CENTER ON BUDGET AND POLICY PRIORITIES

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PRESIDENT'S BUDGET WOULD RESTORE SOME RENTAL VOUCHERS CUT IN 2005 BUT REDUCE THE PROGRAM SUBSTANTIALLY IN FUTURE YEARS

370,000 Fewer Families Could Receive Voucher Assistance by 2010

Executive Summary

The President's budget for fiscal year 2006 proposes a modest increase in funding for the "Section 8" Housing Choice Voucher Program that is sufficient to restore about half of the 80,000 vouchers being cut in 2005 due to inadequate federal funding this year. This restoration would likely be temporary, however, since the budget also calls for sharp cuts in funding for housing programs in years after 2006, and the reductions could cause the number of families with vouchers to drop by 370,000 by 2010. The budget also proposes changes to the funding structure of the voucher program that would increase the chances that cuts of this magnitude would actually occur.

The voucher program, the nation's largest low-income housing assistance program, currently helps about two million households — most of them senior citizens, people with disabilities, and working families — rent modest housing in the private market.

Proposed Voucher Funding Levels for 2006

The President's budget requests $15.8 billion to fund the voucher program in 2006, which is $1.1 billion above the 2005 level. This increase reflects three developments:

- Approximately 50,000 families will lose assistance under *other* federal housing programs this year, according to HUD. Many of these families are currently living in public housing units that are slated for demolition, substantial rehabilitation, or conversion to market-rate housing that will charge rents unaffordable to these families. Other families that will lose housing assistance currently receive assistance through other housing programs under which the federal government provides mortgage or rent subsidies to private apartment building owners in return for the owners agreeing to keep the rents in the building affordable to low-income families. When the owner decides to give up the federal subsidy — as many do each year — rents rise in the building, and low-income families often can no longer afford to live there. In both of these types of cases, the federal government provides families that lose this other housing assistance with a "tenant protection" voucher to ensure they still can afford a decent place to live.

- The cost of renewing a housing voucher will rise modestly due largely to increases in rents. The Congressional Budget Office estimates that the average cost of a voucher will rise by about 2.7 percent next year, due to the growing gap between market rents and the incomes of low-income families. (Voucher subsidies fill the gap between rents and limited incomes; a family contributes 30 percent of its income toward the rent, and the voucher covers the remaining cost of a modest rent in the private market.)

- Finally, some of the funds the President's budget proposes for vouchers will enable HUD to restore in 2006 some vouchers that will be cut in 2005. Congress provided an appropriation for 2005 that has turned out to be inadequate to cover all of the vouchers that required funding. As a result, the number of low-income families that state and local housing agencies will be able to assist this year will be about 80,000 below the number that could have been assisted if Congress had provided adequate funding. The funding level the budget proposes for 2006 would be sufficient to restore about 40,000 — or half — of the vouchers cut in 2005.[1]

Temporary Restoration Likely to Be Followed by Sharp Cuts

The restoration of funds that the President proposes for 2006 would likely be short-lived, however, and deep cuts are likely in store for the future. There are three primary reasons why this is the case.

- **The Administration is proposing restrictive statutory caps on funding for non-entitlement programs.** The budget proposes a statutory limit on the total amount of annual appropriations for non-entitlement (or "discretionary") programs. Such programs include housing vouchers and most other housing programs. The annual caps would apply each year through fiscal year 2010 and would be set at levels equal to the total amount that the budget requests for discretionary programs in each of the next five years. The proposed caps would be severe: for example, in 2010, if defense, homeland security, and international affairs are funded at the levels the President proposes, funding for the remaining (i.e., domestic) discretionary programs would have to be cut about $66 billion — or 16 percent — below the 2005 levels, adjusted for inflation.

- **The President's budget calls for deep cuts in low-income housing by 2010.** While the proposed statutory funding caps would apply to all discretionary programs together, rather than to housing programs specifically, Administration budget documents show that the Administration plans large cuts in funding for low-income housing programs. Data provided in the budget and supplementary budget documents supplied to the congressional budget committees by the Office of Management and Budget indicate that under the President's budget, a total of $29.6 billion will be provided in 2010 for the budget category that consists of federal low-income housing assistance programs (including vouchers). This is about $1 billion

[1] See "Appropriations Shortfall Cuts Funding for 80,000 Housing Vouchers This Year," Center on Budget and Policy Priorities, available online at http://www.cbpp.org/2-11-05hous.htm.

below the level the budget requests for these programs in 2006. When adjusted by an inflation factor used by OMB, the $29.6 billion represents a decline of $3.7 billion below the 2006 funding level.

- **Unspent prior-year funds will soon run out.** In addition, the Administration is assuming that $2.5 billion in 2006 funding for the voucher program and the separate Section 8 "project-based" housing assistance program will be drawn from unspent appropriations from 2005 and previous years. The amount of new appropriations the Administration is requesting to fund these two programs in 2006 is $2.5 billion below the total amount of funding it is proposing to make available for the programs in 2006. OMB documents released in 2004 indicate that prior-year Section 8 funds will be exhausted by 2008 and are not expected to be available to help fund the voucher program in 2009 or 2010. As a result, in those years, there will be a deep reduction in the total amount of funds available to support the voucher program unless the amount of new funds provided for the program increases sufficiently to compensate for the exhaustion of the unspent prior-year funds.

If the $29.6 billion that the OMB documents indicate would be available under the budget for low-income housing programs in 2010 is distributed among these programs in the same proportions as the Administration's budget proposes to distribute funding for these housing programs in 2006 (which would maintain the relative priorities the Administration has set among these programs for 2006), the funding level for the voucher program in 2010 would fall about $2.9 billion short of the amount needed to cover the vouchers that are being funded in 2005. (This takes into account the anticipated exhaustion of prior-year funds.) This would reduce the number of low-income families receiving assistance by about 370,000 in 2010, compared to the number of vouchers funded in 2005.[2]

As noted above, the funding level for vouchers in 2005 is itself inadequate and will cause a reduction of 80,000 in the number of low-income families receiving voucher assistance this year. Thus, the overall reduction in the number of low-income families receiving voucher assistance in 2010 would be about 450,000. This is a dramatic reduction.

Moreover, these estimates of the reduction in the number of families that could be assisted are conservative, because they assume that no new "tenant protection" vouchers will be needed after 2005. HUD estimates indicate, however, that well over 100,000 such vouchers could be needed to aid low-income households, many of them elderly or disabled, who are losing other forms of federal housing assistance. If 100,000 vouchers are needed by 2010 simply to replace other forms of housing assistance that have been terminated, then the overall decline in the number of low-income families being provided rental assistance would be even greater than the numbers cited here.

It is possible that the Administration intends the $29.6 billion that the budget documents show for housing assistance programs in 2010 to be distributed among housing programs in different proportions than the proportions that the budget proposes for 2006. If that is the case,

[2] The methods used to assess the funding levels in the Administration budget are described in greater detail in the Appendix.

the cuts in voucher assistance could be smaller and cuts to other low-income housing programs could be larger in 2010. The reverse could also be true.

Proposed Changes in Funding Structure Would Raise Odds That Large Future Cuts Would Be Carried Out

The budget also proposes changes in the voucher program's basic funding structure that would take a major step toward converting the program to a block grant. The level of funding for the program would no longer be tied to the number of families being assisted in communities across the country, rental costs in those communities, and the incomes of the low-income families being helped. The level of funding would be divorced from these basic indicators of need.

Without such measures of need to serve as a basis for setting the program's funding level, the amount of funding provided for the program would likely fail to keep pace with increases in local rental costs. As a result, the number of families the program assisted would likely drop significantly over time. (Even today, only one in four low-income families eligible for vouchers receive any form of federal housing assistance.)

The President's budget does not include a comprehensive proposal to convert the voucher program to a block grant, which would both sever the link between funding and actual costs *and* give state and local agencies near-total autonomy to determine how many families they serve and what level of assistance they provide to each family. While the Administration's budget proposal would sever the connection between funding and costs — the first step toward a block grant — it would not itself grant state and local agencies the broad flexibility envisioned in its previous block grant proposals.

The Administration has indicated, however, that it will submit legislation later this year to make major changes to many voucher program rules, including rules governing the income levels at which families are eligible for vouchers, the amount of rent that vouchers can cover, and the size of the rental payments that families with vouchers can be charged. If these key rules are eliminated or substantially weakened and the program's funding structure is changed as the budget proposes, the voucher program will effectively have been converted to a block grant.

If that occurs, the odds that voucher funding will erode significantly in future years will increase further. This is the case because under the current system, when Congress determines how much funding to provide for the voucher program, it is mindful of how many families will receive (or lose) assistance as a result of the funding level that it sets. Under a block grant, by contrast, local voucher programs would operate under a patchwork of local rules and likely would set widely varying subsidy levels, so it would be difficult or impossible to determine the effect of a proposed cut in federal voucher funding. As a result, congressional accountability for such cuts would be weakened, and the hard decisions about how the cuts would be instituted passed down to local housing agencies.