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HOUSE-SENATE CONFERENCE COMMITTEE POISED TO DECIDE FATE OF HOUSING VOUCHER FUNDING

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The House of Representatives and the Senate Appropriations Committee have approved versions of a fiscal year 2004 appropriations bill (H.R. 2861 and S. 1584) funding the Department of Housing and Urban Development and certain other agencies that contain significantly different provisions for funding the "Section 8" housing voucher program. It is uncertain at this point whether the full Senate will take separate action on the HUD appropriations bill (most likely approving a version similar to the committee bill) or whether the bill will be included with other appropriations measures in an "omnibus" appropriations bill.

In either case, decisions expected to be made in the next few weeks by the House-Senate conference committee that shapes the final version of the bill will determine whether enough funding will be available in 2004 to cover all of the existing housing vouchers that will be in use. The voucher program currently assists more than two million low-income households, most of them either working families with children or elderly and disabled individuals.

- **The direct funding levels provided in the Senate Appropriations Committee and House bills are too low to fund all of the vouchers that are likely to be in use in fiscal year 2004.** This is the case because both bills were developed using HUD estimates of program funding needs that were based on data that are now out-of-date. If no other funds are made available, the direct funding level in the House bill could lead to the loss of 63,000 to 108,000 vouchers that could otherwise be used, while the level in the Senate Appropriations Committee bill (referred to in the remainder of this analysis as the Senate bill) could lead to the loss of 92,000 to 135,000 such vouchers.

- **The Senate bill, however, requires HUD to supplement the funds it provides directly with unspent appropriations from prior years if needed to fund existing vouchers.** Administration budget documents suggest that HUD currently has sufficient unspent funds available to support all existing vouchers likely to be in use in 2004. The Senate bill therefore has the potential to avert any shortfall in housing voucher funding. The House bill does not include this requirement.

- **Reappropriating prior-year funds would provide further assurance that sufficient funds will be available.** The Senate approach of relying on prior-year funds carries some risk that funding will not be adequate. For example, Congress could divert unspent prior-year funds to other purposes before they can be used to fund housing vouchers. The conference committee could eliminate this risk by rescinding and reappropriating the amount of prior-year funds anticipated to be needed for the voucher program, while retaining the explicit commitment contained in the Senate bill to fund all authorized vouchers that can be used.[1]

Unfortunately, HUD has not explicitly acknowledged that its estimates of the funding needed to support housing vouchers, and therefore the direct funding levels provided in the House and Senate bills, are too low. A senior HUD official, however, has conceded that at the start of fiscal year 2004 the average cost of a voucher — a key factor in determining the funding needed to support the program — was well above the level HUD had estimated. In addition, **three separate estimates** — issued by the Congressional Budget Office, the Office of Management and Budget, and the Center on Budget and Policy Priorities — **indicate that the funding needs of the voucher program are higher than HUD projected.** The estimates, which are based on program data that are more recent than the data HUD used, leave little doubt that the conference committee needs to make available additional resources — either through a requirement like that in the Senate bill that HUD use prior-year funds or through rescission and reappropriation of those funds — if it is to be certain that cuts in voucher assistance will be averted. A fuller explanation of these complex but critically important data issues is provided below.

Outdated Data Used to Estimate Voucher Program Funding Needs

The annual funding needs of the housing voucher program depend on two factors: the average cost per voucher and the proportion of the vouchers that Congress has previously authorized that are actually in use serving families. If the appropriation level that Congress provides for the voucher program is based on an inaccurate estimate of either of these factors, the appropriation may not be adequate to fund the vouchers in use.

Costs per voucher and the proportion of vouchers in use both depend on local economic and housing market conditions and therefore may fluctuate from one point in time to another. As a result, it is difficult for Congress to project the funding needs of the voucher program accurately without access to timely cost and utilization data.

The Administration's fiscal year 2004 funding request for the voucher program, contained in the budget the Administration submitted last winter, was based on an estimate by HUD that the costs of renewing housing vouchers would total $13.05 billion in 2004. This estimate was derived from cost and utilization data in year-end statements that had been submitted to HUD by the state and local housing agencies that administer the voucher program. The data in the statements that HUD used, however, cover periods dating as far back as July 2000, more than three years before the beginning of fiscal year 2004.

Since the time that the Administration submitted its fiscal year 2004 budget request in February 2003, new data on voucher program costs and utilization have become available that are much more recent than those that HUD used in developing the budget request. HUD has not used the newer data, however, to revise its estimate of the program's funding needs. HUD has dismissed a series of estimates made by the Congressional Budget Office and other analysts

Voucher Provisions in House and Senate Bills Differ in Other Important Ways

The House and Senate bills differ in several other important ways, in addition to the differences related to the overall funding level for existing vouchers.

- **The Senate bill provides adequate funds for administrative fees.** Unlike the House bill and the Administration's budget request, the Senate bill provides sufficient funds for payments to state and local housing agencies to cover administrative costs. Without adequate administrative fees, housing agencies will not be able to lease all of their vouchers or to help families find housing in better neighborhoods closer to jobs. The Senate bill also would require HUD to maintain the current formula used to determine administrative fee payments, which gives housing agencies incentives to administer the program efficiently and compensates agencies that incur additional costs because they serve people with disabilities or cover large geographical areas.

- **The House bill unnecessarily restricts housing agencies' flexibility to temporarily "overlease" vouchers in order to put more authorized vouchers to use.** Because not all families are able to find housing where they can use their vouchers, well-run housing agencies overissue vouchers in the same manner in which airlines overissue tickets. If more families than expected are able to use their vouchers, such agencies must be able to cover the costs of the extra vouchers for a temporary period. Legislation passed early in 2003 placed excessively strict restrictions on the ability of agencies to use renewal funds to lease more vouchers on a temporary basis than they are authorized to administer. The House bill maintains these restrictions, while the Senate bill allows agencies greater flexibility to overlease temporarily. To ensure that this added flexibility is not abused, the Senate bill requires an agency that has overleased vouchers to reduce promptly the number of vouchers in use to the authorized level.

- **The Senate bill provides more funding than the House bill for the Family Self-Sufficiency (FSS) program.** The Senate bill provides the full $72 million requested by the Administration for FSS, a program that provides incentives and counseling to encourage housing assistance recipients to become employed and increase savings. The House bill provides $48 million for this program, the same level as was provided last year, with no adjustment for inflation.

- **The Senate bill appears likely to fund a small number of new vouchers for people with disabilities.** The Senate bill instructs HUD to use $36 million to award new (or "incremental") vouchers to people with disabilities if HUD has funds available for this purpose. Because the directive applies to prior-year funds as well as new appropriations, it is likely that sufficient funds would be available. The Administration's budget, which requested $36 million for incremental vouchers, estimated that this amount would fund 5,500 new vouchers. By contrast, the House bill makes no provision for incremental vouchers.

using the more recent data. All of these estimates find the funding needs of the voucher program in fiscal year 2004 to be well above the estimates HUD has supplied based on the older data.

HUD did provide additional cost data to the House Appropriations Committee prior to that Committee's approval in July 2003 of its version of the HUD appropriations bill, although these still were not the most recent available data. Using these additional data, the House Appropriations Committee estimated total voucher renewal costs at $13.23 billion, a figure that reflected a modest increase over the estimate in the Administration's budget.[2] The version of the bill approved by the full House provides a total of $13.38 billion for voucher renewals, as $150 million was added to the renewal appropriation by amendment on the House floor. The version of the bill approved by the Senate Appropriations Committee, which uses HUD's original estimate of voucher costs (but expresses uncertainty about the reliability of that estimate), provides a direct appropriation of $13.18 billion for voucher renewals.

CBO, OMB, and CBPP Have Estimated Voucher Costs Using More Recent Data

The newer data on program costs come primarily from two sources:

- **Quarterly HUD data collections.** Since April 2003, HUD has required nearly all state and local housing agencies that administer housing vouchers to submit data every three months on the number of their vouchers that are in use and the cost of these vouchers. The data in these reports cover a period ending about two months before the report is submitted. HUD uses the data in these reports to determine the amount of funding to provide to each housing agency each quarter.

- **Monthly Treasury outlay statements.** Every month, the Department of the Treasury releases statements of expenditures during the previous month in each account in the federal budget. The voucher expenditures included in these statements reflect transfers of funds to state and local housing agencies rather than actual voucher subsidy payments to landlords. Nonetheless, the statements are an indicator of expenditure levels in the voucher program and, indirectly, of the trends in per-voucher costs and utilization rates.

Three different institutions — CBO, OMB, and the Center on Budget and Policy Priorities — have used these two data sources to develop estimates of voucher program costs in fiscal year 2004. Each of these estimates substantially exceeds both HUD's estimates of voucher costs and the amount of direct funding provided in the House and Senate bills.

- **The latest Congressional Budget Office estimate shows that voucher renewal costs in fiscal year 2004 are expected to total $14.3 billion.** This CBO estimate, released in late August, uses projections based on Treasury outlay data, with adjustments based on inflation projections and other factors. Much of the difference between CBO's estimate of costs and HUD's estimate results from CBO's higher estimate of average costs per voucher. CBO estimates that the average cost per voucher will be $7,028 in fiscal year 2004, well above the HUD

Increase in Voucher Costs Likely to Slow Beginning in Fiscal Year 2004

The estimates discussed in this analysis indicate that voucher costs will be significantly higher in fiscal year 2004 than they were in the period (primarily fiscal year 2002) covered by the older data on which HUD based its fiscal year 2004 voucher funding request. Much of this increase will be driven by the confluence of several temporary pressures that have caused substantial growth in voucher costs in recent years. It is likely that these pressures (and the resulting growth in voucher costs) will begin to ease during 2004 and that this easing will continue in 2005 and beyond.

- **Rapid rise in private-market rents unlikely to continue.** Private-market rents have grown at an unusually rapid pace in the past several years. As a result of this growth, the HUD-determined Fair Market Rents (FMRs), which limit the amount of rent that a voucher can cover, rose by 6.3 percent in fiscal year 2003, 5.6 percent in fiscal year 2002, and 5.5 percent in fiscal year 2001.* Growth in market rents has leveled off, however, and the FMRs for fiscal year 2004 are only 2.6 percent above the fiscal year 2003 level. Changes in FMRs influence per voucher costs beyond the year in which they go into effect, because an increase in the maximum rent that a voucher can cover does not immediately affect the rents that most voucher holders pay. As a result, the unusual recent surge in FMRs will continue to have some impact on voucher costs in 2004, but this impact will decline over time.

- **Increases in the proportion of authorized vouchers in use cannot continue at same pace.** In January 2003, some 95.9 percent of the vouchers authorized by Congress were in use. This represents a substantial increase from the utilization rate of 90.5 percent that HUD reported in fiscal year 2001 and likely reflects the impact of various reforms that Congress and HUD designed to raise voucher use so that fewer vouchers remain unused while families languish on waiting lists. Increased utilization raises program costs, since vouchers that are not in use do not incur subsidy costs. Utilization cannot exceed 100 percent, so utilization will not continue to grow at the same pace in future years.

- **Most of the effects of policy changes enacted by Congress in 1998 have already been felt.** In 1998, Congress enacted the Quality Housing and Work Responsibility Act (QHWRA), a law that made substantial changes to the voucher program designed to raise voucher utilization, ensure that vouchers reach the families with the greatest need for housing assistance, and further other program goals. Several of the changes included in QHWRA had the effect of increasing per-voucher costs. For example, the law provided greater flexibility to local agencies to set the maximum amount of rent that a voucher can cover — referred to as the "payment standard" — so that voucher holders have a better chance of finding an apartment they can lease with their vouchers. The effect of this change, like other changes enacted under QHWRA, has been felt gradually over time, but it is likely that the period during which these changes will cause increases in average voucher costs will largely have passed by 2005.

An August 2003 CBO analysis supports the conclusion that the recent rate of growth in voucher costs will not continue in the years after 2004. The analysis estimates that the rate of increase in per-voucher costs will fall from 5.3 percent in fiscal year 2004 to 3.3 percent in fiscal years 2005 and 2006.

* Due to a technical error on our part, we previously reported that the increase in the FMR from fiscal year 2002 to fiscal year 2003 was 8.6 percent rather than 6.3 percent. The increases in FMRs listed here are based on national weighted-average FMRs. The method we used to calculate these weighted averages is explained in "Estimating The Shortfall In Requested Voucher Funding For Fiscal Year 2004," July 21, 2003, available on the internet at <http://www.centeronbudget.org/7-22-03hous.htm>.

estimate of $6,468 that was reflected in the President's budget and the direct appropriation in the Senate bill and the revised estimate of $6,575 that the House Appropriations Committee used, based on data that HUD supplied to it.

- **The Office of Management and Budget's Mid-Session Review appears to estimate voucher renewal costs at $14.4 billion, a level very close to the CBO estimate.**[3] Like CBO's estimate, this OMB estimate, issued in July, is based on Treasury outlay data, with adjustments for other factors. OMB has not made available the estimate of per-voucher costs that is reflected in the $14.4 billion figure.

- **An estimate that the Center on Budget and Policy Priorities prepared in July, based on quarterly HUD data collections, projected the cost of renewing the vouchers likely to be in use at the start of fiscal year 2004 at $13.82 billion.** Our estimate made use of cost and utilization data submitted to HUD through April 2003. Based on these data, which cover the period from August 2002 through January 2003, we estimated that per-voucher costs would average $6,871 in fiscal year 2004. (The $13.82 billion does not include any funding to support the 95,000 authorized vouchers that are *not* likely to have been in use at the start of fiscal year 2004, but that could be used, at least in part, during the year to serve families on waiting lists if recent increases continue in the proportion of authorized vouchers that are put to use. An additional $326 billion would be required to provide a reserve that could cover the cost of even half of these vouchers if needed.)

Data that have become available since these estimates were released indicate that all of these estimates may be conservative. The monthly Treasury statements from August and September 2003 show that outlays in the Section 8 program (which includes the voucher program and a project-based housing assistance program) were higher in those months than in the first ten months of fiscal year 2003, the period for which data were available at the time CBO issued its estimate. A resolution approved in the Senate on November 12 indicates that quarterly data submitted to HUD in June 2003 that were not available at the time the CBPP analysis was conducted show that the rate of increase in per-voucher costs accelerated in the period from February through April 2003.

If voucher costs are consistent with the CBO, OMB, and CBPP estimates, the Administration's funding request — and the direct funding provided in the House and Senate bills — will fall significantly short of the amount needed to support the voucher program. If additional funds do not become available from prior-year appropriations or other sources, such a shortfall would leave unfunded many vouchers that currently are in use serving low-income families. Moreover, even if additional funds from prior years ultimately do become available, approval of a direct funding level that is inadequate could lessen the confidence of landlords and voucher holders that the program will be funded adequately in the future.

HUD's public reaction to the estimates projecting that voucher costs will exceed the level that HUD has estimated has been limited to curt dismissals of the CBO and CBPP estimates in statements to the press. For example, on September 5, the *New York Times* reported that HUD Assistant Secretary Michael Liu rejected CBO's estimate, stating "Frankly, we're not sure what CBO based its estimate on." (In fact, CBO operates transparently, and its assumptions and methods in generating such estimates are readily available to HUD and other policymakers.) On October 16, however, HUD Voucher Management Program Director Gerald Benoit acknowledged during a conference presentation that per-voucher costs at the beginning of fiscal year 2004 were "almost $7,000," a figure close to the CBO and CBPP estimates for fiscal year 2004 and substantially above the figure HUD used to estimate voucher program funding needs.

The cost and utilization data in the year-end statements that HUD used to develop its estimate of voucher funding needs do have one minor advantage over the more recent data sources: the year-end statements are verified by an outside auditor. As a result, the year-end data are likely to be somewhat more precise with respect to per-voucher costs *for the period that they cover*. In part because of the auditing process, however, the agency year-end statements do not become available for a considerable period of time after the end of the fiscal year they cover. Voucher costs and utilization rates have increased significantly in recent years, so these older data are likely to be quite unreliable for estimating per-voucher costs and utilization in fiscal year 2004. Moreover, there is no reason to believe that the data in the monthly Treasury statements and the quarterly data that HUD collects are generally inaccurate. As noted, HUD itself uses the quarterly data to determine the amount of federal voucher funding it disburses to state and local housing agencies.

Conclusion

Recent estimates by CBO, OMB and CBPP indicate that the funding level needed to support existing vouchers is well above the levels provided directly in the bills approved by the House and Senate Appropriations Committee. The central difference between the estimates by CBO and others and the HUD estimates used to develop the two bills is that HUD's estimates rely upon older data. There should be little doubt that the estimates by CBO and others are more accurate.

The conference committee that will reconcile the House and Senate versions of the appropriations bill that funds HUD will face a choice between two courses. It can include provisions that help ensure that the voucher program has access to sufficient funding to support all vouchers that can be used or it can limit funding to a level at, or close to, the levels provided directly in the two bills. The best approach would be for conferees to reappropriate unspent balances to guarantee an adequate direct funding level. At a minimum, they should preserve the Senate language directing HUD to use these balances to cover any shortfall in funding. If the conferees fail to do so, they will undermine the reliability of a program on which more than two million low-income families depend for access to safe, affordable housing.

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[1] Based on CBPP's estimate of funding needs, about $956 million beyond the direct funding level in the Senate bill will be needed to support all vouchers that can be used. Estimates by CBO and OMB suggest that the need for additional funding is even greater than that amount. For further discussion of the different approaches by which additional funding could be made available and of other choices facing the conference committee, see *Senate*

Committee Bill May Avert Cuts To Housing Vouchers Despite Inadequate Appropriation, September 23, 2003, available on the internet at http://www.centeronbudget.org/9-23-03hous.htm.

[2] The data HUD provided to the House Appropriations Committee were drawn from housing agency year-end statements that became available after the Administration's budget request was prepared. Using these additional data, the House Appropriations Committee estimated per-voucher costs in fiscal year 2004 at $6,575. These data did not make use of the sources of more recent data on voucher costs discussed below: monthly Treasury statements and HUD quarterly collections of cost and utilization data. As a result, the data that HUD supplied to the House Appropriations Committee consisted largely of data covering periods that date back as far as April 2001 and that precede the periods covered by the monthly Treasury statements and the HUD quarterly data collections.

The Appropriations Committee report accompanying the House bill states that the older data that HUD supplied to the Committee were adjusted for inflation. While helpful, such an adjustment is unlikely to project changes in voucher costs accurately because voucher costs are driven in part by economic conditions, policy decisions, and other factors not reflected in inflation indices. (Examples of the impact of economic conditions and policy changes on voucher costs are discussed in the box on page 4.)

[3] OMB's Mid-Session Review estimates that in fiscal year 2004, outlays under the Section 8 program — which is made up of the voucher program and a project-based housing assistance program with several components — will total $22.2 billion. OMB's Mid-Session documents do not contain a breakdown of the cost components of the Section 8 program. CBO, however, provides sufficient detail, in combination with Administration budget documents, to determine the components of the estimate that CBO has issued. CBO estimates that outlays for the project-based Section 8 program will total about $7.4 billion in fiscal year 2004. If OMB's estimate for project-based subsidies is the same as CBO's estimate, then OMB's outlay estimate for the Section 8 program as a whole includes approximately $14.8 billion in outlays for the voucher program. Approximately $400 million of these outlays will likely be spent on vouchers under multi-year contracts that are not up for renewal in 2004 and for other purposes besides voucher renewals, leaving approximately $14.4 billion for voucher renewals.