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HOUSE VA-HUD APPROPRIATIONS BILL WOULD JEOPARDIZE ACCESS TO HOUSING VOUCHERS FOR LOW-INCOME FAMILIES

More than 125,000 Vouchers Likely to Be Lost

by Barbara Sard and Will Fischer

On October 9, the House Appropriations Committee approved a fiscal year 2003 appropriations bill for veterans affairs, housing, and certain other programs (H.R. 5605, the "VA-HUD bill") that reduces the President's budget for the Section 8 housing voucher program by $938 million. This reduction would result in the loss of more than 150,000 vouchers that otherwise would have been made available to families struggling to find affordable housing.

Housing vouchers are the nation's principal form of assistance to low-income renter families and elderly and disabled people. Households with vouchers typically pay about 30 percent of income for rent, with the vouchers covering the remainder of the rental cost for modestly priced units. Due to funding limitations, 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 for the voucher program.

The bulk of the reductions the House bill contains in funding for the voucher program — $764 million of the $938 million in reductions — would be achieved by sharply altering the formula used to determine the annual voucher funding levels that local housing agencies receive. (Nearly all of the remaining $174 million in voucher program reductions the bill contains, relative to the President's budget, would be achieved by shrinking the number of incremental — i.e., additional — housing vouchers from the 34,000 the Administration requested to 7,100.) *This change in the funding formula would result, for the first time in the program's history, in Congress providing insufficient funds to renew all of the vouchers previously authorized and funded*. (The Bush budget and the Senate Appropriations Committee's version of the bill would renew all currently authorized vouchers.) The change in the formula would reduce the number of families that the voucher program can serve by approximately 125,000 in the coming fiscal year.

Local housing agencies that face this funding reduction could deal with it in several different ways. The most likely result would be to provide housing assistance to fewer low-income families and elderly and disabled individuals. Some local agencies also might seek to reduce the share of the rent that the vouchers cover and thereby raise the rents that poor families must pay.

In addition, some landlords and developers might lose confidence in the voucher program — reasoning that the federal government was backing away from its commitment to renew all authorized vouchers — and decline to participate in the program. If that occurred, it would make it more difficult for poor families and elderly and disabled people to find housing that they could rent with their vouchers. Similarly, the new Section 8 homeownership program, one of the Administration's priorities, could be undercut if lenders are unwilling to provide mortgages because they doubt the reliability of the voucher funding upon which they would have to depend for mortgage payments.

Effectiveness of the Voucher Program

These changes would be made in a program that is highly effective in providing needed housing assistance. Research indicates that vouchers not only make housing affordable to the low-income families and elderly and disabled individuals who rent units with vouchers, but also may reduce welfare receipt and have positive effects on employment, earnings, educational outcomes, and child well-being. A report by the U.S. General Accounting Office found the voucher program to be the single most cost-effective of the federal housing programs the study covered.[1]

Moreover, the unmet need for housing vouchers is large. Census data show that in 1999 (the last year for which these data are available), nearly five million low-income households that did not receive housing assistance had 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. In addition, since housing costs have increased faster than incomes since 1999, the housing affordability problem is likely to be even more severe today than it was in 1999, the year these Census data cover.

The vast bulk of the families with "worst case needs" have these needs because they are unable to find 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.

Underutilization of Vouchers

The change that the Committee bill would make in the formula for establishing the voucher funding levels that local housing agencies receive is intended, in part, to address a longstanding problem in the voucher program. In recent years, a fraction of the housing vouchers that the federal government authorizes and funds has gone unused. This has occurred because a significant share of the families issued vouchers have been unable to find housing they can rent with their vouchers. This problem, known as underutilization of vouchers, has resulted in some of the funds that Congress has appropriated for the program going unspent. When this occurs, the Appropriations Committees "recapture" the unused funds through rescissions and channel the reclaimed funds to other uses. (The primary use has been helping to fund the subsequent year's VA-HUD appropriations bill.)

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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," Brookings Institution Center on Urban and Metropolitan Policy, 2002. See also General Accounting Office, *Federal Housing Assistance: Comparing the Characteristics and Costs of Housing Programs*, GAO-02-76, January 31, 2002.

Congress has identified the underutilization of vouchers as a problem that warrants action, and since 1999, Congress, HUD, and numerous local housing agencies have instituted a series of reforms to improve voucher utilization and strengthen program management. These reforms appear to be producing impressive results.

- The Committee report accompanying the House VA-HUD appropriations bill states that the percentage of voucher funds used by PHAs rose from 83 percent in 1999 to 87 percent in 2001. Using a somewhat different methodology that analysts prefer, a 2002 HUD report to Congress indicates that utilization rose to 94.6 percent in fiscal year 2001.[2] HUD officials have subsequently reported that utilization of voucher funds reached 95 percent by the end of fiscal year 2002 and is expected to rise to 97 percent by the end of 2003.[3]

- Data submitted in October - November 2002 by 324 housing agencies that responded to a survey show that 97.2 percent of the vouchers these agencies were authorized to administer are now in use. This represents a marked increase over the 90.8 percent of vouchers these same agencies utilized during their prior fiscal year.[4]

The Committee's New Funding Formula

Under current rules, HUD provides local housing agencies with sufficient funding each year to cover the number of vouchers that the agencies have been authorized to provide. The new funding formula in the House Committee bill departs from this practice.

The new formula is intended to curb underutilization of voucher funds by limiting the voucher funding that most housing agencies receive for the next 12 months to an agency's *actual voucher program expenditures during the period five-to-sixteen months earlier*, adjusted for inflation. In other words, the amount an agency would receive to operate the voucher program would be based on the average number of vouchers actually in use in the agency's program during the 12-month period that began 16 months earlier. For some agencies, the time lag would

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[2] Department of Housing and Urban Development, *Section Eight Management Assessment Program: Report to Congress* (April 2002). The 94.6 percent utilization rate is based on data from PHAs with fiscal years that ended no later than June 30, 2001. It may be noted that the methodology HUD uses in determining utilization rates excludes vouchers awarded as part of litigation settlements (because their use is often restricted by the settlement terms) and vouchers awarded to a PHA for the first time in its current fiscal year (to give the agency reasonable time to issue the new vouchers and have families locate housing in which to use these vouchers). Failure to use such an approach artificially lowers utilization rates.

[3] Statement by Paula Blunt, Deputy Assistant Secretary, HUD, at the Quadel Consulting Corporation's Housing Choice Voucher Conference, Washington DC, October 17, 2002.

[4] 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.

be greater; for these agencies, funding would be based on the average number of vouchers in use during fiscal year 2001, two full years earlier.[5]

The new formula seeks to avoid providing funds for vouchers that will not be used. Unfortunately, however, the formula fails to take into account the increases in voucher utilization (and cost) that have occurred in many local agencies since the period in the past on which agencies' funding would be based. Such increases are documented in recent HUD reports and program expenditure data, as well as in the recent survey of local housing agencies cited above. As a result, the new formula would provide insufficient funding for many localities to maintain their voucher programs at their current levels of operation. The new formula is estimated to reduce the number of families the program could serve by approximately 125,000 below the current authorized level, a reduction that would be permanent unless future appropriations bills abandoned the formula.

For example, the new formula would effectively eliminate funding for a substantial portion of the 129,000 new (or "incremental") vouchers that Congress approved in 2001 to help ease the near-record shortage of affordable housing. HUD did not make funding for these new vouchers available to local housing agencies until near the end of fiscal year 2001, and it then took time for the agencies to issue the vouchers and for the families receiving the vouchers to rent housing with them. As a result, these vouchers were not in full use throughout fiscal year 2002. Since a local agency's renewal funding level for 2003 would be based on the average number of vouchers in actual use in fiscal year 2002 (or an earlier period), these new vouchers would likely be reflected only in part when the agency's 2003 funding level was determined.

Another significant concern is that the new formula would likely lead many local agencies to curb or terminate the reforms they have instituted in recent years to increase voucher utilization. If local agencies know they will be funded at the level of expenditures they incurred during a period in the past, that is likely to discourage agencies from undertaking reforms to increase utilization and enable more low-income families to secure affordable housing. The funding levels that agencies would receive in the future would not be sufficient to cover the increased expenditures they would incur as a result of utilization increases.

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[5] The Committee bill limits each PHA's renewal funding to the average number of vouchers in use in its last completed fiscal year. (PHA fiscal years can begin on January 1, April 1, July 1 or October 1.) PHAs report information on the number of vouchers in use in their last fiscal year, with the report being submitted to HUD approximately 45 days after the close of a PHA's fiscal year. According to HUD staff, the timing of HUD's renewal of its annual funding contracts with most, but not all, local agencies occurs four months after the beginning of the PHA's fiscal year, with the contract providing funding for the next 12 months — that is, the months that represent the fifth through the sixteenth months after the end of the PHA's most recently completed fiscal year. For these agencies, renewal funding under the new formula would be based on their average voucher leasing rate in their 2002 fiscal year — a period five to 16 months prior to the contract renewal date. This procedure would apply in all PHAs with which HUD enters into a single annual contract to renew voucher funding; these are agencies in which all vouchers expire at the same time during the year. In other agencies in which voucher contracts come up for renewal at *different* points during the year, voucher funding under the Committee bill would be based on a period that is as much as 15 to 26 months old. For such agencies, the amount of voucher funding received for a 12-month period starting sometime in fiscal year 2003 would be based on the agency's voucher utilization back in its 2001 fiscal year. The problems would be even more severe in those agencies because of the longer time lag.

What About "Program Reserves"?

Each local agency has access, with HUD approval, to its own "program reserve." (This is separate and apart from the "central reserve" that the Committee bill would establish.) These reserve funds would be of little help in addressing the funding shortfalls the new formula would create, however, since local agencies are not permitted to use their program reserve funds to provide ongoing housing assistance to more families than their annual voucher funding level covers. Local agencies could not use funds in their program reserves to address problems caused by an insufficient annual funding allocation under the new formula.

Moreover, local agencies must rely on their program reserves for other purposes, such as covering increases in funding needs when costs *per voucher* rise more rapidly than had been anticipated as a result of significant increases in rental costs or a decline in tenant income. Both the current funding system and the formula in the House Appropriations Committee bill adjust renewal funding based on a factor that is intended to reflect inflation. The cost of an agency's voucher program rises faster than inflation in areas with rapidly rising rental costs, however, as well as during periods like the present when tenant incomes decline as a result of higher unemployment and the proportion of rental costs that vouchers cover consequently increases. Even if agencies *were* allowed to use their program reserves to lessen the funding shortfalls that the new funding formula would create, the additional funds needed would likely outstrip the program reserves that many agencies would have left available for such a purpose.

Still another problem is that even if agencies were permitted to tap their program reserves to help fill the funding gaps the new formula would create, they might be unwilling to do so since, under the Committee bill, their program reserves apparently would *not* be replenished by HUD when the agencies drew them down. Until now, agencies that have needed to draw upon their program reserves have had these reserves replenished, with only limited exceptions. The bill does not include any requirement that HUD replenish reserves when they are drawn down, nor does it appear to provide HUD with the funds needed to replenish program reserves during fiscal year 2003. Thus, even if agencies were allowed to draw upon their program reserves to cover shortfalls the new formula would create, agencies might well be reluctant to do so since such a practice could place them in jeopardy of having too little cushion for other contingencies that could occur during the fiscal year. Moreover, if Congress used the same funding approach in fiscal year 2004, PHAs might not receive sufficient funds in 2004 to renew vouchers they had made available to families in 2003 by drawing on their reserves.

The Committee bill does establish a "central reserve" fund to help address those problems by providing additional funds to agencies in which voucher use has increased. But the Committee bill provides such limited funding for this reserve that the reserve would fall far short of being able to close the gaps in agency budgets that the new formula would create. The central reserve would be able to support only about 50,000 vouchers nationally, a modest fraction of the reduction in vouchers the new formula would generate. The figure cited above that the new formula would lead to a loss of 125,000 vouchers (relative to the number that is authorized today and that the President's budget would support) is the *net* reduction after the effects of the central reserve are taken into account.[6]

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[6] The House Committee bill would appropriate a total of $11.7 billion for renewal of vouchers (and PHA-administered Section 8 moderate rehabilitation units), the central reserve fund, and administrative fees for these vouchers and units. This is $764 million less than the Administration requested for renewal of these subsidies. At the Administration's estimated cost of $6,005 per unit (including administrative fees), this reduction represents the renewal of about 127,295 fewer vouchers than the Administration has indicated will expire in fiscal year 2003.

The presence of the central reserve also would have only a limited effect in counteracting the effect of the new formula in discouraging agencies from instituting reforms to increase utilization. Agencies would have no assurance of receiving adequate future support from the central reserve to cover the increased number of families they would serve if their utilization rates rose.

The consequences of the inadequate levels of funding the new formula would produce would be significant. Agencies would not be able to issue previously authorized vouchers that had not been used in the prior year. In addition, agencies could find themselves driven to take such steps as "calling back" vouchers they have issued before recipient families have located rental units and ceasing to reissue some vouchers that become available when families currently using the vouchers leave the program. Such steps would shrink the overall number of low-income families assisted through the program. Some local agencies facing shortfalls also could find themselves compelled to reduce subsidies to families with vouchers by lowering the size of voucher payments and requiring families to pay a higher share of the rent. In extreme cases, some local agencies might even face a need to terminate the vouchers of some families currently receiving assistance, which is permitted when Congress has appropriated insufficient funds to renew all vouchers.

To be sure, the Committee's goal of shrinking the amount of unexpended program funds and reducing voucher underutilization is a worthy one. There are alternative approaches, however, that would be more effective in achieving this goal and would do so without adversely affecting low-income families, as the Committee bill would. Such alternative approaches are contained, for example, in legislation that the House Financial Services Committee approved this summer and in legislation that leading Senators of both parties have introduced. These pieces of legislation are described below.

The remainder of this analysis examines other problems likely to develop as a result of these provisions of the Committee bill, and describes some more promising ways to increase voucher utilization.

Other Problems with the Voucher Provisions of the Committee Bill

- **The bill would effectively undo recent program improvements.** As noted, Congress and HUD have instituted reforms in the past few years to increase voucher utilization. While this is evidently not the Committee's intent, the new funding structure would effectively undo a number of these improvements.

  One such reform allows PHAs the option to increase the amount of the rental charges that vouchers can cover, which enables PHAs to make a greater share of the rentals in an area affordable with vouchers. Implementing this option raises a PHA's voucher costs, both because utilization is likely to increase and because average costs per voucher may rise. Any increases in costs stemming from higher payments per voucher, however, would add to the costs that PHAs would need to meet out of their already inadequate funding allocations or place additional strain on their program reserves. Increases in utilization resulting from this reform would not be funded, since the new funding would only cover vouchers utilized in the past. As a result, PHAs could effectively be penalized for (and discouraged from) instituting this important option for increasing voucher utilization.

Examples of How Higher Voucher Payments and Other Management Improvements Increase Voucher Utilization

The St. Paul (Minnesota) Public Housing Authority's voucher utilization reached a low point of 83 percent in August 1999 in a tight rental market. With rents at high levels, many low-income families were unable to find apartments where the landlords would accept vouchers and the rents were within program guidelines. More than $4 million of the agency's voucher funds were recaptured by HUD. In response, the agency adopted a variety of strategies (such as increasing the proportion of units in the local area that are made affordable by vouchers), and its voucher utilization increased to 95 percent in its last completed fiscal year, which ended March 31, 2002. The agency reports that its voucher utilization rate currently stands at 99 percent.

The New Jersey Department of Community Affairs administers more than 18,000 vouchers throughout the state of New Jersey. In 2001, the agency used 94 percent of its vouchers, and HUD recaptured $28 million of its voucher funds. The agency subsequently instituted a series of reforms and management improvements. In its most recent completed fiscal year, the agency leased *all* of its vouchers and had no unspent funds. It expects to do the same this year.

The Massachusetts Department of Housing and Community Development, which administers more than 17,000 vouchers throughout Massachusetts, had more than $35 million in unspent voucher funds in 1999 – 2001, which HUD recaptured. This agency since has turned around its performance. During its fiscal year ending June 30, 2002, it leased 96 percent of its vouchers, and is currently leasing 98 percent of its vouchers and using all of its voucher funds.

Under a second reform, HUD has created a performance measurement system that penalizes housing agencies that perform poorly. In particular, it penalizes agencies that use less than 95 percent of their vouchers. This new assessment system has encouraged PHAs to improve voucher utilization. By reducing the number of vouchers for which an agency receives funding to the average number in use in the last completed fiscal year, the new funding formula would essentially render this measurement meaningless.

A third reform established a reallocation process under which HUD shifts unused vouchers from housing agencies where the vouchers are not being used to housing agencies with a proven track record of voucher utilization and a need for more vouchers to address affordable housing shortages. Since the bill's funding formula would not provide renewal funds for vouchers that were not used during fiscal year 2002 (or an earlier period), unused vouchers that otherwise would have been reallocated would in effect be defunded.

- **The Appropriations Committee bill would make it difficult for agencies to "overissue" vouchers, a practice essential to effective voucher program management**. Overissuing vouchers — in the same way that airlines overbook flights — enables agencies to ensure that most of the available vouchers are used, even though some voucher-holders are unable to find housing. If one out of every five families typically is unable to rent housing with the vouchers an agency issues, the agency can issue five vouchers for every four vouchers it has available funds to support. Only through such an approach can the agency ensure that the average number of vouchers in use throughout the year comes close to the number it is authorized to administer and that funds provided by Congress for housing assistance do not go unused.

Agencies are able to overissue vouchers because HUD provides each agency a "program reserve" equal to one month of voucher funding. PHAs rely on these program reserves to provide sufficient funds in the event that more families than expected are able to rent housing with their vouchers and agency costs temporarily climb above the agency's approved expenditure level. (Such an increase in expenditures is only temporary, because agencies in this situation stop reissuing vouchers that become available through normal turnover until expenditures return to the scheduled level.) However, the Committee bill appears to end HUD's current practice of replenishing local housing agency reserves during a fiscal year when these reserves are drawn down. (See box on page 5, "What About Program Reserves?") If agencies do not have assurance that their reserves will be replenished during the year, they will be less likely to continue overissuing vouchers or to overissue them to the extent that they do now. Yet if agencies cease overissuing vouchers or scale back the degree to which they do so, voucher utilization will decline and more voucher funds will go unspent.

- **Confidence of owners and lenders could be damaged.** The voucher program depends for its effectiveness on the willingness of property owners to lease units to voucher-holders. For nearly three decades, Congress has encouraged owners to participate in the voucher program by consistently renewing all existing voucher contracts. For the first time in the program's history, the Committee bill would fail to ensure that sufficient funding is provided to renew all vouchers. The mere possibility that voucher commitments would be withdrawn may deter some private-sector parties from participating. That in turn could make it more difficult for low-income families with vouchers to find landlords who will accept vouchers and consequently result in downward pressure on voucher utilization.

The new formula also would undermine local agency initiatives to increase voucher utilization through what is known as "project basing." Local housing agencies are permitted to earmark up to 20 percent of their vouchers for use at particular housing developments. This "project-basing" option, which became widely used only after Congress instituted reforms in this option in fiscal year 2001, enables housing agencies to increase voucher utilization by guaranteeing that a certain number of units will be available where tenants can use their vouchers. The new funding formula, however, fails to cover vouchers that were not used during the period in the past on which an agency's funding level would be based but that have since been committed by the agency for use as project-based vouchers in 2003.

Project-basing also can help support the development of affordable housing, because it provides a dependable source of rental income for owners and developers. By creating uncertainty about whether adequate funding will be available for the renewal of all vouchers, the new formula could raise questions about the reliability of rental income derived from project-based vouchers. The formula consequently could discourage developers and investors from participating in project-based voucher arrangements and impede the development of badly needed affordable housing for extremely low-income families.

The uncertainty concerning the renewal of voucher funding that would result from the Committee bill also would likely impede the use of Section 8 vouchers for homeownership. Using vouchers to help families make mortgage payments on homes has the potential to reduce families' long-term need for housing subsidies and is one of the Administration's major housing priorities. Lenders, however, are unlikely to make mortgage loans on the basis of rental subsidy payments that housing agencies may not be able to maintain.

- **Commitments to PHAs testing innovative policies under the Moving-to-Work Demonstration would be broken.** In addition to weakening efforts that have contributed to the recent increase in voucher utilization, the funding changes included in the Committee bill also would undercut the effort to test housing policy innovations through the Moving-to-Work demonstration. Congress has authorized HUD to designate up to 30 PHAs to experiment with a wide range of policy variations under the Moving-to-Work demonstration. Some policies being tested under the demonstration have the potential to increase voucher utilization.

  At the onset of the demonstration, HUD made a commitment to participating housing agencies that their future funding levels would not be reduced below the level of funding they received at the start of their participation in the demonstration. The House Appropriations Committee bill effectively reneges on this commitment by explicitly stating that its voucher funding provisions would apply to agencies participating in Moving-to-Work in the same way these provisions apply to other agencies. Hence, these agencies' funding would be reduced below the prior levels if they had not utilized all of their vouchers in their most recently completed fiscal year. Agencies would lose funding even if the reason that they did not use all of their vouchers was that they had shifted voucher funds to support innovative activities that HUD had approved under the demonstration, such as rehabilitating housing for use by voucher holders or providing housing search assistance to help families use their vouchers.

Use of Voucher Funds Can Be Increased Without Reducing the Number of Families Receiving Vouchers and Compromising Program Goals

The rather drastic revisions in the voucher program that the Appropriations Committee bill would make are not necessary to meet the Committee's goal of reducing the underspending of funds appropriated for the voucher program. Several bills introduced in Congress by members of both parties would increase the utilization of vouchers (and of available voucher funding) through changes that would improve the program and enable more families to rent units with the vouchers they receive. These proposals stand in contrast to the provisions of the Appropriations Committee bill that would reduce the amount of housing assistance available and the number of families served. The proposals in these other pieces of legislation represent sounder ways to diminish the amount of unused voucher funds.

- **Housing search assistance:** Relatively few PHAs currently provide assistance to help voucher recipients locate and obtain housing. This is the case in part because

Reallocation Can Achieve Full Voucher Utilization in the Original Community: The Case of the St. Francois County Housing Authority

The St. Francois County Housing Authority administers 1,750 vouchers for a 10-county service area in Southeastern Missouri. In the past several years, St. Francois received 412 vouchers from nine other PHAs that were either unwilling or unable to administer voucher programs in their communities. One agency with more than 100 vouchers had been using fewer than 20 percent of them when the agency's vouchers were reallocated to St. Francois. The prior agency claimed it could not use its vouchers because there were not enough eligible families and few landlords were willing to accept the vouchers. Within a week of taking over this agency's program, St. Francois was inundated with calls from prospective tenants and was able to lease the outstanding vouchers. As of October 2002, St. Francois has leased 99 percent of its allocated vouchers, including all of the additional vouchers it received from other PHAs. The experience of the St. Francois Housing Authority illustrates how reallocation can work to keep needed vouchers in communities.

the administrative fees that PHAs receive are not adequate to support the provision of these services. Both H.R. 3995, which the House Financial Services Committee approved in July 2002, and S. 2721, which Senate Banking Committee Chairman Paul Sarbanes has introduced, would allow PHAs to use a limited portion of their unused voucher funds to provide housing search assistance to voucher-holders. This would enable more families to find housing they can rent with their vouchers. In so doing, it also would reduce agencies' unspent fund balances.

(Unfortunately, rather than pursuing improvements of this nature, the House Appropriations Committee bill would likely aggravate the problem of inadequate housing search assistance. This is due to another provision of the Appropriations Committee bill, which would alter the system used to calculate agency administrative fees and do so in a manner that reduces the fees that many PHAs earn, especially PHAs in areas with lower rental costs. These changes likely would result in a reduction in the already inadequate efforts that some PHAs currently are able to undertake to persuade more landlords to participate in the voucher program and to assist families with vouchers in finding housing.)

- **A more effective system for reallocating unused vouchers:** Another reform that would increase voucher utilization without adversely affecting low-income families would be to strengthen the system used to reallocate unused vouchers from agencies with low voucher utilization rates to agencies with high utilization rates. HUD's current reallocation system, while potentially beneficial, does not facilitate maximum use of voucher funds to the extent that a stronger and more effective reallocation system could. S. 2721, the Sarbanes bill, and S. 2967, introduced by Senator Christopher Bond, the ranking member of the Senate VA-HUD Appropriations Subcommittee, include identical provisions designed to address weaknesses in the current reallocation system. These provisions would make significant improvements in the reallocation process, leading to prompter reallocation of unused vouchers and consequently to increased utilization of voucher program funds.

In short, the House Appropriations Committee bill would fundamentally alter the funding structure of the housing voucher program and do so in a way that would diminish the voucher program's effectiveness. Because the changes in the bill would discourage local agencies from instituting reforms to increase voucher utilization and overissuing vouchers, underutilization of vouchers would likely remain a problem and might even increase.

The bipartisan, Congressionally-chartered Millennial Housing Commission strongly endorsed the voucher program in the report it issued earlier this year, describing it as "flexible, cost-effective, and successful in its mission."[7] The Commission recommended that Congress provide funds for a substantial expansion of the voucher program and also take steps to improve voucher utilization. By significantly reducing the number of families that can receive voucher assistance and impeding recent reforms to improve utilization, the Appropriations Committee bill would move this important program in the opposite direction.

[7] Millennial Housing Commission, *Meeting Our Nation's Housing Challenges*, May 30, 2002.