327 million)
$6,842 (CBO's outlay estimate)	1,907,000	223,000 (CBO data) or 200,000 (HUD data)	89.5% (90.5%)	$1.526 billion ($1.368 billion)	$1.088 billion ($931 million)

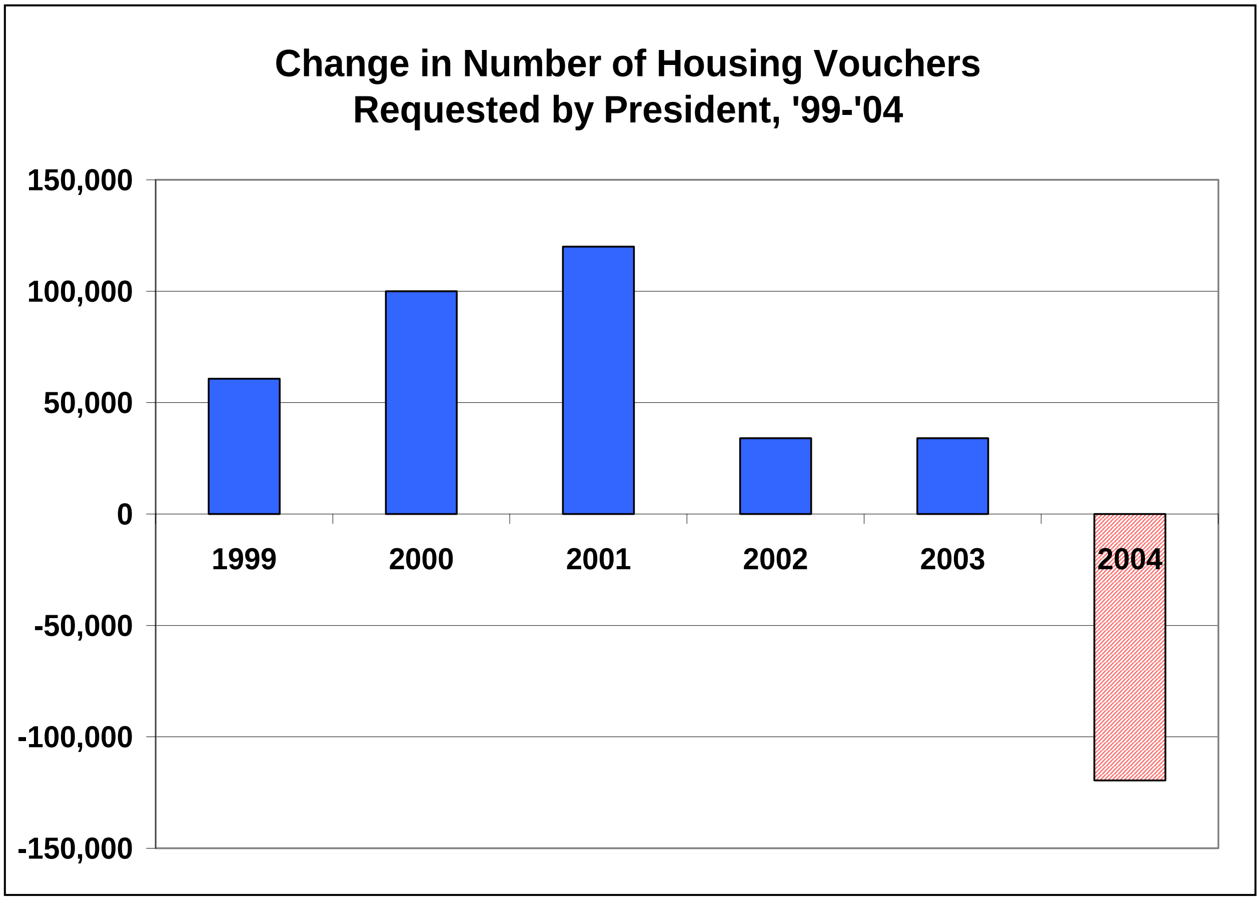
program reserves.) The extent of the underfunding could be still greater if voucher program expenditures continue at or near the current rate during fiscal year 2003, draining a portion of the carry-over funds that the Administration's budget assumes will be available in 2004. (See Appendix A.)

Fortunately, it appears that HUD will shortly have available up-to-date data on voucher use. HUD required all PHAs to submit to HUD by April 9, 2003 data on vouchers leased in each month from August 2002 through January 2003, and will require quarterly submission of leasing and cost data thereafter. Such current data should facilitate more accurate projections of voucher funding needs for fiscal year 2004.

The Budget Requests Funding for Only 5,500 Incremental Vouchers

In most years since the voucher program was established, Administration budgets have requested funds for a substantial number of "incremental" vouchers to increase the number of families receiving federal housing assistance. These requests have reflected the fact that only about one-fourth of low-income households eligible for vouchers receive any housing assistance; that census data show the shortage of affordable housing to be at a high level, with this shortage tending to grow larger over time (due to the shrinking of the private low-rent housing stock); and that there are long and growing waiting lists for vouchers in many areas.

Figure 1



Note: Changes do not include requests for new tenant protection vouchers for tenants displaced from public housing or other assisted housing. The 100,000 new vouchers that were requested in 2000 included 15,000 vouchers for the elderly that were requested in an account separate from the Housing Certificate Fund. The change in 2004 includes the addition of 5,500 incremental vouchers and the loss of between 113,000 and 137,000 existing vouchers, for a net loss of between 107,500 and 131,500 vouchers. (The graph depicts the midpoint between these two estimates of voucher loss in 2004. See Appendix A for explanation of 2004 voucher loss estimates.)

In each of its first two years, the current Administration requested funds for 34,000 additional vouchers. (Congress funded 25,900 incremental vouchers in fiscal year 2002 but none in 2003.) This year, in contrast, the Administration requests only 5,500 incremental vouchers, all set aside for people with disabilities. Up to $36 million of the appropriations in the central fund would be used for these new vouchers. Such a minuscule increase in the number of new vouchers would serve about one-tenth of one percent of the low-income households without housing assistance who experience worst-case housing needs. This number would be far exceeded by the number of authorized vouchers that would be left unfunded under the request. See Figure 1.

The Budget Seeks Unprecedented Waiver Authority for State-Administered Vouchers

The budget appears to allow states to apply during fiscal year 2004 for waivers of *any* statutory or regulatory provisions pertaining to the vouchers they administer and places total authority to approve such waivers in the hands of the HUD Secretary. Under current law, the Secretary has no authority to waive statutory provisions except for the 32 state and local housing agencies participating in the Moving to Work demonstration.

The proposed waiver authority is extremely broad. The only restriction would be that the Secretary must determine that the waiver will improve performance with regard to program objectives, a standard so broad as to allow the Secretary to waive virtually anything.

- This authority could be used to make fundamental changes to the voucher program outside of the normal legislative process and without any public discussion. For example, waivers could be used to modify or eliminate eligibility and targeting requirements that were established by Congress to ensure that vouchers are provided to the neediest families. In many states, waivers that would shift assistance from poor families to families with somewhat higher incomes could be politically popular.

- The waiver authority would not be structured in a way that would encourage useful experimentation with policy innovations. Typically, "demonstration" waivers designed to encourage experimentation are limited to a fixed number of geographic areas and the entities that receive waivers are required to conduct thorough evaluations of outcomes. The Administration's proposal would place no limit on the number or scope of waivers that could be granted and would not require any evaluation of outcomes.

- There also would be no restrictions on the ability of states to use waivers to transfer funds from the voucher program to other uses. Consequently, states could reduce expenditures on vouchers and shift funds to provide subsidies to developers building housing for moderate-income families or for any other purpose that could be broadly construed as furthering program objectives.

- The proposal does not exempt any area of federal law or regulation that affects the voucher program. Even federal fair housing laws and other civil rights protections could be waived without legislative approval or public discussion. Requirements that housing agencies allow voucher holders to participate in policy decisions that affect them could also be eliminated.

The language in the budget is ambiguous on the question of which vouchers could be affected by such waivers. It is possible that the Administration intended to limit this waiver authority to new vouchers for which states could receive funding through the central fund. (States, but not local housing agencies, would be eligible to receive funding for new vouchers if funds in the central fund are not needed by PHAs to support vouchers in use.[14]) It appears,

[14] Administration budget documents specify that only states may apply for "incremental" vouchers other than the 5,500 vouchers set aside for the disabled. To characterize such vouchers as "incremental" is a new use of the term, as they would be funded with budget authority attributable to currently authorized vouchers that are not being utilized and therefore do *not* represent an increase in the baseline number of households authorized to receive federal housing assistance.

however, that states that currently administer voucher programs could request waivers for their current programs. If that is the case, this new waiver authority could affect a substantial number of households in a majority of states. State-level agencies currently administer approximately 200,000 vouchers in 32 states. Eight of these state programs are considered “very large,” which means that they administer at least 6,000 vouchers.

In addition, states would be able to apply for waivers of regulatory (but not statutory) provisions affecting vouchers administered by local PHAs. (Under current law, PHAs may request regulatory waivers, but *states* may not request waivers for voucher programs that local PHAs, rather than the states, administer.) Under the budget proposal, there would be no bounds on the Secretary’s authority to approve such waivers. Nor would there be any requirement that the PHAs administering the vouchers sign off on the state requests for waivers.

Tenants Would Be Required to Pay at Least $50 per Month for Rent

Currently, housing agencies have the option to impose a minimum monthly rental charge of up to $50 a month on families with little or no income who participate in the major federal housing assistance programs (including voucher recipients and public housing tenants). The current rule exempts certain categories of families that cannot make these minimum payments due to particular hardships. The Administration has proposed to make minimum monthly payments of at least $50 mandatory for all households except the elderly and disabled and to abolish the current exemptions that protect families facing major hardships. Since minimum payments supercede the rules that limit a tenant’s contribution to 30 percent of the tenant’s income, this proposal would compel housing agencies to require more from many families than they are likely to be able to afford. (HUD staff has indicated that HUD may modify the proposal to require minimum payments of $50 a month, rather than “at least” $50 a month.)

The proposed elimination of current hardship exemptions is of particular note. For example, families that have lost income due to job loss — a particularly significant risk during a period of increased unemployment — or a death in the family currently are not required to make minimum payments beyond 30 percent of their income. Under the Administration’s proposal, exemptions for these categories of people would end, and exemptions could only be granted on a case-by-case basis by the HUD Secretary.

Furthermore, while elderly and disabled families would, as noted, be exempt from the minimum payment requirements, the definition of disability used in the housing assistance programs is limited to conditions that are permanent or of indefinite duration. This definition would *not* cover individuals facing temporary physical or mental health problems, even if these problems are severe enough to prevent the individual from working for an extended period. For example, a worker who suffered a series of major fractures in an automobile accident and was unable to work for a number of months would not be considered disabled. Such individuals would be required to make minimum monthly payments; state and local housing agencies would have no authority to exempt them.

If the Administration's proposal were to become law, more than half of all housing agencies would be required to increase the minimum rents they charge. In the voucher program, only about 40 percent of PHAs currently charge a minimum rent of $50; somewhat more charge $25, and about 15 percent do not impose a minimum rent. In the public housing program, about half of PHAs use a minimum rent of $50; some 45 percent set the minimum at $25, and about three percent do not impose a minimum rent.

HUD studies indicate that PHAs have considered local circumstances as well as their own administrative burdens in establishing their minimum rent policies. For example, one PHA found that some of its tenants were unemployable due to serious literacy problems, while another noted that its minimum rent of $40 was an $8 increase over the income-based rent that families receiving welfare benefits had been paying. Another PHA stopped requiring a minimum payment when it found that tenants were selling their blood to enable them to meet the minimum rent requirement.[15]

The proposed changes regarding minimum payments would allow the federal government to reduce the amount of money it provides for housing assistance programs over time, since families that could not afford the minimum payment would be evicted and often replaced by families that have higher incomes (and therefore require lower subsidies). For fiscal year 2004, however, the budget assumes no savings from this proposal in the housing voucher account.

Conclusion

The conference committee report accompanying the final 2003 appropriations bill states that agencies that are not utilizing all of their vouchers are "strongly encouraged" to lease additional vouchers up to their authorized number. The Administration's budget request for the housing voucher program in 2004, however, does not request sufficient funds to fulfill the federal government's side of this obligation if state and local agencies respond positively to this encouragement. To maintain the commitment to fund all authorized vouchers that can be used, Congress will need to increase the funds appropriated for the housing voucher program above the level requested. To meet the growing need for housing assistance, Congress also should provide more incremental vouchers than the negligible number the Administration has requested.

On another front, it would be premature to grant the Secretary the sweeping and unfettered discretion to waive acts of Congress that the budget requests without full consideration of the Administration's proposed block grant legislation, which has yet to be filed. Finally, there is no compelling reason to undo the balanced policy on minimum rents reflected in current law.

[15] Deborah J. Devine et al., *The Uses of Discretionary Authority in the Tenant-based Section 8 Housing Program: A Baseline Inventory of Issues, Policy, and Practice*, U.S. Department of Housing and Urban Development, January 2001, pages 44–45; and Deborah J. Devine et al., *The Uses of Discretionary Authority in the Public Housing Program: A Baseline Inventory of Issues, Policy, and Practice*, U.S. Department of Housing and Urban Development, July 1999, pages 22–24.

Appendix A
Number of Renewal Vouchers Funded by the Fiscal Year 2004 Budget Proposal

Total Funding Available for Voucher Renewals

The Administration's fiscal year 2004 for budget request includes three separate funds that could be used to support renewals of contracts for existing vouchers:

- An initial contract renewal fund;
- a central fund; and
- an administrative fee fund.

The initial contract renewal fund includes $11.482 billion for initial contracts with housing agencies to renew vouchers (including moderate rehabilitation subsidies). HUD documents provided to Congressional staff indicate that of this sum, $100 million is intended for replenishing funds from individual agencies' program reserves that are used in fiscal year 2003. (See below for additional information on program reserves.) Because these funds are to replace reserves used to support vouchers in fiscal year 2003, HUD (correctly) does not include this $100 million in the detailed statement it provided to Congressional staff of the funds available in the budget to renew vouchers in fiscal year 2004. Thus, our analysis considers $11.382 billion from the initial contract renewal fund actually to be available for initial contract renewals in 2004. (See below for further discussion of funding for initial contract renewals.)

The budget also requests an additional $609 million for the central fund, of which $473 million could be used to support renewals of contracts for authorized vouchers that are not in use at the time of initial contract renewal. (The remaining funds include $100 million for capacity-building for states to prepare them to take over statewide voucher administration under the proposed block grant and $36 million for 5,500 incremental vouchers for people with disabilities.) In addition, the request sets aside $1.192 billion for administrative fees, including fees both for vouchers funded through the initial contract renewal fund and for vouchers funded through the central fund. Our calculations assume that all of the $473 million in the central fund that is not set aside for other purposes — as well as all of the funding for administrative fees — is available for voucher renewals. (The budget would allow HUD to transfer monies among the initial contract renewal fund, the central fund, and the administrative fees fund, with advance notice to the appropriations committees.)

Thus, the total requested appropriation available for voucher renewals is $13.047 billion ($11.382 billion for initial contract renewals, plus $473 million from the central fund, plus $1.192 million in administrative fees). To determine the number and percentage of vouchers that can be funded with $13.047 billion, it is necessary to estimate the number of vouchers expiring and the average cost per voucher in fiscal year 2004.

Estimating the Number of Expiring Vouchers

Two different estimates are available of the total number of vouchers that will require renewal in fiscal year 2004: 2,129,962 and 2,106,233. The first estimate (2,129,962 vouchers) is derived from CBO's March 2003 baseline, which indicates that 2,120,636 vouchers need renewal in fiscal year 2003. This 2003 CBO figure includes the 43,000 tenant protection vouchers initially funded in 2003 because CBO, unlike the Administration, categorizes these as renewal vouchers.[16] The Administration's practice is to earmark separate funding for tenant protection vouchers and to consider them "new" (but not incremental) vouchers. We added to the CBO figure the 9,326 vouchers that have been funded under multi-year contracts that will expire in FY 2004 as indicated by CBO's March baseline, to reach the total of 2,129,962 vouchers needing renewal in FY 2004.

The second estimate (2,106,233 vouchers) was recently provided by HUD budget staff to Center staff in response to a query. HUD's renewal estimate for FY 2004 includes only 28,901 more vouchers than its FY 2003 figure; 9,326 of these are vouchers that had been funded under multi-year contracts, leaving only 19,575 additional annually-funded vouchers to be renewed in FY 2004 compared with FY 2003. HUD's estimate of the number of vouchers expiring in FY 2004 could be correct if the renewal figure HUD provided in its FY 2003 budget documents was nearly 24,000 vouchers too high. An alternative explanation could be that HUD expects that less than half of the 43,000 tenant protection vouchers funded in FY 2003 will be put under contract to PHAs during this fiscal year and require renewal in FY 2004. But at this point in FY 2003 it is too soon to know if this will be the case, and it does not appear that HUD's FY 2004 estimate relies on the number of FY 2003 tenant protection vouchers needing renewal.

While HUD staff provided some possible explanations of why the FY 2003 estimate *could* have been in error, they provided no objective bases on which it is possible to decide whether the CBO data include too many vouchers or the HUD data include too few. Consequently, throughout this paper we present numbers that depend on the total number of vouchers as ranges, with the lower end of the range based on HUD's estimate and the higher end of the range based on the CBO data.

Estimating the Average Cost per Voucher

We estimate that the average cost of renewing a voucher in FY 2004, including administrative fees, will be $6,545. This is the average cost of the new vouchers for the disabled requested by the Administration. (The budget says the $36 million requested will fund 5,500 vouchers. This comes out to $6,545 per voucher.)

This cost estimate is conservative.

- It is only 2.7 percent more than the estimated cost per voucher of $6,372 used by Congress to determine the fiscal year 2003 appropriation level for the voucher

[16] Subtracting the 43,000 tenant protection vouchers newly funded in FY 2003, the CBO renewal figure for FY 2003 is 2,077,636, nearly identical to HUD's FY 2003 budget figure of 2,077,332 vouchers needing renewal.

program. CBO estimates that per voucher costs in fiscal year 2004 will be 3.5 percent higher than in fiscal year 2003.

- It is about $300 *below* CBO's per-voucher outlay estimate of $6,842 for FY 2004, as reflected in the CBO March 2003 baseline.

- HUD documents provided to Congressional staff indicate that the budget request assumes an average cost per voucher of $6,468 in FY 2004, based on the inflation rate estimated by the Office of Management and Budget. This figure is only 1.5 percent more than Congress' estimate of the cost per voucher in fiscal year 2003, an increase that is highly unlikely to be sufficient in light of recent increases in rental costs.

Dividing the total appropriation available for voucher renewals ($13.047 billion) by the $6,545 average cost per voucher yields 1,993,430 vouchers that may be funded for a full 12 months. These vouchers make up 93.6 percent to 94.6 percent of the number of authorized vouchers that would need new funding to be used in FY 2004, leaving 113,000 -137,000 authorized vouchers unfunded. These are the estimates that we have used in this paper.

At the higher estimated outlay cost per voucher in fiscal year 2004 used by CBO in its March baseline ($6,842), the total appropriations available for voucher renewals would fund 1,907,000 vouchers. That amounts to roughly 89.5 percent to 90.5 percent of the authorized number, leaving 200,000 - 223,000 vouchers unfunded.

Funding Available for Initial Contract Renewals

In addition to analyzing the total number of vouchers that can be supported by the requested appropriations, this analysis also examines the number of vouchers that could be supported with the funding requested for initial contract renewals. This number of vouchers is lower than the number of vouchers (1,993,430 at a per-voucher cost of $6,545) that could be supported by the *total* amount of renewal funding ($13.047 billion) because it excludes vouchers supported through the central fund.

The funding available for initial contract renewals includes not only the $11.382 billion set aside for the initial contract renewal fund, but also $1.138 billion of the $1.192 billion requested by HUD for administrative fees associated with initial contract renewals. This assumption reflects HUD's proposal that administrative fees may not exceed 10 percent of the funding provided to each agency for voucher assistance.[17] (The remaining $54 million could be

[17] It is not clear whether the Administration's budget intends to cap administrative fees at 10 percent of the amount provided to the agency for voucher subsidies, or at 10 percent of the total amount paid to the agency, including fees. The former would be a somewhat lower cap than the latter. Capping administrative fees at 10 percent of *either* a PHA's total voucher subsidies *or* total funding for the voucher program would be harmful to the voucher program because it would reduce administrative fees for some agencies to an inadequate level. PHAs where the average per-voucher cost is low would be especially vulnerable, because administrative costs typically do not vary as much as the factors (such as local rents) that are most important in determining overall voucher costs. In the final fiscal year 2003 Appropriations Act, Congress rejected a similar administrative fee cap that had been included in an earlier version of the bill approved by the House Appropriations Committee.

used to support the administrative costs of vouchers funded through the central fund.) Taken together, the budget would provide $12.52 billion for initial contract renewals and administrative fees.

The number of vouchers that could be funded with the $12.52 billion requested by the Administration for initial contract renewals depends, of course, on the estimated cost per voucher.

- At the Administration's estimate of $6,468 per voucher (including fees), 1,935,683 vouchers could be funded for a full 12 months. (This is essentially identical to the 1,935,649 vouchers for which the Administration says it is requesting renewal funding in its Budget Justifications (see page A-16).)

- Using our somewhat higher but still conservative cost estimate of $6,545 per voucher, the $12.52 billion set aside for initial contract renewals would fund 1,912,911 vouchers. This is 22,738 fewer vouchers than the Administration says must be renewed in fiscal year 2004 because they will be in use, and 89.8 percent – 90.8 percent of the authorized number of renewal vouchers.

- At the latest CBO cost estimate of $6,842 per voucher, the funding requested by the Administration for initial contract renewals would support 1,829,874 vouchers, which comprise only 86 percent – 86.9 percent of authorized vouchers.

Other Funding in the Housing Assistance for Needy Families Account

In addition to the $13.047 billion available for voucher renewals and the $100 million to replenish PHAs' reserves discussed above, there is an additional $460 million requested for HANF that could *not* be used for renewals of existing vouchers, for a total appropriation of $13.607 billion. Of the funds that could not be used for renewals, $136 million is earmarked for special purposes within the central fund ($100 million for capacity-building for states and $36 million for incremental vouchers), $252 million is for tenant protection vouchers for tenants in developments that cease to receive project-based Section 8 funds and for families displaced from public housing, and $72 million is for Family Self-Sufficiency coordinators. The $72 million requested for FSS coordinators is a commendable increase of $24 million over the FY 2003 level.[18]

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[18] The Family Self-Sufficiency (FSS) program is a HUD-administered employment and savings incentive program for low-income families that have housing vouchers or live in public housing. HUD has identified FSS as its "principal asset-building tool" and "one of the Department's most important tools for helping assisted families increase earned income." (Budget Justifications, page A-19.) FSS does not provide services directly. Rather, it uses a case management model to help participants identify employment goals and the services available in the community to assist them to achieve these goals. In addition, FSS creates an incentive for families to increase earnings and build assets by providing for escrow accounts into which the public housing agency (PHA) deposits the increased rental charges that a family pays as its earnings rise. Families that complete the program may withdraw funds from these accounts for any purpose after five years. Only about 1,200 of the approximately 2,600 PHAs that administer housing voucher programs offer the FSS program to their voucher households, and most agencies that do offer FSS sharply limit program size. As a result, only about five percent of the families with children in the

Reliance on Carry-over Funds

Of the total requested appropriation of $13.607 billion for HANF, some $12.535 billion represents new budget authority. The remaining $1.072 billion is assumed to be carried over from recaptures of voucher appropriations from prior years.[19] If the full amount of assumed carry-over funding is not in fact available in fiscal year 2004, the new budget authority requested in the fiscal year 2004 budget would fall short by a larger amount.

HUD may need to draw on a portion of the assumed carry-over funds *in fiscal year 2003*, however, if the voucher program's funding needs this year exceed the amount that Congress has appropriated plus the program reserve funds that PHAs are required by the FY 2003 appropriations act to use before requesting additional funds. While the FY 2003 appropriations bill does not specifically reference use of carry-over or recaptured funds, HUD has the legal authority to draw on unobligated funds from prior years' appropriations to maintain agencies' right to use all authorized vouchers and further the commitment to increase the number of vouchers in use.[20] The report accompanying the final 2003 appropriations bill repeats three times that agencies that are not utilizing all of their vouchers are "strongly encouraged" to lease additional vouchers up to their authorized number.

In the omnibus appropriations bill for fiscal year 2003, Congress provided $12.379 billion for voucher renewals, an appropriation sufficient to support about 1,943,000 vouchers — 93.5 percent of the authorized vouchers requiring renewal — for a full 12-month period at a per

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housing voucher program participate in the FSS program. Many PHAs do not offer FSS or limit their program size due to lack of funding for FSS coordinators or case managers. In 2001, at HUD's request, Congress nearly doubled the amount of funding previously available for FSS coordinators, but funding has not increased significantly since then. In fiscal year 2002, there was $14.5 million in eligible applications for FSS coordinator funding that HUD could not fund due to insufficient appropriations. The $24 million increase in FSS coordinator funds requested for FY 2004 would fund approximately 400 additional coordinators who could serve approximately 20,000 additional participants. (In 2001 there were about 47,000 families with voucher assistance participating in the FSS program.) For more information on the FSS program, see Barbara Sard, *The Family Self-Sufficiency Program: HUD's Best Kept Secret for Promoting Employment and Asset Growth,* available on the internet at http://www.cbpp.org/4-12-01hous.htm.

[19] HUD's FY 2004 budget request shows $1.738 billion carried over in the Housing Certificate Fund from fiscal year 2002 that is available for use in FY 2003 and future years. Because the appropriations act for fiscal year 2003 was not final when the Administration submitted its fiscal year 2004 budget request, the 2004 request uses the Administration's 2003 request, rather than the actual 2003 appropriation, to estimate the carry-over available in fiscal year 2004. As it turned out, the 2003 appropriation act rescinded $500 million more from the carry-over funds than the Administration's 2003 request did. (The appropriations act rescinded $1.6 billion, compared to a $1.1 billion rescission under the administration's 2003 request.) An across-the-board funding reduction of 0.65 percent that was also included in the 2003 appropriations act will likely result in an additional reduction of $112 million in the funding available for the Housing Certificate Fund. It is very likely that these rescissions, in combination with any voucher costs during fiscal year 2003 in excess of the amount appropriated, will leave an amount of carry-over funding to be used in 2004 that is well below the level of $1.072 billion estimated by the Administration at the time of its budget request to be available for use in FY 2004.

[20] Similar to prior years, the fiscal year 2003 bill appropriates both a specified amount of funding *and all amounts that are recaptured from prior Section 8 appropriations* for the Housing Certificate Fund (which covers both the tenant-based and project-based Section 8 programs).

voucher cost of $6,372.[21] If PHAs are able to use more than 93.5 percent of their vouchers or if per-voucher costs exceed $6,372, total renewal costs would be greater than the appropriated amount.

There is some indication that this is likely to occur. CBO, in its March 2003 baseline, estimates that per-voucher outlays in FY 2003 will be $6,608, some $236 more per voucher than Congress assumed, and as discussed earlier, there is some evidence suggesting that the utilization rate in fiscal year 2003 will be higher than 93.5 percent. Moreover, outlay data for the first six months of the fiscal year indicate that if current trends continue, voucher program expenditures for the year may reach $13.38 billion.[22] This is about $1 billion more than the $12.379 billion that Congress appropriated for voucher renewals in fiscal year 2003. Outlays *may* decrease during the course of the fiscal year, reducing this shortfall below $1 billion, and in any event not all of this potential shortfall would need to be drawn from the carry-over funds. Some of the increase may be attributable to expenditure of fiscal year 2002 appropriations for incremental and tenant protection vouchers that were only distributed to PHAs late in FY 2002. Some $347 million was appropriated for 12 months of funding for these new vouchers in FY 2002. In addition, PHAs will use a portion of their reserve funds to cover fiscal year 2003 costs.

Nonetheless, current trends indicate that some of the carry-over funds may be needed to support vouchers in fiscal year 2003. If some of these funds are used in fiscal year 2003 and

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[21] Up to an additional $858 million may be needed in fiscal year 2003 to support the 134,614 expiring vouchers for which Congress did not provide new appropriations, should PHAs be able to use them (although it is almost certain that 100 percent of vouchers will not be used). We calculated the number of vouchers funded by the 2003 final appropriations act as follows. The final bill appropriates a total of $12.379 billion for voucher renewals, in three parts. The bill allocates $10.941 billion for renewal of HUD's contracts with PHAs for the number of vouchers in use, up to the authorized number of vouchers. (The remaining $4.337 billion of the $15.278 billion earmarked for Section 8 renewals generally is for renewal of HUD's project-based contracts with owners.) In addition, the bill sets aside $392 million in a "central fund" to provide supplemental funding to PHAs that lease additional vouchers or experience a significant increase in average costs. Finally, the bill sets aside $1.046 billion for administrative fees for the vouchers funded in these two provisions. (An additional $26 million in administrative fees is available for approximately 43,000 tenant protection vouchers, for which $234 million also is provided in the account.) This total sum is sufficient, at the estimated cost of $6,372 per voucher, to renew 1,942,718 of the 2,077,332 authorized vouchers that HUD's FY 2003 budget request stated required renewal. (As noted above, HUD may have retroactively reduced the FY 2003 renewal figure by about 24,000 vouchers.) A statement in the report that $12.335 billion is provided for voucher renewals appears to be a slight understatement, probably due to omission of the $44 million for the administrative fees for vouchers funded out of the central fund.

[22] *Final Monthly Treasury Statement of Receipts and Outlays of the United States Government for Fiscal Year 2002 Through September 30, 2002, and Other Periods,* p 11, available on the internet at http://www.fms.treas.gov/mts/mts0902.pdf, and *Monthly Treasury Statement* for March 2003, p. 11, at http://www.fms.treas.gov/mts/mts0303.pdf. If outlays in the second half of the fiscal year equal expenditures in the first half of the year, total outlays in the Housing Certificate Fund, which includes expenditures for project-based section 8 units as well as the voucher program, would be about $20.5 billion in fiscal year 2003. (CBO's March baseline estimates total outlays for the current year from the Housing Certificate Fund at $20.259 billion.) It is likely that all or nearly all of the increase is attributable to the voucher program, as CBO estimates that any increase in costs in the project-based Section 8 program is offset by a reduction in the number of subsidized units as owners decline to extend their contracts. In fiscal year 2002, expenditures for the project-based Section 8 program were $7.16 billion. If this level continues unchanged, expenditures for the voucher program would be about $13.38 billion in fiscal year 2003. This is approximately $1 billion more than Congress appropriated.

there is no offsetting increase in program recaptures during fiscal year 2003, additional new appropriations would need to be added to the Administration's request for fiscal year 2004 or even more vouchers would be left unfunded than the 113,000 - 137,000 we have estimated.

Program Reserve Funds

Currently, each PHA that administers vouchers is assigned a "program reserve" equal to one month of funding for its voucher program. Program reserves are intended to enable PHAs to respond to unexpected increases in voucher utilization or per voucher costs (and, of equal importance, to enable agencies to issue vouchers to families and approve voucher leases with confidence that sufficient funds will be available to support those vouchers even if costs or utilization rates change).

For several reasons, our analysis has not included program reserves in the calculation of funds available to meet the cost of voucher renewals in fiscal year 2004. The Administration's budget request is silent regarding whether PHAs will be required to use their program reserves to support additional authorized vouchers that are not funded by their initial fiscal year 2004 contracts with HUD. If the new renewal methodology adopted in the fiscal year 2003 appropriations act is followed in fiscal year 2004, a PHA would be required to use half of its one-month reserve to support additional vouchers (and per-voucher cost increases) before drawing on the central fund. If the need to use reserves to support additional vouchers were distributed proportionately across all PHAs, PHAs could be required to spend $475 million from their program reserves to meet voucher costs in fiscal year 2004. But it is virtually certain that the need to use reserves will *not* be distributed proportionately across all PHAs, given their varying utilization rates and capacity to increase voucher use.

Furthermore, it is likely that a substantial portion of the additional funding available through program reserves would be offset by the need to replenish reserves that were used during fiscal year 2003. The $100 million that the Administration has indicated would be available from fiscal year 2004 funds to replenish program reserves that were used in 2003 represents only a small fraction of the reserves that housing agencies could potentially need to use this year. If PHAs use more than $100 million of their reserves in fiscal year 2003 and the additional reserves used can not be replenished with fiscal year 2003 funds, more fiscal year 2004 funds will need to be used to replenish these reserves. This will further increase the shortfall in fiscal year 2004 renewal funding. Alternatively, if more than $100 million is needed to replenish reserves, HUD may replenish only a portion of the reserves that are used, leaving many PHAs with less than a full one-month reserve available in fiscal year 2004.

Appendix B
Analysis of HUD's Calculation of the Number of Vouchers in Use In Fiscal Year 2004

The Administration's request for fiscal year 2004 voucher renewal funding is derived from an estimate that approximately 1,935,000 vouchers, less than 91- 92 percent of the total number of authorized vouchers, will be in use at the time HUD enters into fiscal year 2004 contracts with PHAs. HUD provided Congressional staff with several documents to explain this estimate. The calculation of the number of vouchers that would be leased in fiscal year 2004 and require new budget authority uses a base figure of 1,667,715 vouchers, labeled as "units leased as of 1/24/2003." The same base figure is used for each fiscal year from 2002 through 2005. To this number, HUD adds 82 percent of the new vouchers from 2000 through two years prior to the renewal year[23] plus specified amounts for vouchers that are funded differently under the Moving to Work Demonstration and for Moderate Rehabilitation units. HUD also subtracts the small number of vouchers that continue to be funded under ongoing multi-year contracts.

This estimation method makes no attempt to account for changes in utilization that may have occurred in recent years. The base figure of 1,667,715 is derived primarily from voucher use in fiscal year 2001.

- For 1,015 of the approximately 2,600 agencies that administer housing vouchers, HUD used average utilization rates from twelve-month periods that ended on or after March 30, 2002. Almost all of these data were from periods ending on March 30 or June 30, 2002 — that is, for periods that would overlap with part of federal fiscal year 2001 and part of federal fiscal year 2002.

- For the roughly 1,600 remaining agencies, which administer about 60 percent of vouchers, HUD used average utilization rates from twelve-month periods ending between June 30, 2001 and December 31, 2001. Nearly all of the data from this second group of agencies reflect voucher use during parts of federal fiscal years 2000 and 2001.

In total we estimate that two-thirds of the vouchers covered by the data HUD used to determine the base figure were funded for use in federal fiscal year 2001 or earlier. This estimate is based on the data in the HUD table, as well as other HUD data on the proportion of vouchers administered by agencies with various fiscal-year end dates.

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[23] In documents provided to Congressional staff, HUD assumes that 82 percent of new vouchers issued since 2000, including incremental vouchers and tenant protection vouchers for families that are displaced from public and other assisted housing, will be in use — a substantially lower rate than it estimates for vouchers that existed before that date. HUD staff stated that they derived the 82 percent figure "from experience." HUD only applies the 82 percent rate beginning in the second year after the vouchers are authorized; vouchers that were issued more recently are not counted at all in HUD calculation of renewal funding needs. Some time is required for HUD to enter into contracts with PHAs for new vouchers and for agencies to put new vouchers into use, so it would be expected that the percentage of recently issued vouchers that is in use will, for a time, be somewhat lower than the percentage of older vouchers that are in use. Even if the 82 percent figure is a reasonable estimate for the second year after new vouchers are funded, there appears to be no basis for assuming that this same lower utilization rate continues to apply to vouchers that will have been under contract to local agencies for *four years* by fiscal year 2004.