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APPROPRIATIONS SHORTFALL CUTS FUNDING FOR 80,000 HOUSING VOUCHERS THIS YEAR

Congress Rejected Deeper Reduction Sought by Administration

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Executive Summary

State-by-State data on potential voucher losses in 2005 at each housing agency: http://www.cbpp.org/2-18-05hous-states.htm

National Summary of the 2005 voucher loss details: http://www.cbpp.org/2-18-05hous-statelist.htm#Total

On December 8, 2004, the President signed the Consolidated Appropriations Act for fiscal year 2005 (P.L. 108-447), setting spending levels for 13 federal departments including the U.S. Department of Housing and Urban Development. The Administration had originally proposed cutting funding for the leading federal rental assistance program, the Section 8 Housing Choice Voucher program, sharply below the 2004 level. The Administration also had proposed converting the program to a block grant, which would have eliminated key protections for low-income families and made the program more vulnerable to further cuts in the future. Neither of those proposals was included in the final appropriations bill.

While Congress restored most of the funding cut sought by the Administration based on early estimates of program funding needs, the funding the appropriations act provides for 2005 is substantially below the amount needed to fund the bill's formula for renewing housing vouchers. This occurred in part because HUD provided the Congressional appropriations committees with inaccurate data concerning funding needs. As a result, there is a shortfall of nearly $570 million — equivalent to funding for about 80,000 vouchers — compared with HUD's current estimate of funding needs.

In late January, HUD notified state and local housing agencies that their 2005 funding levels will be four percent below the amount due under the Congressional formula. This cut is double the shortfall anticipated by HUD when it provided agencies with estimated funding levels in mid-December.

These new funding cuts come on top of HUD's dramatic and abrupt changes to the voucher funding formula in the spring of 2004, which caused widespread chaos on the local level. Many agencies cut the number of vouchers in use in their communities or shifted more costs onto families. The appropriations act makes some improvements in the funding method, but creates new problems that will adversely affect some communities more than others.

- **How many vouchers were funded?** The funding that Congress provided to renew existing housing vouchers in 2005 — $13.4 billion — will allow less than 93 *percent* of the vouchers Congress has authorized actually to be used by needy families. The appropriations act provides funding to renew about 1,950,000 of the approximately 2,100,000 vouchers that expire this year. The act directs HUD to renew all vouchers in use as of last summer and those needed in 2005 to assist families that lose other federal housing assistance. However, the actual funding provided in the appropriations act falls short of the amount needed to achieve these requirements by $570 million, which will mean a cut of 80,000 vouchers.

  It is not yet known how many vouchers were in use at the beginning of this year. As of May – July 2004, the latest period for which data are available, 96.3 percent of vouchers were in use. It is possible that voucher use fell to 93 percent by January 2005, because HUD actions forced many state and local agencies to ratchet down program costs. But even if this is the case, the seeming adequacy of funding at the national level will not ensure that each state and local agency gets what it needs to cover its vouchers in use, due to the rigid funding formula mandated by the appropriations act. That formula compels HUD to allocate funds in a manner that may not match agencies' needs in 2005; in other words, the formula would give some agencies more than they need and other agencies less. As a consequence, the cuts made this year may well be even deeper than the estimates in this analysis would indicate.

  That problem is compounded by HUD's reduction of four percent in each agency's funding under the formula. The result is that many state and local housing agencies will be left without adequate funding to support all vouchers currently in use.

- **Some localities will be hit harder than others.** The agencies that will be the most underfunded are those that now serve more families, or have higher average voucher costs, than in the summer of 2004. These agencies will need to reduce the number of families receiving voucher assistance or to shift costs to the low-income seniors, people with disabilities, and families with children that participate in the program. Even agencies in which costs have not increased since mid-2004 are likely to face a shortfall, due to the four percent cut in the funding due under the formula. In contrast to the shortfalls experienced by some agencies when HUD announced its abrupt formula change in April of 2004, however, agencies now will have nearly a full year to bring program costs in line with diminished funding, and as a result should be able to avoid the precipitous actions many took last year.

- **Funding method differs from a block grant in key respects.** The fixed funding methodology that Congress adopted for 2005 differs in important respects from a block grant. It does create a ceiling on overall funding, avoiding the unpredictable growth in voucher costs that had raised concerns among appropriators facing tight congressional budget limits. But it keeps funding tied to the actual number of vouchers in use and their cost to state and local housing agencies, rather than to some arbitrarily-set overall funding amount.

As a result, Congress continues to be accountable for deciding whether to cut families from the program, and the program continues to provide subsidies sufficient to allow extremely low-income families access to decent quality housing. If the program were converted into a block grant, overall funding would likely be set on an ever-decreasing path in relation to rental costs — that is, on a path unresponsive to changes in housing market conditions, job availability and incomes in particular state and local areas. Over time, the gap between voucher funding under a block grant and funding under the methodology enacted for 2005 would be likely to grow substantially. Under a block grant, this would likely result in substantially larger reductions over time in the number of low-income families, seniors, and people with disabilities who receive housing assistance.

- **Funding method needs to be improved next year.** Nevertheless, if continued without modification in subsequent years, the 2005 funding formula could lead to further reductions in the number of families receiving voucher assistance and could undermine the program's goals of housing choice, affordability, and the targeting of assistance to the neediest families. Three types of improvements should be made in the new funding formula:

  - **Program cost adjustment.** The formula should provide an improved method of adjusting program costs for agencies that operate in housing markets experiencing significant rent increases or declining tenant incomes.

  - **Portability fund.** Funds must be available — through a central fund at HUD or some other mechanism — to support additional costs incurred as a result of families moving from one agency's jurisdiction to another agency's jurisdiction.

  - **Program reserves.** Agencies need appropriate access to adequate reserve funds.

  With modest revisions to the funding method, essential flexibility at the local level could be achieved without undermining Congressional control of overall program costs.

Voucher Funding in 2005

The 2005 appropriations act provides $14.766 billion for the housing voucher program (after the 0.8 percent across-the-board reduction applied to all programs funded in the omnibus appropriations bill). Within this sum, $13.355 billion is set aside for the renewal of housing vouchers, which is $1.54 billion more than the Administration had requested.[1]

Renewal Funding Will Support 93 Percent of Vouchers

We estimate that the $13.355 billion in renewal funding will support about 1,950,000 vouchers, or about 93 percent of the total number of authorized vouchers that expire in 2005.[2] In comparison, Congress provided $12.721 billion for the renewal of tenant-based voucher contracts in 2004, which at last year's lower average cost was sufficient to support about 1,925,000 vouchers, or about 94.1 percent of the somewhat lower number of authorized vouchers expiring in 2004.[3] (More vouchers expire each year for two reasons. First, some contracts that initially had multi-year funding expire for the first time. Second, renewal funding is needed for vouchers that initially are funded for one year out of a separate allotment for new "tenant protection" vouchers to replace other types of housing assistance. It appears that about 55,000 more vouchers will expire and need renewal funding in 2005 than in 2004.) [4]

The 2004 funding level, however, does *not* reflect the full amount of resources that housing agencies used to support expiring vouchers last year, because many agencies that were under-funded in 2004 drew on contingency funds, known as "program reserves," to cover part or all of the shortfall. HUD has not replenished agencies' reserves, so a much smaller amount of reserve funding is available in 2005 (and, as discussed below, HUD will reduce reserve levels even further, below the amount that remained at the end of 2004). Housing agencies were able to support more of their authorized vouchers in 2004 than could be supported by the 2004 appropriation alone, by drawing on these contingency funds. Each agency was allowed to retain the equivalent of one month of subsidy costs in a program reserve account.

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[1] The remaining funds are set aside for program administration ($1.2 billion), coordinators for the Family Self-Sufficiency program ($45.6 million), new "tenant protection" vouchers for families that are displaced from public housing or lose assistance under other HUD housing programs ($161.7 million), and the "working capital" fund ($2.9 million). For the first time, the 2005 act separates funding for the housing voucher program from the project-based components of the Section 8 program, which are funded in a new project-based rental assistance account. All units under the Section 8 Moderate Rehabilitation program also will be funded out of the new project-based account.

[2] See Technical Appendix for an explanation of the figures in this paragraph.

[3] As explained in the Technical Appendix, this figure relies on Congressional documents. HUD may have had $100 million more available in 2004 to renew housing vouchers than we have assumed, because it may have allocated $100 million less to renew Section 8 Moderate Rehabilitation contracts than indicated in the Congressional documents. A lower level of funding for Section 8 Moderate Rehabilitation contracts may indicate that fewer of these contracts continue than Congress anticipated in allocating funding among the newly-divided accounts. As a result, there may be more funds provided to renew Section 8 Moderate Rehabilitation contracts in the fiscal year 2005 appropriations act than are needed.

[4] Tenant protection vouchers are those awarded to house families relocated from public housing demolished under a HOPE VI grant or to prevent unaffordable rent burdens as a result of the termination of federal subsidies for privately-owned housing. HUD typically awards about 25,000 additional tenant protection vouchers each year. HUD has not yet published notice of the new tenant protection vouchers awarded in 2004, which could have been funded with funds appropriated in 2004 or earlier years. The estimate of 55,000 is derived from HUD data on the number of vouchers eligible for funding in 2005, as well as other sources as discussed in the Technical Appendix.

The appropriations act for 2005 directs HUD to fund each agency based on its average subsidy cost for vouchers in use in May – July 2004 (or earlier, if data for these months are not "available, verifiable or complete"). This "base" funding level is subject to only two adjustments. Agencies are eligible to receive funds for tenant protection vouchers that were not fully in use in those months. In addition, HUD updates the cost of the vouchers eligible for funding by the applicable HUD-established 2005 "annual adjustment factor" (AAF).

Unlike the prior two years, the 2005 bill does *not* include a central reserve to provide additional funding to agencies that lease additional authorized vouchers above the level previously in use. Only if agencies had been allocated tenant protection vouchers that were not fully utilized in May – July 2004 are they eligible to receive funding to support additional leasing in 2005.

Congress Directed HUD *Not* to Use Recaptured Funds if the Appropriation Proves Insufficient

The new act specifies that if the funding provided for voucher renewals is not sufficient to provide the full funding due under the act's formula to all state and local agencies, then funding must be reduced on a *pro rata* basis. The bill prohibits HUD from using any recaptured voucher funds from previous years to augment 2005 funding.[5]

In a letter sent on January 21, 2005 to state and local housing agencies, HUD announced its determination that the cost of funding the number of vouchers eligible under the Congressional formula is $13.923 billion, or *$568 million more* than the funding Congress provided. As a result, each agency will receive less than 96 percent of the funding due it under the formula, a loss of funding for about 83,000 vouchers.[6] In contrast, the initial estimates that HUD sent to agencies of their 2005 funding in December 2004 assumed a pro rata reduction of less than two percent. It appears that most of the further cut is due to various agencies' demonstrating to HUD that they were eligible for funding for more vouchers than HUD had initially assumed would be the case.[7] Given the strict limitation on the amount of funding available, the effect of increasing the amount due to some agencies was to reduce further the percentage of funding due all agencies under the formula.

[5] Funds are considered "recaptured" if HUD recovered previously-allocated funds from agencies that did not spend them. HUD *is* allowed to use previously-appropriated funds that it never distributed — so-called "carry-over" funds — to augment the appropriation. It is not clear at this point whether there are carry-over funds remaining.

[6] The calculation sheets HUD provided to agencies shows a reduction of 4.083 percent.

[7] HUD allowed agencies to request an increase in the number of vouchers eligible for funding in 2005 above the May – July 2004 "base" level on three grounds: (1) to extend funding through the end of 2005 for one-year tenant protection vouchers awarded after February 29, 2004; (2) to renew earlier awards of tenant protection vouchers that were not fully leased in the base period; and (3) to renew vouchers funded in the second half of 2004 as a result of the termination of Section 8 Moderate Rehabilitation contracts. From the change in the prorating factor, we estimate that agencies demonstrated eligibility for funding for about 30,000 more vouchers, on an annualized basis, than HUD had anticipated. HUD's decision to fund the administrative fees for certain agencies in the MTW demonstration reduced the renewal funding available by the equivalent of about an additional 13,000 vouchers.

Table 1
National Effects of 2005 Voucher Funding

	Number of Vouchers	Percent of Expiring Vouchers
Total Number of Authorized Vouchers in January 2005	2,116,000	n/a
Vouchers Expiring in 2005	2,101,000	100%
Vouchers Eligible for Funding Under Congressional Formula*	2,032,000	96.8%
Expiring Vouchers Actually Funded Under 2005 Appropriation	**1,950,000**	**92.8%**
Vouchers Left Unfunded that Were in Use in May-July 2004 or Committed to Replace Other Federal Subsidies	**-83,000**	**-4.0%**

See Technical Appendix for data sources.
***** As explained in the paper, under the appropriations bill, the number of expiring vouchers eligible for funding (if the formula is fully funded) is the number of vouchers in use in May – July 2004 (up to the agency's authorized level) plus additional "tenant protection" vouchers previously committed to replace other federal housing subsidies.

It is important to note that the act requires HUD to prorate the funds allocated without regard to each agency's actual need for funding to support vouchers currently in use. Indeed, it is possible that agencies where average costs have receded since mid-2004 will receive more funds than they need for the vouchers they can use.[8] Unlike in 2004, agencies will receive no additional renewal funding from HUD beyond the prorated formula amount.

Agency Reserve Funds Cut By Up to 75 Percent

Compounding the difficulties that agencies may face due to the rigid funding approach in the 2005 act, Congress directed HUD to reduce each agency's program reserve by September 30, 2005 to one week's work of funding.[9] This means, for example, that the cushion that an agency with 520 vouchers in use will have to meet its obligations to landlords if HUD funding proves insufficient will be equal to funding for no more than 10 vouchers, rather than the cushion equal to funding for 40 vouchers that it would have had under recent policy.[10] With only a 1/52

[8] The bill continues the so-called "overleasing" prohibition that began in 2003, preventing state and local agencies from using appropriations to support, on a temporary basis, more vouchers than the number they are authorized to administer. In prior years, HUD determined whether an agency had overleased based on the agency's fiscal year, which could begin on January 1, April 1, July 1 or October 1. This year the overleasing calculation will be made at the end of calendar year 2005. See PIH Notice 2005-1, ¶7 (December 8, 2004).

[9] Funds recaptured from program reserve accounts will be used by HUD to help meet the $1.557 billion rescission required by the bill. The 2002 appropriations act reduced program reserves from two months to one month of voucher funding. Agencies are allowed to maintain a separate reserve account for administrative fees they earn but do not spend. Congress has reduced the administrative fee reserves substantially in recent years.

[10] The example assumes a per-unit cost of $6,800 per year, which is slightly less than the $6,805 we estimate to be the 2005 average annual per-voucher cost.

margin for error, many agencies are likely to manage their programs very extremely cautiously, hesitating to issue vouchers that become available as families leave the program or to maintain or adopt policies that carry a risk of increased costs.

HUD has discretion to determine when it reduces agencies' reserves, so long as it does so by the September 30 deadline, and the date on which HUD acts will have important implications for low-income families. If HUD implements the reduction in program reserves well before September 30, 2005, agencies fortunate enough to have come through 2004 with substantial reserves remaining will be deprived of the ability to use these funds this year to offset funding shortfalls. (During 2004, hundreds of agencies, faced with the unexpected change in how HUD funded their voucher programs, drew millions of dollars from their reserve accounts to avoid terminating vouchers or cutting rental subsidies.) Some agencies with more than one week of reserves remaining have requested access to these funds to help meet the anticipated shortfall resulting from HUD's 2005 funding awards and been informed by HUD staff that their requests will be approved.

It is important that Congress revisit the reserve policy in the 2006 appropriations act. If the limitation to no more than one week's reserves remains in effect over a number of years and agencies cannot rely on HUD replenishing reserves they use, program management decisions will likely lead to a continuing reduction in the number of families receiving voucher assistance.

Administrative Funding Nearly Stable

In the initial funding estimates that HUD provided to state and local housing agencies in December, 2004, HUD indicated that administrative funds would be cut by about six percent below the 2004 level. Last year, HUD reduced the administrative fees paid to agencies by about 6.2 percent below the 2003 level. A cumulative funding cut of more than 12 percent, without any adjustment for increased labor costs, would have severely undermined the ability of many agencies to administer their voucher programs effectively.

The final funding notice that HUD sent to agencies on January 21 reversed the earlier estimate. Agencies will receive 99.444 percent of the fees they earned in 2004.[11] This decision makes sense in light of Congress' decision essentially to level-fund administrative fees. HUD's original estimates were based on an incorrect determination of how much of the funds set-aside by Congress for administration of existing housing vouchers had to be allocated on a formula basis. Apparently, HUD reconsidered its earlier decision.[12] Even with relatively stable

[11] HUD's proration factor considers only the funding for so-called ongoing administrative fees. Fees actually will be reduced by somewhat more than HUD has indicated, due to HUD's decision not to provide supplemental payments for audit costs and certain other one-time expenses, as HUD has typically done in the past. About 770 agencies also received funds in 2004 to help meet the staffing costs of Family Self-Sufficiency programs for voucher families. (These funds were made available by the 2003 appropriations act, but HUD delayed in distributing them.) HUD recently announced that 590 agencies would receive funds for FSS coordinators in 2005 (out of fiscal year 2004 funds). The 2005 appropriations act reduced FSS funding by four percent compared with the fiscal year 2004 level.

[12] HUD's initial estimates of the amount that agencies would receive for administrative costs in 2005 were based on the availability of $1.055 billion of the $1.2 billion appropriation for payment of regular administrative fees. See "Frequently-Asked Questions (FAQs), Housing Choice Voucher Funding Estimates For Calendar Year 2005, December 17, 2004 Letter to PHAs," available at http://www.hud.gov/offices/pih/programs/hcv/faq20041217ltr.pdf.

administrative fees, however, agencies are still required to manage on significantly less administrative funding than they received in 2003. An increasing number of agencies are likely to have difficulty maintaining the staff needed to run an optimal program. Overall funding constraints make it unlikely that administrative fees will increase significantly in future years. It is important in the next year to consider streamlining certain administrative requirements, such as unit inspections and the verification of incomes, to enable agencies to operate more efficiently.

Despite providing relatively stable administrative funding, Congress made a significant change in underlying policy. In the past, the amount of fees that agencies earn has been tied to the number of vouchers leased. This policy provided an important incentive for agencies to use as many of their authorized vouchers as they could. This year, agencies will receive the same amount of fees regardless of how many families they serve. Removal of the administrative fee incentive to use more vouchers will make it even more likely that agencies will respond to the risks inherent in the new voucher funding system in ways that lead to reductions in the number of families assisted.

CONSEQUENCES FOR STATE AND LOCAL VOUCHER PROGRAMS

The voucher funding level and policy changes incorporated in the fiscal year 2005 appropriations act are likely to have both positive and negative consequences for state and local housing voucher programs and the families and communities that depend on them. Early clarity and certainty about the level of funding available should enable agencies to avoid precipitous decisions and drastic cutbacks, minimizing the harm to program credibility, as well as to participating families. The rigidity of the new funding policy, however, combined with the cut in agency reserve funds and the lack of sufficient appropriations to fund the bill's formula fully will mean that many agencies will be required to make substantial program cuts. How agencies make these difficult decisions will have a significant impact on the continued success of what has been one of the nation's most effective housing programs.

Early Notice of Available Funding May Prevent the Sharp Cutbacks that Occurred in Many Areas in 2004

Unlike in 2004, agencies will have nearly a full year to bring expenditures in line with funding. HUD issued initial guidance on the 2005 funding formula the day that the appropriations bill was signed into law, and followed a week later with a letter informing all agencies of their preliminary estimated voucher funding for 2005. Agencies had until December 31, 2004 to advise HUD of any errors in the data on which HUD based its estimate.[13] HUD

According to the January 21, 2005 letter, HUD's final fee figures are based on the distribution of $1.175 billion, $120 million more than the initial estimate. HUD will use the remaining $25 million appropriated for administrative fees to meet the costs associated with new tenant protection vouchers. If funds remain, HUD will use them to provide some of the one-time fee payment otherwise due under existing regulations, such as for the added costs of serving individuals with disabilities or large families or of conducting lead paint tests.

[13] According to HUD data, 861 agencies requested adjustments to the preliminary funding figures HUD provided or to the underlying data. HUD granted 233 of these requests in whole or in part.

delivered final funding notices to each state and local housing agency on January 24, 2005. All agencies will have the full 2005 calendar year to balance spending and revenues; agencies that early in the year need more than their proportional monthly share of the funds should be able to receive such funds.[14]

In contrast, in 2004, HUD did not announce the new funding policy until nearly four months into the year and did not provide agencies with their individual funding figures until late May. Further shortening the time that most agencies had to respond to these dramatic changes, HUD continued the requirement that agencies manage their funds within the 12 months of the agency fiscal year, despite HUD's decision to use the fiscal year 2004 appropriation to provide calendar year funding. As a result, some agencies had less than *six weeks* to cope with a sharp funding reduction prior to the June 30 end of their fiscal year, leaving a significant number of agencies without the funds to pay June rent to landlords.

Because of the uproar caused by HUD's precipitous implementation of the new policy, HUD released $150 million in late May to about 500 of the critically affected agencies. Nonetheless, many agencies continued to face substantial shortfalls, with little time remaining to cut costs sufficiently to manage within the reduced level of funding without taking drastic steps, including in some cases terminating vouchers of families currently participating in the program.[15] Some 379 agencies received $157 million in additional funds in September after submitting appeals concerning the inflation adjustment that HUD had used to determine their funding levels.

While these supplemental funds enabled many agencies to reduce or close the shortfall they otherwise would have faced, the experience in 2004 suggests that an appeal process that only results in supplemental funding late in the year is not adequate to avert or reverse harmful policy changes. Many agencies that turned out to need additional funds either did not realize they would have a shortfall until past the appeal deadline or did not have the administrative resources necessary to submit an appeal. Even among the agencies that received additional funds as a result of successful appeals, only a small number have reversed the program cuts they had instituted prior to being notified of the outcome of their appeal.

In the fall of 2004, the Center distributed a survey to examine whether the supplemental funds that HUD provided in May and September altered agencies' responses to the new funding policy in a significant way. The number of responses received was not sufficient to draw firm conclusions. The pattern, however, was quite uniform. Few agencies subsequently modified policy decisions they had adopted to shrink voucher costs, such as ceasing to issue vouchers to new families, lowering maximum voucher payments, establishing or increasing minimum rents, or restricting moves to areas that with higher rental costs (which often are areas with more job

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[14] See PIH Notice 2005-1, December 8, 2004, ¶ 9. This flexibility will enable agencies with fiscal years ending in March, June or September to balance their fiscal year budgets.

[15] Center on Budget and Policy Priorities, "Local Consequence of HUD's Fiscal Year 2004 Voucher Funding Policy," updated August 16, 2004. Available on the internet at http://www.cbpp.org/7-15-04hous-survey.htm.

opportunities).[16] These policy changes often were instituted after time-consuming consultation with residents, landlords, and other stakeholders in the community, and agencies were reluctant to undo them based on the receipt of unpredictable supplemental funding late in the budget year in a context of continuing unpredictability regarding future-year funding. Most of the agencies that had terminated vouchers did restore assistance to families they could still locate (often under the pressure of litigation). But overall, it appears that families did not benefit as much from the supplemental funds distributed in this manner as they would have if the same level of assured funding had been provided from the beginning of the year.

Fixed Funding Likely Will Require Most Agencies To Cut Voucher Assistance

Agencies have no opportunity to seek additional funds from HUD to supplement the amounts specified in the January 21, 2005 funding notices. Unlike 2004, there is no HUD-held central reserve to fund vouchers that were not in use in the May – July 2004 period on which HUD based each agency's funding. The only additional vouchers not in use in the base period that are eligible for funding in 2005 are tenant protection vouchers that HUD approved for inclusion after receiving agencies' December requests for adjustments. Unlike 2004, no appeals are permitted of the inflation factors that HUD has used to reflect increases in rent and utility costs.

The lack of a mechanism to adjust HUD's inflation factors may underfund agencies in 2005 for three reasons.

- First, the inflation factors HUD uses (called "annual adjustment factors" or AAFs) are intended only to measure *changes* in rent and utility costs in a *particular* area. If families move to a *different* area with much higher rents — for example from a lower cost rural or inner city area to a suburban area with more jobs or better schools but somewhat higher rents — the cost of their voucher subsidies may increase. In 2004, HUD awarded extra funds to agencies that demonstrated, as part of the inflation factor appeals, that their voucher costs had increased due to such "portability" moves. In 2005, HUD will not do so.

  The 2005 funding system puts agencies in the difficult position of potentially having to reduce the number of vouchers available to people who want to stay in their community in order to assist a smaller number of families that wish to move to more expensive communities.[17] If voucher funding moved with families, or if

[16] See "Glossary of Measures Taken in Response to HUD's Fiscal Year 2004 Funding Policy," available on the internet at http://www.cbpp.org/7-15-04hous-glossary.htm.

[17] When a family with a voucher moves to an area served by another agency, the "receiving" agency has the option to accept the family into its own voucher program if it is not already serving the maximum number of families HUD permits. If families moving to higher cost areas are "absorbed" in this manner, the cost burden on the original agency is eliminated and the family's voucher is returned for the agency to reissue to the next family on the waiting list. Due to the 2005 funding cuts, however, few agencies are likely to have the financial ability to absorb families wanting to move into their communities, because their funding is fixed at four percent below the mid-2004 level (plus the AAF).

HUD had a central pool of funds to be used for this purpose, this predicament could be avoided. The right to move anywhere in the United States served by a voucher program has been a core component of the voucher program since 1988. Ill-considered changes in an appropriations act should not be permitted to eliminate, *de facto*, such an important and longstanding right, which helps to promote employment among low-income families.[18]

- Second, HUD's inflation factors are often inaccurate measures of *local* rent and utility cost changes. With the exception of the approximately 90 metropolitan areas with local surveys of consumer price changes, the AAFs cover very large geographic areas. For example, HUD uses a single factor for every rural county in Colorado, Montana, North Dakota, South Dakota, Utah, and Wyoming. It also treats every metropolitan area in these six states (except for the greater Denver area) as a single region. Local housing markets and the rates at which rental costs increase in those markets can vary widely within these "regions."

  In addition, AAFs are merely projections, based on changes in rent and utility cost from 2002 to 2003.[19] Since rental housing and utility markets both tend to be quite volatile, it cannot be assumed that the change in rent and utility costs from 2004 to 2005 in a particular area will be the same as the trend from 2002 to 2003. As a result, an agency could receive less (or more) in funding under the new Congressional policy (before prorating) than it needs to cover cost increases. In 2004, agencies were allowed to demonstrate that the applicable AAF did not accurately reflect local housing market changes.

- Third, voucher costs are subject to change for a number of reasons that have little to do with rent and utility charges. For example, declining family incomes cause voucher costs to increase, because the voucher subsidy makes up the difference between 30 percent of a family's income and the rent of a modest unit (up to an agency-set limit). Increasing average family size also will cause voucher costs to increase, because larger families require larger, somewhat more expensive units. HUD did not allow adjustments in 2004 for such income- or family-size based changes in voucher costs. The absence of any adjustment for such factors created serious hardship for many agencies and communities in 2004, particularly in areas with declining economies or for agencies that had recently adopted a preference for lower-income applicants, such as homeless individuals. Eliminating the responsiveness of voucher program funding to local changes in the incomes of poor families impairs the effectiveness of the voucher program in helping local communities cope with economic downturns and discourages communities from targeting voucher assistance on their neediest citizens.

[18] The report accompanying the final appropriations bill includes a directive to HUD to "provide agencies with flexibility to adjust ….portability policies as necessary to manage within their 2005 budgets." House Report 108-792, Joint Explanatory Statement, p. 1475. This statement does not have the force of law and does not alter existing legal requirements. It is unclear at this point whether HUD will attempt to revise its portability regulations, and if so, how much the rules could change in light of statutory requirements. See 42 U.S.C. § 1437f(r).

[19] See 70 FR 2774, January 14, 2005.

The rigidity of the 2005 funding formula, particularly in combination with the four percent pro rata cut in funding calculated by HUD under the formula, will likely require most agencies to reduce the number of seniors, persons with disabilities, families with children and other needy households receiving voucher assistance or to adopt policies that increase families' rent burdens and restrict access to safer neighborhoods with better job opportunities and schools (and consequently, higher rental costs). Only agencies whose program costs have declined significantly below the 2004 base period are likely to escape these difficult decisions.

Importance of Careful, Inclusive Decision-making

With 11 months to bring expenses into balance with reduced funding, agencies should not take hasty, ill-considered actions that will harm families or undermine the willingness of landlords to continue to accept families with vouchers as tenants. At the same time, more modest actions taken earlier can produce the same amount of savings over the year as sharper reductions not instituted until late in the year. Consequently, the best course is for agencies to take prompt action, preceded by careful analysis of the savings that can be realized through different measures and by weighing the savings against the harm that may ensue.[20]

Experience in 2004 also indicates that agencies are able to sustain continuing community support if they involve the broad range of stakeholders in their decision-making. In fact, some agencies that acted in this manner, such as those in Tacoma Washington, Long Beach and Alameda California, and Olmsted County Minnesota, were able to obtain additional funds from their city or county governments when they were unable to make voucher payments on behalf of some families, avoiding serious hardship for the families and deterring a substantial number of landlords from opting out of participation in the program.

CONCLUSION

Most state and local housing voucher agencies are likely to experience cuts of some magnitude in their 2005 funding, compared to what they need to support current vouchers, and fewer families overall are likely to receive voucher assistance than in 2004. But most agencies should be able to avoid the precipitous administrative actions taken by many agencies in 2004 as a result of the delay and uncertainty associated with HUD's implementation of the 2004 appropriations law. If agencies implement the cuts in funding through careful, inclusive decision-making, the disruption to assisted families and participating landlords can be lessened.

By failing to provide enough funding to cover all of the authorized vouchers that can be used — or even all of the vouchers it determined should be funded under the 2005 funding formula — Congress has backed away from the longstanding commitment to maintain authorized housing assistance for low-income senior citizens, people with disabilities, working-poor families, and others who cannot afford modest housing on their own. But it should be noted that if Congress had adopted the Administration's proposal to fund the voucher program through

[20] A chart on "Possible PHA Strategies to Respond to a Funding Shortfall in 2005" prepared by CBPP and the National Housing Law Project is available at http://www.nhlp.org/html/sec8/voucher_funding_2005.cfm.

a lump sum block grant, the notion of an authorized number of vouchers would be eliminated entirely and it would be impossible even to determine whether Congress had broken its historic commitments. In addition, the Administration's proposal would have eviscerated the basic federal requirements that ensure that vouchers provide the neediest families with affordable housing of their choice. As result, deeper funding cuts in future years would be even more likely, with state and local agencies bearing all the responsibility for cutting families from the program, increasing families' rent burdens, or shifting voucher assistance from needier families to families at higher income levels.

It is important for the future of the voucher program to retain a funding methodology that, like the 2005 policy, determines allocations to state and local housing agencies based on actual leasing and voucher costs, rather than some arbitrarily set overall funding amount without any consideration of individual agencies' housing market conditions, job availability, or changes in income levels. To avoid further disruption to the voucher program, however, future appropriations acts should modify the methodology adopted in 2005 to assure that agencies can meet program goals of choice, affordability, and the targeting of assistance to the neediest families, without being forced to reduce the number of families assisted. With modest revisions to the funding method and to some currently-required administrative procedures, essential flexibility can be provided at the local level while maintaining the type of Congressional control of overall program costs that the 2005 appropriations act features.

Technical Appendix

The Center performed an analysis of the leasing and cost data from HUD's Voucher Management System (VMS) through July 2004. The approximately 2,500 state and local housing agencies that administer housing voucher programs submit these data to HUD on a quarterly basis. The Center made certain adjustments to the raw data to eliminate likely errors, based in part on interviews with housing agency staff and on HUD's 2005 funding awards. In addition, we used data from HUD's Public and Indian Housing Information Center (PIC) system as of January 21, 2005 (accessed at http://pic.hud.gov/pic/RCRPublic/rcrmain.asp) to update the information provided in the VMS data on the number of vouchers each agency is authorized to administer.

Table 2
Summary of National Voucher Estimates for 2004 and 2005

	Number of authorized vouchers	Number of expiring vouchers	Estimated average annual per voucher cost (excluding all administrative fees)	Renewal appropriation (after across-the-board reductions)	Number of expiring vouchers funded by new appropriation	Percentage of expiring vouchers funded by new appropriation
2004	2,082,503	2,045,056	$6,572	$12,721,335,000	1,925,206	94.14%
2005	2,115,723	2,100,566	$6,805	$13,355,285,088	1,949,458	92.81%

HUD has used the appropriations set aside by Congress for the renewal of existing vouchers in the fiscal year 2004 and 2005 appropriation acts to allocate funding to state and local housing agencies for the respective calendar years. (The federal fiscal year begins October 1, three months prior to the calendar year.) The voucher figures cited in the table are calendar-year estimates.

In both years, Congress provided a separate appropriation to cover fees paid to state and local housing agencies to cover voucher administrative costs. HUD, however, used a portion of the funding that Congress set aside for renewal of existing housing vouchers in both 2004 and 2005 to fund the administrative costs of voucher programs with special funding arrangements under the Moving-to-Work (MTW) demonstration.[21] In order not to distort the voucher renewal figures, we deducted the estimated amount of these MTW administrative costs from the total amount of renewal funding before estimating the number and percentage of expiring vouchers that the renewal funding would cover. The amounts shown in the table above under "Renewal appropriation (after across-the-board reduction)" are the total before the MTW administrative fee deduction was made.

[21] HUD initially announced that it would use a portion of the administrative fees set aside in the appropriations act to cover MTW administrative costs in 2005, but later indicated that it would use renewal funds to pay these costs, as it had in 2004. Agencies with special funding arrangements under MTW receive an undifferentiated amount of funding for both subsidy and administrative costs and are free to allocate the funds as they wish, consistent with the terms of their agreements.

2005 Estimates

HUD indicated in a December 2004 letter to state and local housing agencies that it was obligated to pay $68 million in administrative fees to agencies with special funding arrangements under the MTW demonstration.[22] It appears that this figure was HUD's estimate of the amount of the special MTW funding allocated in 2004 that was attributable to administrative fees. In 2005, HUD for the first time funded four additional large agencies under MTW rather than under the regular funding formula. Based on the available information, we estimate that HUD used $89 million of the 2005 appropriation for voucher renewals to fund the administrative fees of MTW agencies. By deducting the $89 million administrative fee figure from the $13.355 billion appropriated for renewal, we calculated that $13.266 billion was available for voucher renewal funding.

2005 Estimated Annual Per-Voucher Cost

Using data from VMS and from MTW agencies, we estimate that the average annual cost of a housing voucher in 2005 will be $6,805 (excluding all administrative fees). This figure assumes that voucher costs at individual agencies increase from their average level in May to July 2004 at the rate of the applicable 2005 Annual Adjustment Factor (AAF) set by HUD.[23] If voucher costs increase at a higher or lower rate than the 2005 national average AAF — about 3.4 percent — the appropriation will fund a correspondingly lower or higher number of vouchers. Based on the estimated annual average cost of $6,805, some 1,949,458 vouchers will be able to be funded in 2005 out of the $13.266 billion available for renewing expiring housing vouchers. This is 92.8 percent of the estimated total of 2,100,566 authorized vouchers due to expire in 2005.

Estimated Number of Authorized and Expiring Vouchers in 2005

To arrive at the estimate of 2,100,566 vouchers authorized and expiring in 2005, we first updated the May-July 2004 VMS data by adding additional vouchers reflected in the more recent data from HUD's PIC system. We then made adjustments based on HUD's determination of the amount of funding each agency would have been eligible to receive in 2005 if Congress had appropriated sufficient funds. Including these additional vouchers, we estimate that 2,115,723 vouchers have been allocated to state and local housing agencies as of the beginning of calendar year 2005. (Congress provided funding through a separate appropriation to cover for 12 months the costs of new "tenant protection vouchers" allocated after the beginning of 2005 to replace project-based assistance.)

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[22] See "Frequently-Asked Questions (FAQs), Housing Choice Voucher Funding Estimates For Calendar Year 2005, December 17, 2004 Letter to PHAs," Part B(2), available at http://www.hud.gov/offices/pih/programs/hcv/faq20041217ltr.pdf.

[23] The 2005 AAFs are available on the Internet at http://www.hud.gov/offices/pih/programs/hcv/863.pdf.

To determine the number of vouchers that expire in 2005, we made two adjustments to the figure of 2,115,723 authorized vouchers. First, we deducted the 1,580 vouchers that continue to be funded under earlier contracts with multi-year funding, according to HUD's June 2003 expiration schedule, and consequently do not require renewal funding in 2005. Second, we estimated the number of tenant protection vouchers funded by Congress in 2004 and prior years that will not require additional funding during calendar year 2005. This would occur in cases where the vouchers have not yet been in use for 12 months, leaving a portion of the original tenant protection voucher funding from 2004 or prior years available to support the vouchers in 2005. Based on those adjustments, we estimate that 2,100,566 expire in calendar year 2005, with an additional 15,156 vouchers (on an annually-adjusted basis) being funded through 2005 from prior years' appropriations acts.

Estimated Number of Vouchers that Would Have Been Funded Under the Congressional Formula If the Formula Had Been Fully Funded

HUD's January 21, 2005 letter to housing agencies states that HUD had determined that it would cost $13.923 billion to fund the vouchers eligible for renewal funding under the language of the 2005 appropriations act. To estimate the number of vouchers that would have been funded if Congress had fully funded the renewal formula it specified, we deducted from HUD's "full funding" figure the estimated $89 million that HUD used for administrative fees for certain MTW agencies, as discussed above. We then divided the remaining sum by the estimated 2005 average annual per voucher cost of $6,805 to determine that 2,032,443 of the vouchers expiring in 2005 would have been funded under the Congressional formula if Congress had provided sufficient funds.

There are two components of the 2,032,443 vouchers that Congress determined were eligible for renewal funding. The major component is the 2,004,814 authorized vouchers in use in May – July 2004, according to the adjusted VMS data. The remainder is 27,629 "tenant protection" vouchers that were funded by Congress in 2004 or earlier years to replace other federal housing subsidies. As the appropriation provided was sufficient to fund only 1,949,458 vouchers, as explained above, no funding is available for 82,985 vouchers that Congress had determined should be funded in 2005.

Table 3
Vouchers Funded in 2005 Compared to Congressional Formula

Expiring vouchers that would have been funded by 2005 formula if fully funded 2,032,443		**Expiring vouchers likely to be funded with 2005 appropriations** 1,949,458	**Expiring vouchers eligible for funding under 2005 formula not funded in 2005**	
In use in May – July 2004 2,004,814	Replace other federal subsidies 27,629		**-82,985**	**-3.95%**

2004 Estimates

Our analysis assumes that the fiscal year 2004 appropriation for voucher renewals was $12.721 billion. The fiscal year 2004 appropriations act did not set aside a specific sum for housing voucher renewals; renewal of all Section 8 contracts was included in a single sum. The report of the House Appropriation Committee on the fiscal year 2005 appropriations bill states that $12.721 billion was appropriated to renew housing vouchers in 2004. (See House Report 108-674, September 9, 2004, p. 21.) Using the May – July 2004 data, we calculated the annual cost of a housing voucher in 2004 to be $6,572 (without including administrative costs). Based on that per-voucher cost, we estimate that the 2004 appropriation (after deduction of an estimated $68 million for MTW administrative fees, similar to 2005) was sufficient to fund 1,925,206 expiring vouchers. If the actual average per voucher cost was lower or higher than the estimate as determined by the May – July 2004 data, more or fewer vouchers could have been funded than we estimate.

It is possible that the funding available to HUD to renew expiring vouchers in 2004 was $100 million more than we have assumed. HUD's January 21, 2005 letter to housing agencies indicates that an additional $100 million was available to renew housing vouchers in 2004, and that HUD allocated $100 million less to renew Section Moderate Rehabilitation contracts than the House report indicated. (See H. Rpt. 108-674, p. 24.) If an additional $100 million of the appropriation was available to renew housing vouchers, then the 2004 funding for voucher renewals would have funded about 15,215 additional vouchers, or 94.88 percent of expiring vouchers.

We estimated that there were 2,082,503 authorized vouchers on an annual basis in 2004. This estimate is based on the higher of the number of vouchers that agencies reported in the VMS data as being under contract from HUD in April 2004, or the number shown in HUD's PIC system in June 2004. To estimate the number of expiring vouchers, we made the same two types of adjustments described above for 2005. First, we deducted the 2,640 vouchers with multi-year funding, and then we further adjusted this figure by the estimated number of tenant protection vouchers supported in 2004 by prior-year funds. Based on those adjustments, we estimate that contracts for 2,045,056 authorized vouchers expired in calendar year 2004 and required full-year renewal funding, 55,510 fewer than the 2,100,566 vouchers that expire in calendar year 2005.

Comparison of Vouchers Funded in 2004 to Vouchers in Use

The number of expiring vouchers funded in 2004 — 1,925,206— is significantly fewer than the 2,004,814 that the VMS data indicate were in use in May – July 2004. Part of this nearly 80,000 difference reflects the fact that some vouchers beyond the 1,925,206 were funded through two types of funds other than 2004 renewal funds. First, about 40,000 tenant protection vouchers (on an annual basis) were funded either through the $205 million set aside in the 2004 "tenant protection" account for new vouchers to replace project-based assistance or through carry-over tenant protection funds from previous years. (We do not know how many of these tenant protection vouchers were in use in the May – July 2004 period.) In addition, it is likely that state and local housing agencies used several hundred million dollars of their program reserve funds to cover shortfalls in their 2004 funding allocations. It is likely that all of these reserve funds were drawn from prior-year appropriations, so the funds had the effect of supplementing the 2004 appropriation.

In addition, as discussed above, it is possible that HUD had $100 million more available from the 2004 appropriation to renew expiring vouchers than we have estimated. If this was the case, the difference between the number of vouchers in use in May – July 2004 and the number funded by the renewal appropriation would have been about 65,000, rather than nearly 80,000. Finally, the average number of vouchers in use in calendar year 2004 may well have been lower than the May-July 2004 level of 2,004,814, because some agencies may have reacted to constrained and uncertain funding by cutting back later in the year on the number of families they assisted.