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RESPONSE TO HUD SECRETARY JACKSON'S *NEW YORK TIMES* COLUMN ON HOUSING VOUCHERS

On August 6, 2004, the *New York Times* published an opinion column by Secretary of Housing and Urban Development Alphonso Jackson discussing the Administration's proposal to radically alter the "Section 8" housing voucher program, which helps about two million low-income families and elderly and disabled people rent modest housing in the private market. Secretary Jackson's piece contains a number of inaccurate or misleading statements. CBPP responded briefly to some of these claims in a Letter to the Editor published by the *Times* on August 13; this analysis examines in greater detail the facts behind Secretary Jackson's statements.

Is the Housing Voucher Program "Broken"?

Jackson: *"Section 8, the federal program created in 1975 to provide low-income families with the opportunity to rent safe and affordable housing in the private market, is broken."*

Analysis: The housing voucher program is widely viewed as one of the most effective tools for helping low-income families afford housing. The bipartisan, congressionally chartered Millennial Housing Commission strongly endorsed the program in its 2002 report, describing it as "flexible, cost-effective, and successful in its mission." Similarly, a 2002 study by the U.S. General Accounting Office found the voucher program to be the most cost-effective of the federal housing programs the report examined.

Until recently, the Administration's own assessment of the voucher program was much more positive. A 2003 report by the Office of Management and Budget on the performance of HUD programs states that the voucher program demonstrates "improved efficiencies and cost effectiveness in achieving program goals each year" and that independent evaluations "indicate that the program is effective and achieving results."

Have Program Costs "Spiraled Out of Control"?

Jackson: **"***Costs [under Section 8] have spiraled out of control, without a corresponding gain in benefits."*

Analysis: A careful look at the data demonstrates that Section 8 costs are not spiraling out of control. To the contrary, the two main causes of the recent cost growth both serve to underscore the program's effectiveness. First, the cost of the average voucher has grown in recent years to fill the growing gap between families' incomes (which have stagnated or fallen because of the weak economy) and private market rents (which have grown rapidly). Second, Congress has authorized HUD to issue more vouchers to help deal with the long and growing waiting lists for voucher assistance around the country.

Objective analysts project that Section 8 costs will level off in the years ahead, now that incomes have begun to rise, the rental market has cooled somewhat, and Congress has stopped increasing the number of vouchers (even though the unmet need for housing assistance remains large). The Congressional Budget Office (CBO) recently estimated that expenditures for the Section 8 program as a whole (which includes both the voucher program and a separate "project-based" housing assistance program) will rise only 1.8 percent in fiscal year 2005 — about the rate of inflation. CBO also projects that Section 8 spending will grow by 2.5 percent or less in 2006 and beyond.

Is Section 8 Consuming an Ever-Greater Portion of the HUD Budget?

Jackson: *"Five years ago, Section 8 consumed 36 percent of HUD's budget; today, it absorbs more than half."*

Analysis: Secretary Jackson appears to be basing his analysis on misleading *budget authority* figures for Section 8 rather than actual expenditure (or outlay) data. The share of HUD *outlays* devoted to Section 8 has remained steady in recent years, fluctuating between 50 percent and 56 percent of the HUD budget since 1996.

The large increases in budget authority for the Section 8 program that Secretary Jackson cites are an artifact of a major change in the Section 8 funding structure. Most Section 8 units were initially funded in the 1970s and 1980s through long-term contracts, under which Congress provided up front all of the budget authority expected to be needed to support the rental units throughout the life of the contracts. For many years thereafter, the amount of annual budget authority needed for Section 8 was artificially low (i.e., well below the level of actual Section 8 expenditures), since so many units had been pre-funded.

Beginning in the mid-1990s, however, these long-term contracts started to expire, and Congress began providing new budget authority for these units on an annual basis. During this transitional phase, which is still continuing, the budget authority needed to support all existing Section 8 units has been growing at a substantial clip, since each year Congress has had to provide budget authority for another group of units whose long-term contracts have expired. But this growth in budget authority does *not* reflect an increase in actual program costs (or in the level of assistance provided); actual spending for Section 8 has been rising much more slowly than the program's budget authority.

Does a House Committee's Decision to Provide Added Funding for Vouchers Mean Voucher Costs are Skyrocketing?

Jackson: *"In voting on the department's fiscal year 2005 budget last month, the House Appropriations Committee cut funds from almost every other [HUD] program in order to keep Section 8 going."*

Analysis: It's certainly true that the House Appropriations Committee put more funding than the Administration had requested into Section 8. But that was necessary only because the Administration's budget called for a $1 billion *cut* in Section 8 funding below last year's level, not because of skyrocketing program costs. The House action, like Congress' refusal last year to endorse another Administration proposal to cut voucher funding, shows the strong bipartisan support that exists for the housing voucher program, exactly because it does such a good job of helping low-income families afford housing.

Is HUD Forced to Base Voucher Amounts on Inaccurate "Fair Market Rents"?

Jackson: *"Moreover, under the current rules, the dollar amount of vouchers for rental payments in every housing market is prescribed by a system known as 'fair market rent.' Based on imprecise government data, these figures rarely reflect true market value."*

Analysis: Fair Market Rents are set each year by HUD for each metropolitan area and rural county in the country using data on the cost of modest apartments in the local market. Congress has granted HUD a great deal of flexibility in determining the method by which Fair Market Rents are set. If the Department determines that this method could be improved — for example, by conducting a greater number of surveys of market rents in local areas — it has broad discretion to do so.

Are the Rents Paid by Vouchers Out of Line with Market Rents?

Jackson: *"In the Washington ZIP code 20020, HUD provides 1,733 families with Section 8 vouchers to rent two-bedroom apartments. While the average rent for such units is $860, the average paid by the District of Columbia Public Housing Authority is $960."*

Analysis: Data from the District of Columbia Housing Authority (DCHA) indicate that the average rent for the two-bedroom apartments in zip code 20020 covered by the Authority's vouchers is $858 (including both the share of the rent paid by the voucher and the share that the family pays itself), while the average rent in this neighborhood for comparable two-bedroom apartments rented by households without vouchers is $866. In other words, according to DCHA's data, the apartments rented by voucher holders are about $8 *less* expensive than similar apartments where unassisted renters live, not $100 more expensive as Secretary Jackson's column indicated.

Available evidence also suggests that voucher rents are in line with or somewhat below market rents nationally, as appears to be the case in zip code 20020. The Section 8 program contains several rules designed to ensure that this happens. Each housing agency must cap the size of its voucher payments based on HUD's Fair Market Rents for the metropolitan area and rural county. Agencies also must compare the rent for every apartment leased using one of its vouchers to the rents for comparable unassisted units and must refuse to make payments on the voucher if the rent is out of line with the local market. The most recent systematic study of how housing agencies were implementing these requirements, done for HUD in 2001, found that agencies generally were following the requirements and that the average rent of units occupied by families with housing vouchers was $95 a month less than the estimated rents for comparable unassisted units.

Would the Administration's Proposal Enable Housing Agencies to Help More Families?

Jackson: *"Under our proposal the [District of Columbia Housing] authority could pay the actual market rent and would save enough money to aid 200 additional families in that Washington neighborhood alone. Imagine what such a change would mean nationwide."*

Analysis: Under the Administration's proposal, housing agencies in the District of Columbia and elsewhere would likely end up helping many *fewer* families than they do now, not more.

The Administration's proposal would lead to very large cuts in voucher assistance. In 2005, it would reduce voucher funding by more than $1 billion below the prior year's funding level and (according to HUD's own analysis) by more than $1.6 billion below the amount needed to support the current program. These cuts would grow more severe in later years: by 2009 the Administration is proposing to cut voucher funding by $4.6 billion below the amount CBO estimates is needed to maintain the current program.

The Administration has claimed that its proposal would give housing agencies sufficient flexibility to absorb these cuts painlessly through steps such as reducing the rent covered by vouchers or shaving costs by simplifying administrative procedures. This would not be possible. As noted above, the available evidence indicates that the rents covered by vouchers are generally in line with market rents. And the Administration's own estimates show that savings in administrative costs could only cover a small fraction of the proposed funding reduction.

Instead, housing agencies would be forced to carry out the bulk of the proposed cuts in three ways: assisting fewer families, increasing the rental burdens on low-income families, and shifting vouchers away from poor families to those who have higher incomes and thus need less assistance. (In fiscal year 2005 only a small amount of the funding shortfall could be offset through use of this third option because it takes time for vouchers to turn over.) Each of these steps would harm low-income families.

Theoretically, housing agencies could implement the proposed cut without reducing the number of families assisted, but they would then have to impose extremely deep cuts in other ways. For example, agencies could make up for the entire $1.6 billion shortfall in 2005 by raising the annual rent each voucher household pays by an average of about $850 (or by achieving the small amount of savings that could be obtained through other means and imposing somewhat smaller rent increases). For that matter, agencies could go even a step further and actually increase the number of families served by raising rental charges even more sharply.

But rent increases on this scale would force families to divert money from other basic needs to pay for housing. Many of the poorest families would be unable to find *any* housing they could afford with the shrunken voucher subsidy. Secretary Jackson's portrayal of the Administration's proposal as an expansion of assistance is therefore very misleading.

Does the Voucher Program "Shut the Door" on the Working Poor?

Jackson: *"In 1998, Congress enacted a quota system that gives Section 8 vouchers almost exclusively to families making less than 30 percent of a given area's median income. This has had the unintended consequence of shutting the door on men and women who are working hard and raise their income above a quota level, but remain too poor to afford a home."*

Analysis: The rule to which Secretary Jackson refers requires that housing agencies issue at least 75 percent of their vouchers to families that have incomes below 30 percent of the local median income at the time they enter the program. This "targeting" rule ensures that housing vouchers go primarily to the families with the greatest need for assistance. It also helps compensate for the fact that most other housing assistance programs are aimed at families with comparatively higher incomes.

Very large numbers of working poor families qualify under the targeting requirement. The income of a full-time minimum-wage worker is only $10,700, while 30 percent of the median income for a family of four nationally amounts to an annual income of $17,250. Indeed, 30 percent of area median income is roughly equivalent to the federal poverty line. By definition, working-poor families have incomes *below* the poverty line.

It should also be noted that the current targeting requirement applies only to a family's income at the time it is admitted to the voucher program. Once a family receives a voucher, it may remain in the program until its income reaches a level where it can afford the rent for a modest apartment without spending more than about 30 percent of its income for housing costs — a level substantially above the poverty line. Thus, the program already allows working-poor families to increase their earnings without losing their vouchers.