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TECHNICAL APPENDIX

To accompany "Fixing the Housing Voucher Formula: A No-Cost Way to Strengthen the 'Section 8' Program"

This appendix describes the sources and methods used to obtain the estimates that appear in the body of this analysis. Our estimates rely primarily on two sets of HUD data. The first set is from HUD's Voucher Management System (VMS). The VMS contains data on the number of leased vouchers and subsidy payments made to owners, which agencies submit to HUD on a quarterly basis. At the time we conducted this analysis, we had access to VMS data covering the period from August 2002 (the start of these data) through March 2006.[1] The second set of data is HUD's Resident Characteristics Report (RCR) database, downloaded periodically through September 2006, which contains information on the number of authorized vouchers at each agency.

Vouchers Funded in 2007 Under Pending Bills

The fiscal year 2007 Transportation-Treasury-HUD appropriations bills approved by the House and Senate Appropriations Committees (H.R. 5576) include the same amount of funding that the President's budget requests for voucher renewals --- $14.4 billion --- of which $14.3 billion would be distributed under a specified formula. Because the remaining $100 million is proposed to be set aside for funding adjustments largely in HUD's discretion, we could not allocate those funds to the agency level.[2] As explained in the paper, our analysis assumes that the final bill will provide $14,178,501,800 in voucher renewal funding for distribution under a formula. This is the amount in each of these bills, reduced by 1.1 percent, which is the amount each remaining appropriations bill would have to be cut below the Senate levels to make up for the $5.3 billion that Congress shifted to the defense and homeland security appropriations bills in September.

[1] VMS data for some agencies were missing in one or more quarters. In these cases, we projected costs and utilization using data submitted by the agency for an earlier quarter and assumed that the agency's subsequent costs and utilization grew at the average rate reported for the same quarter at agencies with complete data. In a small number of cases, agencies reported extremely high or low per-unit costs or utilization rates, indicating that the data were likely to be erroneous. In these cases, we adjusted the data either in the same manner as for agencies with missing data or based on information on an agency's voucher program that we obtained from the agency.

[2] The House and Senate bills contain somewhat different language on the permissible uses of the $100 million set-aside, but in each case the funds could be used to meet higher per-voucher costs or possibly to fund additional already-authorized vouchers. Because of the nature of the specified use of the funds and uncertainty about other possible uses, our analysis does not include any additional vouchers that could potentially be funded with the set-aside funds.

Estimating Agency-Level Voucher Funding in 2007
Under Each of the Three Pending Funding Approaches

As the paper explains, Congress must decide what funding approach to use to distribute, among the 2,400 state and local agencies, the voucher renewal funding it provides for 2007. The House bill would use the same approach proposed in the President's budget, which includes a formula much like the formula in effect in 2005 and 2006, under which funding is based primarily on agencies' voucher spending in May – July 2004.[3] The House Financial Services Committee in June approved the Section 8 Voucher Reform Act (or SEVRA, H.R. 5443), which includes a different distribution formula, based on voucher leasing and costs in the most recent calendar year,[4] as well as other key incentive features explained in the paper. The Senate bill is similar to SEVRA in basing the distribution of funds on voucher leasing and costs in the most recent 12 months, but it differs in other respects.

Our method for estimating the number of vouchers that would be funded at each agency under each of these three approaches is explained below.

Estimating Vouchers Funded Under the House FY 2007 Appropriations Bill

Under the formula in the House bill, agency voucher funding in 2007 would be determined in four steps.

- The starting point in determining an agency's funding in 2007 is the funding that the agency was eligible to receive in 2006, prior to proration. The funding that an agency was eligible to receive in 2006 had two components: 1) the basic renewal awards, and 2) the adjustments that some agencies received out of the $44.5 million that Congress set aside for this purpose. We used HUD award data for both components.

- Second, the 2006 funding eligibility level would be adjusted to cover the cost of newly expiring

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[3] Our analysis of the voucher funding provisions of the President's budget is available at http://www.cbpp.org/3-13-06hous.htm. Note that the current estimates use more recent data than our initial analysis. The most important new data are (1) HUD's actual funding awards for 2006 (in place of CBPP estimates); (2) VMS data through March 2006 (only data through September 2005 were available to us for the previous analysis); and (3) agency-level estimated inflation factors for 2007 (rather than a uniform estimate of 2.7 percent). The derivation of the estimated inflation factors is explained below. In addition, the current analysis assumes a lower funding level available for voucher renewals, due to the likely 1.1 percent across-the-board cut. Our estimates of vouchers cut by the House bill compares vouchers *funded* at each agency in 2007 to vouchers *in use* in 2006. In contrast, our earlier analysis of the President's budget compared estimates of vouchers funded in both years.

[4] SEVRA requires that "leasing and cost data shall be calculated not less often than biennially by using the average for the calendar year that, at the time of such calculation, is the most recently completed calendar year for which the Secretary determines data is available, substantially verifiable, and complete." (Section 8(dd)(2)(B) as inserted by section 7 of H.R. 5443.) Under this language, HUD might use data from 2005 or 2006 to determine agency funding in 2007. HUD already has VMS data on voucher leasing and costs through September 2006. Agencies are required to submit data for the final quarter of the year by the end of January 2007. Thus, HUD will have complete 2006 data by February 2007 (and could direct agencies to submit data from October and November 2006 earlier). In 2006, HUD did not notify agencies of their calendar year funding levels until late February. Use of 2005 rather than 2006 data to determine funding levels in 2007 – the first year of transition to the new funding approach – would undermine the goal of assuring renewal funding for vouchers currently in use.

tenant protection vouchers and the cost of deposits into escrow savings accounts for participants in the Family Self-Sufficiency program. We could make only a portion of these adjustments at the agency level — for agencies that received new tenant protection vouchers in 2005. For 2006 tenant protection awards, we estimated the funds needed nationally for first-time renewals and reserved these funds in determining the estimated proration rate, as described below. Data also are not available on agency contributions to FSS escrow funds in 2006. Given the likely small cost of the FSS adjustments (an estimated $15 million nationally[5]) and the rough nature of this estimate, we omitted the FSS adjustment step from our calculations.

Agencies that received new tenant protection vouchers in 2005 will receive less than a full year's renewal funding for these vouchers in 2006. Initially, HUD awards 12 months of funding for tenant protection vouchers. These funds will be exhausted at some point in 2006, and HUD estimates that expiration point in calculating the partial funding due in 2006 to carry funding for these vouchers through December 2006. (HUD provides voucher renewal funding to agencies on a calendar year basis.) In 2007, however, these vouchers will need a full 12 months of regular renewal funding, so an adjustment is required to the 2006 funding eligibility level to provide full-year funding for the vouchers initially funded through 2005 tenant protection awards. We used available HUD data to estimate the number of 2005 tenant protection vouchers due for adjustment in 2007 at particular agencies.[6] To estimate the cost of these adjustments for this analysis, we used the "Housing Assistance Payments (HAP) rate" figures that HUD established for each agency in 2006, adjusted by the estimated 2007 annual adjustment factor (AAF) that is designed to adjust for inflation.[7]

- Third, the resulting sum is inflated by an estimated regional HUD annual adjustment factor (AAF) for 2007. HUD has not yet determined the 2007 annual adjustment factors. We assumed that HUD will use the same type of data for the 2007 AAFs that it used in 2006. In 2006, HUD used regional Consumer Price Index data for rent and utility costs to compute the AAFs.[8] Typically these data reflect rent and utility inflation during a period two years before the period to which HUD will apply the AAFs: for 2007, the AAFs will be set based on the increase in rent and utility costs in 2005 compared with costs in 2004. For this analysis, we estimated the 2007 AAFs by using the changes in the CPI rent and utility cost indices that HUD used in calculating the 2007 Fair Market Rents (which are similarly derived based on rent

[5] See the textbox concerning FSS in the March paper noted above, at page 8.

[6] See the Technical Appendix to our paper analyzing the President's budget, http://www.cbpp.org/3-13-06hous-tech.pdf.

[7] The HAP rates are published at http://www.hud.gov/offices/pih/programs/hcv/ohvp/hap06.cfm. On its website HUD explains that it determined the 2006 HAP rates using a PHA's "base rate" adjusted by the applicable 2005 and 2006 inflation factors. (The "base rate" is not defined, but may be the PHA's average per-voucher cost in May – July 2004.) This method potentially underestimates the actual cost of some tenant protection vouchers. In calculating renewal funding for 2006, HUD used reported data on the actual cost of an agency's "enhanced vouchers" — those used by families to remain in a privately-owned building that no longer receives federal project-based assistance — to provide adjustments for the first-time renewal cost of these vouchers. If HUD continues this practice in 2007, the HUD cost figures we used may understate the adjustment funding some agencies would receive, because enhanced vouchers often cost more per-voucher than regular vouchers due to a higher maximum subsidy level.

[8] HUD describes its AAF methodology in an overview available at http://www.huduser.org/Datasets/aaf/aafover.pdf. In 2006, HUD's AAFs averaged 3.2 percent, weighted based on the authorized vouchers funded at each agency.

and utility inflation two years earlier).[9]

- Finally, if funding provided for voucher renewals under the House formula is insufficient, HUD is directed to prorate funding using the same percentage for all agencies. Using the three steps described above, we estimated that full funding of the budget formula in 2007 would cost $15.667 billion,[10] $1.489 billion more than the $14.179 we assume will be available for renewal funding under the final appropriations bill. As a result, HUD would have to prorate, or reduce, the funding each agency is eligible to receive by 8.96 percent. This proration rate of 91.04 percent is substantially deeper than the 94.6 proration in 2006. If our estimate of the cost in 2007 of fully funding the formula is too high or too low, or if Congress provides more or less funding than the $14.179 billion we have assumed, the proration rate would change accordingly.

The House bill would allow agencies to use all of the funds they receive to issue vouchers to eligible families, without regard to the number of vouchers an agency has been authorized to administer under previous contracts. To estimate the total number of vouchers funded at each agency under the House bill, we divided the estimated 2007 post-proration funding that each agency would receive by our estimate of the agency's per-voucher cost in 2007. For each agency, we first estimated the agency per-voucher cost (HUD calls this the PUC, or per unit cost) for 2006, as explained below, and then assumed that costs at each agency would increase at the applicable estimated HUD inflation adjustment (AAF) for the region in which the agency is located in 2007. (The method of estimating the 2007 agency-level average voucher cost is the same for our analysis of each of the three funding proposals.)

We estimate that under the formula in the House bill, the $14.2 billion that we anticipate being available to renew vouchers would fund about 2,041,000 vouchers at local agencies. Some 25,000 of these vouchers, however, would be "unauthorized" — that is, they would be in excess of the number of vouchers the agencies are currently authorized to administer. Thus, we estimate that the House bill would provide renewal funding for 2,004,000 authorized vouchers (plus a portion of the new tenant protection vouchers awarded in 2006),[11] permitting a utilization rate of 93.8 percent if

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9 Our estimated average 2007 AAF is 4.03 percent, 1.35 percentage points higher than the uniform 2.7 percent AAF we used in our March analysis. (The calculation of the average is weighted based on HUD's 2006 funding awards.) Due in part to the increase in the average AAF, the average estimated per-voucher cost in 2007 under the current analysis is $6,929, $68 higher (on an annual basis) than the average 2007 cost estimated in the earlier analysis. (The difference is somewhat less than the change in the estimated 2007 AAF. Using actual data from the first quarter of 2006, as discussed below, we now estimate a lower average voucher cost in 2006 than in our earlier analysis, offsetting somewhat the effect of the increased AAF.) In 2006, the weighted average HUD AAF (based on the change in the CPI rent and utility indices from 2003 to 2004) was 3.2 percent (see note 8). The increase in the 2007 average rate compared with the 2006 AAFs is due largely to the increase in utility costs from 2004 to 2005.

10 Our current estimate of the cost of fully funding the House formula is $299 million higher than our March estimate of the same formula in the President's budget, due primarily to the increase in the average AAF under our updated estimates.

11 HUD's initial awards of funding for tenant protection vouchers cover a 12-month period, regardless of when in the calendar year the funds are awarded. As a result, in the subsequent year — for which renewal funding is allocated on a calendar year basis —- renewal funding is needed only for the remaining portion of the calendar year not covered by the initial tenant protection award. If HUD makes awards of new 2006 tenant protection vouchers evenly throughout the year, the equivalent of half of these vouchers will need renewal funding in 2007. Information on 2006 tenant protection awards is not available. We have assumed that HUD will make awards evenly throughout the year, using the full amount of the 2006 appropriation for new tenant protection vouchers —- $178,200 — and that in 2007, the renewal cost of half

agencies were to use all of their 2007 renewal funding. (As discussed in the paper, perfect utilization is virtually impossible, particularly under the funding approach in the House bill; see below for an explanation of the calculation of utilization rates.)

Estimating Vouchers Funded Under SEVRA

To estimate the amount of funding each agency would receive in 2007 under the SEVRA funding approach involves three components: determining base renewal funding, distributing any remaining new appropriations (or applying a proration if funding is insufficient to fund the formula under the first component), and reallocating recaptured funds. After estimating each agency's overall renewal funding using the total of these three components, we estimated the number of vouchers that would be funded by dividing each agency's total funding by its estimated 2007 per-voucher cost.

Under SEVRA, the formula to determine agencies' base level of renewal funding in 2007 would use the number of vouchers leased in 2006 and their average cost in 2006. We used agencies' actual leasing levels and costs for the first quarter of 2006, as reported in the Voucher Management System, and estimated the number of vouchers leased and costs for the remaining nine months of 2006 as described below.

The SEVRA approach includes two of the same adjustments as the House bill: adjusting the 2006 base funding amount both by the applicable annual HUD inflation factor and to reflect the cost of "tenant protection" vouchers issued to replace other federal housing assistance. We used the same methods described above for the House bill to make these two sets of adjustments, with one modification described in the note concerning tenant protection vouchers.[12] SEVRA also requires an adjustment for vouchers that were not in use during the calendar year because they had been committed to provide "project-based" assistance in particular buildings in the near future. We were unable to make this adjustment due to lack of data on which state or local agencies would qualify and the number of vouchers reserved.

SEVRA specifies that agencies with special block-grant style funding agreements under the Moving to Work demonstration, however, are to be funded under their agreements with HUD, subject to the same proration as other agencies in the event of a funding shortfall. For these 18

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of these vouchers will be $93 million. In the House bill estimates, we reduced the funding reserved for these adjustments by the 91.04 percent proration rate.

12 For agencies that received new tenant protection vouchers in 2005, we did not make the additional funding adjustment for 2007 renewal costs under the SEVRA approach that we made under the House approach. (Under the House approach, as described above, we assumed that HUD would add to an agency's pre-proration funding need in 2007 the difference between the annual cost of the 2005 tenant protection vouchers and the partial adjustment included in the 2006 pre-proration level.) In effect, we assumed that all new 2005 tenant protection vouchers were in use in the first quarter of 2006, and reflected in agencies' leasing data that we used as the basis of estimating voucher leasing and costs in 2006. (It is not possible to distinguish the type of voucher in use with the available data.) For some agencies, particularly those that received the new vouchers later in the 2005 calendar year, this assumption may be incorrect. It would be consistent with HUD's past practice for HUD to make an adjustment to 2007 funding to recognize that vouchers awarded during 2005 may not have been fully in use throughout calendar 2006. Thus, our estimates of vouchers funded under SEVRA may be too low for agencies that received new tenant protection vouchers in 2005.

agencies, we used HUD's figures on 2006 preproration eligibility, adjusted like other agencies by the applicable AAF and for expiring tenant protection vouchers.[13]

We estimate that the total cost of the base level of renewal funding under the SEVRA approach would be $13.9 billion, which would fund about 1,995,000 vouchers.[14] The actual total cost of the base level of renewal funding may vary from our estimate, depending on the interaction of several factors. The largest variable is actual voucher leasing and costs in 2006, which may be lower or higher than we estimated using only 3 months of actual data for the year. Moreover, the estimated costs of first-time renewal of tenant protection vouchers may be low for the reasons indicated above, and we were unable to include adjustments for project-based voucher reservations. Nonetheless, it is likely that under this approach, $14.18 billion would be sufficient to fully fund the renewal of vouchers in use in 2006.

The SEVRA approach requires HUD to distribute any remaining appropriations after funding the cost of renewing vouchers in use in 2006 to agencies that would qualify for reallocation of recaptured funds, after reserving the amount needed to cover costs related to "portability" (i.e., the movement of voucher holders from one agency's jurisdiction to another's) and costs under HUD's Family Self-Sufficiency (FSS) asset-development program. For this analysis, we did not reserve any funding for these purposes: without additional information from HUD, we cannot estimate how much would be needed. Moreover, we assumed that the $100 million set aside in both the House and Senate bills for portability adjustments could be used in part to meet these costs.

As explained in the note, the relevant section of SEVRA concerning distribution of the two additional funding components — any appropriations in excess of the amount needed to fund the basic formula and recaptured funds —- is somewhat ambiguous, and as written probably does not reflect the intent of the Committee.[15] For these reasons, we applied the directive to distribute remaining appropriated funds and available recaptured funds in the following way.

- Agencies could potentially qualify for distribution of a portion of the remaining appropriations if in 2007 we estimated they would receive funding under the formula for less than 100 percent

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[13] Adjustments for expiring tenant protection vouchers for MTW agencies are the same under the SEVRA approach as under the House approach, because funding for these agencies is not based on agencies' use of vouchers in 2006.

[14] All but $55 million of these funds would support currently authorized vouchers. Eleven of the MTW agencies would receive these $55 million in funds and could use them either for about 7,400 additional vouchers or to meet other housing costs eligible for funding under their agreements with HUD. Included in the total are 13,200 vouchers that reflect our estimate of the cost of renewing for half a year, on average, the new tenant protection vouchers that we estimate HUD will issue in 2006. See note 11.

[15] Section 8(dd)(4)(B), as added by Section 7 of H.R. 5443, states that agencies that used at least 99 percent of their renewal funding in the previous year without leasing *all* their authorized vouchers would qualify for reallocation, "except that" the Secretary may give priority to agencies that used fewer vouchers in the prior year than in the 12-month period ending April 1, 2004. It is not clear if the exception clause is an additional ground for qualifying for reallocation or applies to a subset of the first group of agencies. Moreover, it appears that the drafters may not have contemplated a situation where a strict interpretation of the 99 percent floor would result in available funds not being able to be allocated at all (because too few agencies would qualify), or where an agency that used all its authorized vouchers in 2006 would nonetheless be unable to support all its authorized vouchers in 2007. Section 8(dd)(4)(C) restricts funds received through this redistribution mechanism to use for leasing additional authorized vouchers. The bill is silent about whether to give qualifying agencies all of the funds they need to use 100 percent of their vouchers or to apportion available funds in some manner.

of the number of vouchers authorized in January 2006.[16] (We assumed that agencies with special funding agreements under the Moving to Work demonstration would not be eligible for receipt of additional funds above the amount specified in their contracts with HUD.[17])

- To determine the order in which agencies would qualify for additional funds, we ranked agencies by the percentage of their 2006 renewal funds we estimated they would spend in 2006. In this way, we sought to fulfill the apparent intent of SEVRA to reward high-performing agencies and to give funds to agencies most likely to use them.

- We allocated to each qualifying agency in rank order the amount of additional funding needed to support 100 percent of their authorized vouchers in 2007, based on our estimated 2007 per-voucher cost.

Using this method, the funding that we estimate would remain after renewing vouchers in use in 2006 would provide funding for approximately 30,000 currently authorized vouchers at more than 700 agencies. All of these agencies, under our estimates, will have used 99 percent or more of their funds in 2006.

In the first year, SEVRA would allow each agency to retain prior-year unspent funds up to the level of one month of 2007 funding and would require HUD to recapture unspent funds over the one-month level and reallocate them in the same way (just described) as would be used to allocate any remaining newly appropriated funds. To estimate the amount of recaptured funding available for reallocation, we estimated the amount of unspent funds at each agency in 2005 and 2006. For 2005, we were able to calculate the difference between HUD's actual funding awards and agencies' actual spending levels as reported in the VMS data. (We excluded the amount of funding for new 2005 tenant protection awards.) For 2006, we determined the difference between HUD's actual funding awards and our estimate of each agency's spending level in 2006, as explained below.

We compared the total amount of carryover funding estimated at each agency for the two years to 1/12 of the estimated 2007 base funding under the SEVRA approach, as described above, and determined that about $450 million would be available for recapture and reallocation. It is very important to note that this is a rough estimate. In particular, it assumes that agencies use none of their 2005 carryover funds in 2006 and that HUD takes no action to recapture any of these funds. Moreover, the estimate of unspent funds in 2006 depends on our estimates of voucher leasing and costs in 2006; if agencies spend more than we estimate in 2006, the level of unspent funds will be reduced (and the cost of renewing 2006 vouchers in use will increase). These recaptured funds would fund about 60,000 currently authorized vouchers at more than 900 agencies.

In combination, through the basic formula, the distribution of remaining new appropriations and the reallocation of recaptured funds, the SEVRA approach would fund about 2,092,000 vouchers, enabling agencies (if they used all funds provided) to achieve a 97 percent utilization rate of currently authorized vouchers.

[16] Agencies receiving new tenant protection vouchers during 2006 would receive full funding for the renewal of these vouchers through the $93 million reserved for this purpose, as discussed in the House section above.

[17] It appears to us to be most consistent with the block-grant style funding approach in MTW that agencies are limited to the funding available under their contracts.

Estimating Vouchers Funded Under the Senate FY 2007 Appropriations Bill

The Senate appropriations bill would distribute renewal funding under a formula based on each agency's costs for vouchers leased in "the most recent 12 consecutive month period for which [HUD] determines the data is verifiable and complete," adjusted by the applicable 2007 HUD inflation factor, and with additional adjustments for the costs of "tenant protection" vouchers, FSS savings, and vouchers that were not in use during the 12-month period because they had been committed to provide "project-based" assistance in the near future.

We used leasing and cost data from the 2006 calendar year to estimate the effects of the Senate formula, except for MTW agencies with special block-grant style funding agreements. Thus, the starting point for the SEVRA and the Senate funding approaches is essentially the same. We treated the adjustments in the same way as for the other proposals. (The inflation and tenant protection adjustments are the same as discussed above for the House and SEVRA policies. We did not include the other two types of adjustments in the Senate bill estimates, for the same reasons as explained in the part of our discussion of the House bill that relates to FSS and the part of our discussion of the SEVRA bill relating to project-based voucher commitments.)

HUD would be required to distribute all renewal funds under this formula, except for $100 million reserved for certain cost adjustments as described in Appendix A. If the appropriation were more or less than the cost of the formula, each agency would receive its pro-rata share. In 2007, we estimate each agency that does not have a special MTW funding agreement would receive 101.65 percent of the funding due under the formula.[18]

We estimate that the Senate bill would fund a total of 2,031,000 vouchers.[19] More than 16,000 of these vouchers would, however, exceed agencies' currently authorized level. Under the Senate bill, an agency would not be allowed to use more than its number of authorized vouchers. As a result, at least the approximately 9,000 unauthorized vouchers funded at non-MTW agencies would not be able to be used under the Senate approach. (As discussed in the text, the MTW agencies may not be bound by this prohibition, and if they are, they could use the funds for other permissible housing purposes.) The Senate bill would provide sufficient funding to enable agencies to achieve a utilization rate of 93.7 percent, if they used all funds provided under the bill.[20]

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[18] We assumed that HUD would not apply an upward adjustment to funding for MTW agencies, as these agencies' funding calculation is not based on vouchers in use. HUD's policy in the past has been to require MTW agencies to manage within the limits of their funding agreements.

[19] Although we allocate the same level of 2007 appropriations under each of the bills, our estimates result in about 10,000 more vouchers being funded under the House bill than under the Senate bill or the first two components of the SEVRA approach (without the recaptured funds). We believe this difference is because the SEVRA and Senate approaches provide the full level of funding needed to renew vouchers in use (as well as full funding to MTW agencies), including the provision of full funding in areas that have experienced cost increases in recent years. As a result, the average cost of vouchers funded under these approaches is slightly higher than the average cost under the House approach.

[20] In estimating vouchers funded under each of these models, we assumed that agencies would not use any unspent prior-year funds they may have retained to support additional vouchers in 2007. This assumption is necessary to make fair comparisons among the policies. Under the House and Senate bills, HUD may sweep all, some, or none of the remaining unspent funds. (HUD may determine that it needs to recapture unused funds to meet a Congressional

Estimating Numbers of Vouchers Leased and Per-Voucher Costs in 2006

To estimate vouchers funded under the SEVRA and Senate approaches, we had to estimate the number of vouchers agencies would use in 2006 and what they would cost. In addition, our analysis compares the vouchers funded under the House bill to the vouchers in use in 2006 to estimate the number of vouchers cut under the House approach. (Under our assumptions, the other two approaches do not cut any vouchers in use in 2006 because the funding assumed to be available is sufficient to fund these renewal costs.)

Vouchers Leased in 2006

As noted above, the latest month for which we have VMS data is March 2006. To estimate leasing in the subsequent months, we assumed that agencies would increase their average number of vouchers in use in the remaining nine months of the year four percent above the level in the first quarter, to the extent they could do so with available funds and without exceeding their authorized number of vouchers.[21] We made this assumption for two primary reasons. First, the large majority of agencies received more funds in 2006 than in 2005, and for most of these agencies, the increase was sufficient to support additional authorized vouchers. Second, voucher use had declined so severely by the first quarter of 2006 (see Figure 1 in the paper concerning the loss of 130,000 vouchers since early 2004) that we expect many communities will be anxious for their housing agencies to serve new families.

HUD notified agencies in late February 2006 of their calendar year funding levels, and in April of further funding allocated for adjustments required by the 2006 appropriations act. Thus, after the first quarter, agencies with increased funding levels would likely have taken steps to issue more vouchers. Nationally, the effect of this estimate was modest, lifting voucher utilization from 91.53 percent in the first quarter of 2006 to 92.25 percent for the year. (See below for a description of how we calculated these utilization rates.)

Per-Voucher Costs in 2006

To estimate agencies' per-voucher costs in 2006, we used the actual cost data for the first quarter as our starting point. For the remainder of the calendar year, we assumed that agencies' per-voucher costs would increase at the applicable HUD inflation factor. (We used HUD's published 2006 AAFs for this purpose; HUD's 2006 AAFs, weighted to reflect the authorized vouchers funded at each agency, average 3.2 percent.) To the extent that agencies' actual costs in 2006 are less than we

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rescission.) The availability of these funds thus is uncertain, and particularly under the House approach, agencies would have little incentive to use such funds, both because they would receive no additional administrative fees for the work of issuing more vouchers and because they could be at risk of being unable to maintain support for the additional vouchers in the following year (particularly with the pattern of ever-deepening prorations). Under SEVRA, agencies would have more incentive to use remaining prior-year funds if they have them, as the policy would require HUD to recapture all remaining unspent funds in 2008.

21 We assumed agencies would use no more than their authorized number of vouchers, consistent with the 2006 appropriations act, and no more than their available funds. In computing available funds, however, we included 2005 carryover funds.

have estimated, they would be able to use more vouchers in 2006 with available funds. For agencies for which we reduced our estimate of vouchers leased due to the limit of available funds, as discussed above, actual vouchers in use in 2006 could be higher than we have estimated. As a result, such agencies may experience deeper voucher cuts under the House approach than our estimates indicate.

The primary reason we assume that costs would increase at the rate of inflation beginning in April 2006 is our judgment that declining costs in 2005 were largely the result of policy changes that agencies made beginning in mid- to late-2004 to respond to funding shortfalls that year and in 2005. Once these changes were fully in effect — many would not have been implemented for individual families until their annual rent recertification — further policy-driven declines in costs would be unlikely. (Some agencies' costs would have continued to decline due to rent decreases in the market. For these agencies, the inflation factor is likely to be zero or low.) With more funding than in 2005, agencies are likely to allow reasonable rent increases requested by owners to keep them in the program, and may adjust payment standards at least to the extent of increases in HUD Fair Market Rents, which are adjusted from year to year partly based on rental inflation data similar to that used to calculate AAFs.

On a national basis, we estimate that the average per-voucher cost in 2006 will be $6,629, or $552.42 per month.[22] This is an increase of *less than one percent* from the actual average per-voucher cost in 2005, based on VMS data.

Hurricane Impacts

The Gulf Coast hurricanes of late 2005 create some additional uncertainty concerning many of the estimates in this analysis that rely on 2006 data. Some of the most severely impacted agencies did not submit VMS data for one or more months in late 2005 or early 2006. We estimated voucher leasing and costs for these agencies in the manner described in note 1, but these estimates are likely to be much less reliable. Even for agencies in these areas that reported what appear to be complete data for January – March 2006 (the latest data we have), the methods described above for estimating leasing and costs in the remainder of 2006 may be substantially too high or too low due to the unique circumstances in these communities.

It is difficult to accurately anticipate the number of authorized vouchers that will be leased in areas that suffered severe damage. This is partly because damage to housing stock and the resulting rent surges will have significant, but difficult-to-predict, effects on leasing rates as well as on voucher costs. In addition, some agencies have transferred a large number of voucher holders out of their regular voucher programs and into HUD's Disaster Voucher Program, but only limited data are available regarding which agencies have made such transfers or how many voucher holders have been transferred.

In addition, agencies in areas that were not directly impacted by the storms but received large numbers of evacuees may have increased the number of vouchers leased in 2006 beyond our

[22] To weight the per-voucher cost at each agency, we used the number of authorized vouchers funded at each agency. (Some MTW agencies receive administrative fees as part of their renewal funding. We estimated the portion of these agencies' renewal funding used for administrative fees and excluded these funds from our estimates.)

estimates. If this is the case, these agencies would suffer additional voucher cuts in 2007 under the House funding approach. Conversely, such agencies would receive funding for more vouchers in 2007 under the SEVRA and Senate approaches than our estimates indicate.

Utilization Rates

HUD's longstanding method of calculating voucher utilization rates excludes from the base, or denominator, of the fraction those vouchers that were newly awarded to an agency in the previous 12 months. This practice recognizes that there are administrative challenges that may cause delay in getting an allocation of new vouchers leased. We have attempted to be consistent with this convention in calculating the various utilization percentages — at the national and state levels — that appear in this analysis and appendices.

To estimate the utilization rate that agencies could achieve if they used all of the funds that would be provided to them in 2007 under each of the three approaches analyzed in the paper, we used the estimate of the number of authorized vouchers funded under each approach (as calculated in the manner described above) divided by the number of authorized vouchers in January 2006. Using HUD's Resident Characteristics Report (RCR) database, with some adjustments, we determined that there were 2,136,895 authorized vouchers in January 2006. We used similar methods to estimate the percentage of authorized vouchers that would be funded at each agency and in each state under each funding approach, as shown in the state tables.

The methods used for the utilization rate figures for 2004 – 2006 that appear in the analysis and appendices are described below.

2004 Utilization Rates

For 2004, a HUD report indicates that the voucher utilization rate nationally was 98.5 percent. (See Figure 2 on page 4 of the paper.) According to HUD, this figure is for the four quarters commencing July 1, 2003 and ending June 30, 2004, and relies on the measure of voucher utilization in the Section 8 Management Assessment Program (SEMAP). [23] Under SEMAP, vouchers awarded in the previous 12 months are not counted in measuring agency performance.[24]

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[23] HUD, "Performance and Accountability Report for Fiscal Year 2004," pages 2-44 and 2-45. It is not clear if July 1, 2003 – June 30, 2004 is the 12-month period covered, or if HUD used data from agencies' fiscal years ending within this 12-month period. If the latter is the case, which seems more likely due to HUD's stated reliance on agency year-end settlement statements, then the time frame covered could have started as early as October 2002 (with 12 months ending in July - September 2003) or as late as July 1, 2003 (with 12 months ending in the quarter April – June 2004). In addition to some uncertainty about the time period covered, HUD's report makes two apparently contradictory statements about how voucher utilization was measured, stating (on page 2-44) that "the indicator now only takes unit [i.e., voucher] utilization into consideration," but stating on the next page that the rate is based on "the higher of available budget authority expended or available units leased." Because funding for the voucher program was changed beginning in January 2003, so that agencies received funding only for vouchers in use rather than all authorized vouchers, it appears likely that HUD would have measured only the percentage of authorized vouchers leased (rather than the alternative of the higher of budget authority or units used) for at least most of the time period in question.

[24] See 24 C.F.R. § 985.3(n).

In the state tables, we calculated a 2004 voucher utilization rate for each state in a somewhat different way. We used VMS data to determine the number of vouchers leased by the agencies in each state in 2004. (Data were available for all but 12 agencies that were authorized to administer 2,008 vouchers. See note 1 concerning our methods in using the VMS data.) We did not have access to reliable data to exclude vouchers issued in the prior 12 months (i.e., during 2003). To calculate the utilization rate, we used as the denominator the number of authorized vouchers in each state in January 2005, using data from HUD's Resident Characteristics Report (RCR) database. As a result, in some states, where agencies received new vouchers in 2003 or 2004, the figures shown in the state tables will be lower than a rate calculated using HUD's usual convention.

2005 Utilization Rates

HUD has not issued a figure for voucher utilization in 2005. HUD states that it no longer has a goal of achieving high utilization because "changes in the program largely ensure full dollar utilization."[25] (The factual inaccuracy of this statement is now clear, although it may not have been clear at the time HUD issued the report in November 2005.)

Lacking a HUD figure for 2005 utilization, we attempted to replicate the method HUD previously used to calculate voucher utilization. For 2005, we used VMS data to determine the number of vouchers in use on average in the calendar year (1,960,242). To determine the total number of vouchers in 2005 that had been authorized for at least 12 months, we used HUD's figure that there were 2,087,344 "contracted" vouchers in fiscal year 2004.[26] Using these figures, we calculated a 2005 voucher utilization rate of 93.9 percent. (On average, agencies used a higher share of available funding than of authorized vouchers, because Congress did not provide sufficient funding in 2005.)

2006 Utilization Rates

For 2006, using the methods described above, we estimated that agencies would use 1,952,723 vouchers on average during the year. We estimated the total number of vouchers that had been authorized for at least 12 months by assuming that the increase in authorized vouchers from January 2005 to January 2006 occurred in equal increments in each month of the year. (We relied primarily on HUD's Resident Characteristics Report (RCR) database to determine the number of authorized vouchers, with some adjustments to correct apparent errors.) Using this method, we determined that there were 2,116,850 authorized vouchers in 2005. (This figure is 3,000 short of the figure HUD data provided to Congress on the number of authorized vouchers at each agency in July 2005.) Using these two figures, we calculated a 2006 voucher utilization rate of 92.25 percent.[27]

For the state tables, we estimated the 2006 vouchers in use by agencies in the state in the manner described above and compared this estimate to the number of vouchers authorized at the respective agencies in January 2006. Only a relatively small number of agencies in any state received new vouchers in 2005, and we do not have data on the actual dates of the awards to particular agencies.

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[25] HUD, "Performance and Accountability Report for Fiscal Year 2005," page 97.

[26] *Id.,* p. 322.

[27] For the first quarter of 2006, we compared the number of vouchers leased on average as shown in the VMS data (1,922,517) to the number of authorized vouchers in January 2005 (2,100,390), which we determined largely using HUD's RCR data.

To assume that the vouchers were awarded evenly throughout the year, as we did for the national estimates, could result in estimated utilization rates at the state level that were significantly too high or too low. Furthermore, we are somewhat more confident of the accuracy of the January 2006 authorized figures that we used than we are of the January 2005 figures. In some states, however, using the January 2006 authorized number of vouchers as the denominator in the calculation of the utilization rate may result in a somewhat lower utilization rate than would occur using a strict convention of excluding vouchers issued in the last 12 months.