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SOURCES AND METHODS USED TO ESTIMATE COMPONENTS OF CHANGES IN SECTION 8 EXPENDITURES FROM 1996 TO 2003

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This paper describes the sources and methods we used for the analyses of Section 8 costs contained in *New HUD Data Show Voucher Costs Leveled Off Starting in 2003 as Rental Market Cooled*, available on the internet at http://www.cbpp.org/3-16-05hous.htm. We discuss the following aspects of our analysis:

- Trends in overall Section 8 outlays and budget authority;
- Estimating per-unit costs;
- Analysis of growth in per-voucher costs;
- Estimating the number of Section 8 units; and
- Analysis of growth in number of vouchers.

It should be noted that estimates regarding budget trends in HUD programs are only as reliable as the data HUD makes available. HUD has not made available a single series of consistent data on Section 8 outlays, budget authority, number of units, or per-unit costs for the period we examined. As a result, we have developed estimates using the most reliable data we were able to obtain from budget documents, HUD publications, databases, Federal Register notices and other sources. In certain areas of our analysis, noted in the discussion below, there is some uncertainty regarding the estimates we used because of gaps in the available data or because different HUD sources provided conflicting estimates.

Trends in Section 8 Outlays and Budget Authority

Our analysis uses estimates that Section 8 outlays rose from $15.800 billion in 1996 to $20.950 billion in 2003. The 2003 figure is the amount of outlays that Treasury documents report for the "Housing Certificate Fund," a budget account created in 1997 that includes only the Section 8 program.[1] In 1996, most funding for Section 8 was provided through a budget account entitled "Annual Contributions for Assisted Housing" that also included funding for public housing and

[1] *Final Monthly Treasury Statement of Receipts and Outlays of the United States Government for Fiscal Year2004 through September 30, 2003, and Other Periods*, p. 11. The Housing Certificate Fund includes both the tenant-based and project-based components of the Section 8 program.

other housing subsidy programs, so totals for that account cannot be used to estimate Section 8 outlays. The $15.800 billion estimate for 1996 includes $15.779 billion that the 1998 budget appendix indicates is the amount of outlays for Section 8 only that were included in the Annual Contributions for Assisted Housing account, plus $21 million that budget documents indicate was spent on Section 8 Single-Room Occupancy Moderate Rehabilitation units, a special type of Section 8 unit (discussed further below).[2]

We estimate that about $2.737 billion (53 percent) of the growth in Section 8 spending from 1996 to 2003 reflects the cost of new Section 8 units added to the program since 1996. Another $2.209 billion (43 percent) of the total stems from growth in the average cost of existing units, including increases in voucher administrative funding. These two primary sources of spending growth are discussed in greater detail below.

The remaining $204 million (4 percent) of the growth in Section 8 spending resulted from other, smaller components of the Section 8 budget. The most significant of these smaller sources of growth was a change in the manner in which administration of the project-based Section 8 program was funded. Until 1999, HUD staff administered contracts for most project-based Section 8 subsidies. Salaries and other expenses for these staff were included in an account for HUD administrative costs, rather than in the account containing Section 8 expenditures. In 2000, Congress permitted HUD to begin contracting with outside entities (usually state housing agencies) to administer project-based subsidies that had previously been administered by HUD staff. Expenditures for outside administrators of project-based subsidies are reported in the same account as other Section 8 outlays. In 2003, $170 million in contract administrator expenditures were reported, while no such expenditures were incurred in 1996.[3] It is impossible to determine from the information available to what extent this $170 million represents growth in administrative costs and to what extent it merely reflects the shift of expenditures from one account to another.

Most of the remaining $34 million of additional spending resulted from an increase in funding for case managers to assist voucher tenants participating in the Family Self-Sufficiency (FSS) program. FSS is an asset development and employment services program for families in the voucher and public housing programs.[4]

Our discussion of the increase in funding (or "budget authority") provided for Section 8 is based on estimates that Section 8 budget authority rose from $5.276 billion in 1996 to $17.112 billion in

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[2] *Budget of the United States Government, Fiscal Year 1998, Appendix*, p. 548.

[3] Neither HUD nor the Treasury reports levels of outlays for particular components of the Housing Certificate Fund. The estimate of outlays for contract administrators used here is the level of 2003 contract administrator obligations reported on page C-2 of HUD's fiscal year 2005 budget justifications. ("Obligations" are recorded when the government enters into a binding contract to expend funds appropriated by Congress. This may occur somewhat before "outlays," or actual expenditures, are incurred.) We used obligation levels drawn from the same sources to estimate 2003 outlays for three other small components of the Housing Certificate Fund: the Working Capital Fund, Section 8 counseling, and the Jobs Plus Demonstration. No outlays for these three purposes were included in the $15.800 billion in Section 8 outlays reported for 1996 because the programs involved were not created until after that date.

[4] We assumed that in fiscal year 2003 the FSS program resulted in outlays totaling $46.4 million, the amount of funding appropriated for the program in 2002. HUD's fiscal year 2005 budget justifications report no obligations for FSS in 2003, but it is likely that funds obligated in fiscal year 2002 were spent and credited toward outlays during fiscal year 2003. Congress appropriated a slightly higher amount, $48 million, for FSS in fiscal year 2003.

2003.[5] Much of the increase in budget authority was the result of the shift of Section 8 units from long-term contracts (which were supported by budget authority appropriated before the contracts were first initiated in the 1970s and 1980s) to one-year contracts (which require new budget authority each year). This shift, which is discussed in greater detail in the discussion below of our estimates of the number of Section 8 units, is independent of any increase in actual program costs.

The analysis uses overall budget authority and outlay data for HUD discretionary programs from the Office of Management and Budget's public use database. The Section 8 budget authority figures used in the analysis are "gross" budget authority, before rescissions of prior year funds are deducted. The OMB database only provides net budget authority amounts for each budget account, and does not separately report gross budget authority and rescission amounts. For purposes of comparison with gross Section 8 budget authority, we estimated gross HUD budget authority levels by adding the amounts of Section 8 and other rescissions about which we were able to obtain information from appropriations bills and other sources to the net HUD discretionary budget authority figures from the OMB database.

Estimating Per-Unit Costs

Our estimate that $2.209 billion of the increase in Section 8 outlays from 1996 to 2003 resulted from growth in per-unit costs for existing units is composed of a $2.048 billion increase resulting from higher voucher[6] costs and a smaller $161 million increase in project-based per-unit costs. We estimate that the average cost of a voucher, including administrative fees, grew by 28 percent from $5,273 in fiscal year 1996 to $6,736 in fiscal year 2003 (without adjusting for inflation), or an average of 3.6 percent per year. During the same period, project-based per-unit costs raised a total of 1.9 percent, from $5,579 to $5,686 (again without adjusting for inflation).

For purposes of calculating these figures, and throughout this analysis, we have included all Section 8 Moderate Rehabilitation units in our estimates for project-based Section 8 units. Moderate Rehabilitation subsidies are linked to specific housing developments, so in practice they are project-based. But like vouchers — and unlike other project-based Section 8 units — most Moderate Rehabilitation units are administered by state and local public housing agencies and funded through HUD's Office of Public and Indian Housing. As a result, budget estimates and unit counts for most Moderate Rehabilitation units have often been lumped together with those for vouchers.[7] In the

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[5] The 1996 figure is the total budget authority level provided for Section 8 under the Housing Certificate Fund and Annual Contributions for Assisted Housing in 1996, according to Appendix B of the 1998 HUD departmental budget. The 2003 figure is the total appropriation for the Housing Certificate Fund, after the deduction of an across-the-board cut applied by Congress to nearly all domestic non-entitlement programs. The net amount of new budget authority provided for the program, after a rescission of $1.6 billion in prior year funds is deducted, was $15.512 billion.

[6] Two types of tenant-based assistance — Section 8 tenant-based certificates and Section 8 vouchers — were merged into the current Housing Choice Voucher Program by the Quality Housing and Work Responsibility Act (QHWRA) of 1998. As used in this analysis, the term "voucher" includes both pre-QHWRA vouchers and tenant-based certificates and post-QHWRA vouchers.

[7] HUD budget documents typically divide Section 8 Moderate Rehabilitation units into three categories: (1) Single Room Occupancy (SRO) units for the Homeless, (2) units initially funded under the program prior to October, 1991 that continue to be administered by state and local public housing agencies, and (3) other pre-October 1991 units that now are administered by the contract administrators discussed above because the contracts have undergone financial restructuring. (The Cranston-Gonzalez Affordable Housing Act of 1990 rescinded the Section 8 Moderate

fiscal year 2005 omnibus appropriations act, however, Congress for the first time placed vouchers in one budget account and combined all renewal funding for Moderate Rehabilitation units with other project based Section 8 units in a separate account Since it is likely this division will be continued in the future, we have followed it for purposes of this analysis.

1996 Per-Voucher Cost

We derived the estimate that per-voucher costs were $5,273 in 1996 from an estimate in HUD's fiscal year 1999 Congressional Budget Justifications that per-voucher costs in 1998 would be $5,499. HUD reported that that figure was "based on actual 1997 disbursements, adjusted by inflation." HUD did not list the actual 1997 per-unit cost or indicate what inflation rate was used to estimate the 1998 cost, but it appears probable that the rate was 2.0 percent.[8] If HUD did use a rate of 2.0 percent to inflate the 1997 actual cost to $5,499, this would mean that the actual 1997 cost was $5,391. We then estimated the 1996 per-unit cost assuming that from 1996 to 1997 the increase in average voucher costs bore the same relationship to changes in market rents and incomes as it did from 1997 to 2003. The method we used for this calculation is explained in detail below. This resulted in an estimate that the 1996 per-unit cost was $5,273.

We used this method because HUD's estimates of per-voucher costs in 1996 and earlier years are not reliable. HUD's estimates for those years assume that the annual cost of a voucher was equal to twelve times the monthly "Fair Market Rent" (FMR) calculated by HUD for each metropolitan area or rural county in the country. This assumption resulted in unrealistically high estimates of voucher costs (and therefore would have showed unrealistically low growth from 1996 to 2003), partly because rental costs for units rented with vouchers are often below the FMR, particularly for families that have lived in the same unit for a number of years. In addition, voucher tenants are required to contribute 30 percent of their income toward the rent for their housing unit. These tenant contributions reduce the average cost of vouchers substantially below the average total cost of the housing units the vouchers are used to rent.

Per-Voucher Costs in 2002, 2003, and 2004

The estimate that the average cost of a voucher in 2003 was $6,736 is based on different sources for vouchers administered by two groups of housing agencies. In 2003, the great majority of agencies were required to report voucher cost and utilization data to HUD each quarter under the Voucher Management System (VMS data). For these agencies, we used VMS data to calculate voucher costs.[9]

Rehabilitation program effective October 1, 1991, except for SRO units authorized under the McKinney Homeless Assistance Act.) The first two categories of units are administered by PHAs. Renewal funding for these units was subsumed in voucher renewal funding until the fiscal year 2005 appropriations act. Budget authority for 10-year contracts for new Section 8 SRO Moderate Rehabilitation units is included in the Homeless Assistance account.

[8] The 1999 Congressional Budget Justifications list both actual 1997 and estimated 1998 per-unit costs for one type of tenant-based subsidy, "Designated Housing" vouchers set aside for people with disabilities. In that case, the estimated 1998 cost was inflated by 2.0 percent above the 1997 cost. The 2.0 percent figure is also equal to the estimate of the "Gross Domestic Product deflator" for 1998 that the Administration used in the 1999 budget; the Gross Domestic Product deflator is an inflation index that is often used to estimate inflation in program costs.

[9] In some cases, VMS data were missing in one or more quarters for agencies that were required to submit the data. In these cases, we projected costs and utilization using data submitted by the agency for an earlier quarter and assumed that the agency's subsequent costs and utilization grew at the average rate reported for the same quarter at agencies with

Sixteen housing agencies administering about 5 percent of authorized vouchers were not required to submit VMS data in 2003 because they received funding for their voucher programs under special arrangements as a result of their participation in HUD's Moving-to-Work (MTW) demonstration.[10] It was necessary to include these 16 agencies in our estimate of 2003 per-voucher costs, however, in order to accurately compare average costs in 2003 with those in 1996 (when MTW did not exist). HUD has not made available an estimate of expenditures for the "MTW vouchers" administered by these 16 agencies in 2003, but HUD did submit to Congressional appropriators in November 2003 separate estimates of 2004 costs for MTW vouchers and other vouchers. We estimated the 2003 costs of MTW vouchers by assuming that the ratio of costs for MTW vouchers in 2003 to the costs of other vouchers in 2003 based on the VMS data was the same as the ratio of MTW costs in 2004 to other voucher costs in 2004 under the HUD estimates provided to Congressional appropriators.

Our paper also contains an analysis of growth in per-unit subsidy costs in each quarter from November 2002 to January 2005. This analysis uses only data from the VMS system and excludes both the 16 MTW agencies treated separately in the 2003 analysis and six additional agencies that entered into special MTW funding arrangements in 2004 or 2005. We excluded these agencies because their VMS data were unavailable or unreliable in at least some quarters, the alternative data we used to estimate per-unit costs for MTW vouchers in 2003 were not available on a quarterly basis, and even on an annual basis those alternative data are likely to be less reliable than VMS data for purposes of estimating per-unit cost trends (because funds provided for MTW vouchers may be used somewhat differently than regular voucher funds).

1996 and 2003 Project-Based Per-Unit Costs

We estimate that the average cost of a project-based unit grew from $5,579 in 1996 to $5,686 in 2003, an increase of about 0.3 percent per year. In inflation-adjusted terms this represents an overall decline of about 2.0 percent per year. HUD does not publish estimates of the total or average cost of all project-based Section 8 units,[11] so we derived these estimates indirectly. First, we estimated the total amount of expenditures for project-based subsidies by subtracting outlays for all Section 8 expenditures for purposes other than project-based subsides (including vouchers, administrators for project-based Section 8 contracts, the Family Self-Sufficiency program, and other program activities) from the total Section 8 outlay figures of $15.800 billion in 1996 and $20.950 billion in 2003. We then estimated expenditures per project-based unit by dividing total project-based subsidy expenditures by the estimates of the number of project-based units that are discussed below.

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complete data. In other cases, agencies reported extremely high or low per-unit costs or utilization rates, indicating that the data were likely to be erroneous. In these cases, we adjusted the data in the same manner as for agencies with missing data, or based on other data regarding the agency's voucher program.

[10] In 2004, HUD began requiring all agencies administering vouchers to submit VMS data, regardless of whether they received funding under special MTW arrangements.

[11] HUD publishes estimates only of the average cost of units whose contracts are expiring and must be renewed in a particular year. A large proportion of project-based units are still covered by long-term contracts that were first established in the 1970s or 1980s, however, and the rules governing subsidy levels under these long-term contracts are significantly different from the rules governing subsidies for units whose initial contracts have expired and that are now being renewed on an annual basis. Consequently, the average cost of all project-based units is likely to be substantially higher than HUD's estimates of renewal funding costs for units whose contracts are expiring.

Project-based per-unit costs declined in inflation adjusted terms from 1996 to 2003 in large part because of a series of policy changes (including the "Mark-to-Market" initiative) that cut subsidies for several hundred thousand units where Section 8 had previously covered above-market rents.[12] Above-market rents had been permitted as an incentive to private owners to develop new housing and to reflect the higher costs of newly-constructed housing compared to older rental units. The cost of some project-based units — especially those that initially had below-market rents — rose during the period from 1996 to 2003 (in some cases due to other policy changes that allowed upward adjustments to bring rents in line with the market), but this appears to have been offset by reductions in the cost of other units. The voucher program has long required state and local housing agencies to take steps to ensure that vouchers do not cover above-market rents, so it was not possible to reduce voucher costs through policy changes like those made in the project-based program.

Analysis of Growth in Per-Voucher Costs

To examine the factors driving growth in per-voucher costs, we first estimated the share of cost growth that resulted from the two components of the cost of a voucher: the subsidy paid to a landlord to cover part of the voucher holder's housing costs and the fee paid to a state or local housing agency to cover the cost of administering the voucher program. Then we projected the growth in voucher subsidy costs that would have occurred as a result of trends in housing costs and incomes alone and compared it to the growth that actually occurred. We used the estimate that the average per-voucher cost in 1997 was $5,391 as the baseline for this analysis, because this estimate reflects actual voucher costs in that year and, as discussed above, HUD has not made available a reliable estimate of actual voucher costs in 1996.

Administrative Fees

The estimates that the average cost of a voucher was $5,391 in 1997 and $6,736 in 2003 include both subsidy costs and administrative fees in the average voucher cost. We estimated the share of the 1997 cost that was composed of administrative fees based on a report submitted by HUD to the House Appropriations Committee that voucher administrative fees in 1999 equaled 10.9 percent of voucher disbursements.[13] No data indicating the ratio between administrative fees and total voucher costs in 1997 or 1998 were available, but we know of no reason to expect that the ratio in 1997 would have been different than in 1999. Applying this percentage to the total 1997 cost of $5,391 results in an estimated annual administrative fee of $588.

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[12] In its budget request for FY 1998, HUD estimated that a majority of the 850,000 project-based section 8 subsidies that were due to expire by 2003 and that supported mortgages insured by the Federal Housing Administration had above-market rents. The Mark-to-Market initiative was instituted to reduce the rents on these FHA-insured properties to levels in line with the local market by restructuring their mortgages. (Costs of these older units often exceeded the current market due to high interest rates on mortgages entered into in the 1970s and 1980s, when interest rates were substantially higher than in recent years.) HUD estimates that the Mark-to-Market program has saved approximately $190 million per year since FY 2000. U.S. Department of Housing and Urban Development, Performance and Accountability Report FY 2004, page 2-48. HUD rules on maximum rents on contract renewals also reduce costs for some units that do not go through a mortgage restructuring.

[13] House Appropriations Committee, Subcommittee on VA, HUD, and Independent Agencies, Record of Hearings on HUD Appropriations for 2004, March 19, 2003, p. 311.

The quarterly data agencies submit through VMS include separate data on subsidy costs and administrative fees earned, so 2003 administrative fees for these agencies could be readily calculated. We estimated administrative fees for Moving-to-Work agencies by assuming that administrative fees comprised the same proportion of total MTW voucher costs in 2003 (10.5 percent) as they did in estimates of 2004 MTW costs submitted by HUD to Congressional appropriators in November 2003. Our estimate of the overall average administrative fee for MTW and non-MTW vouchers in 2003 is $646.

These estimates indicate that administrative fees grew by about $58 from 1997 to 2003, an increase of 9.9 percent. This amounts to a relatively slow rate of growth, well below the general rate of inflation during this time period, and accounts for 4.3 percent of the total growth in costs per voucher from 1997 to 2003.

Projected Growth in Subsidy Costs Due to Trends in Incomes and Housing Costs

We estimated the increase in market housing costs from 1997 to 2003 using data from the Consumer Price Index components for "rent for primary residence" and "fuel and utilities." For purposes of weighting the CPI indices for rent and utilities we derived the fraction of the total housing costs of voucher-subsidized units that resulted from utilities and rent using 1999 data from the Consumer Expenditure Survey on the amounts spent for these purposes by renter households. These data resulted in 86.9 percent of housing costs being assigned to rent and 13.1 percent assigned to utilities.

For reasons related to the administrative process used to cap voucher subsidies, the impact of a change in market housing costs on voucher subsidies would be expected to be spread over several years. To accurately reflect the effects of these processes, our model assumed that voucher costs would reflect average trends in market housing costs during the current year and the two preceding years.

This lag would be expected mainly because the maximum amount of rent and utility costs that a voucher can cover (before income-based tenant payments are subtracted) is capped by a "payment standard." The payment standard is set by individual state or local housing agencies as a percentage (which usually must be between 90 and 110 percent) of the HUD Fair Market Rent that HUD sets each year for every metropolitan area and rural county in the nation. The Fair Market Rent is based on the rent of an apartment at the 40th percentile (or in some cases 50th percentile) of market rents for units in the area with the same number of bedrooms.

Some families with vouchers live in homes with rent and utility costs below the payment standard. For these families, the amount of housing costs covered by the voucher can change whenever the landlord changes the rent (although in these cases separate rules prevent rent increases to levels above rents for comparable units in the local market) or the family moves to a new unit, so long as the rent covered by the voucher does not exceed the payment standard. The amount of these families' rent that the voucher covers would therefore be expected to change roughly simultaneously with changes in market housing costs.[14]

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[14] For a family remaining in the same unit, these changes would not occur until the end of the family's lease term, but that also would be the case for the families without vouchers whose rents are reflected in market rent data.

Other families with vouchers, however, live in units with rents at or above the payment standard. A family must pay the entire amount of rent and utility costs above the payment standard, even if this results in the family paying more than 30 percent of its income for housing. For such families, the amount of housing costs covered by the voucher will only increase if the payment standard rises. If the state or local housing agency has set its payment standard at a level below 110 percent of the Fair Market Rent, it could change the payment standard when it became aware of the shift in market rents.

Often, however, the housing agency will already have set the payment standard at 110 percent of the Fair Market Rent or it will choose to leave unchanged the percentage of the FMR at which the payment standard is set. In such situations (except in the small number of cases where agencies receive HUD permission to use special "exception payment standards" above 110 percent of the FMR), the payment standard will not increase until HUD raises the Fair Market Rent. HUD usually sets Fair Market Rents using data from about 9 months before the beginning of the fiscal year they cover.[15] Once a payment standard increase goes into effect — whether due to action on the part of HUD to raise the Fair Market Rent or on the part of the state or local agency to raise the payment standard — the increase will not affect program costs until a family has its income recertified, an administrative procedure that could occur as long as twelve months after the payment standard is raised,[16] or until the voucher turns over to a new family.

As a result, the full impact of an increase in market housing costs on the subsidy levels of families with housing costs at or above the payment standard may not be felt for two years or more after the year in which a market cost increase occurs. By using housing cost data over three years to project voucher cost growth, we in effect assumed that about one-third of the impact of changes in market housing costs on voucher costs occurs immediately, one-third a year after the market change, and one-third two years after the market change.

We used data on the incomes of voucher tenants from a 2004 HUD report.[17] Because that report only includes income data covering the years from 1997 through 2003, we estimated tenant incomes in 1996 by assuming that the trend in voucher tenant incomes from fiscal year 1996 to fiscal year 1997 was the same as the trend in mean income among households in the lowest income quintile

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[15] In most cases, Fair Market Rents are adjusted based on inflation factors that apply to multi-state regions, rather than on data from surveys in a specific metropolitan area or rural county.

[16] Income recertifications are required for all families at least every twelve months. A family whose income has declined can ask for a recertification before twelve months have elapsed. In addition, state and local housing agencies have the option of putting in place policies that require "interim" recertifications for families whose incomes go up before their scheduled recertification. In cases where a payment standard is reduced, the reduction does not affect a family's voucher subsidy — and therefore the cost of the family's voucher to the program — until the second annual recertification after the payment standard is reduced. As a result, the effect of reductions in market rents on program costs would not be felt for one to two years after the reduction is made.

[17] *Fifth Annual Report to Congress on the Quality Housing and Work Responsibility Act of 1998*. The report listed incomes only in inflation-adjusted 2003 dollars, so we derived unadjusted incomes using general CPI inflation rates. The data in the report were drawn from HUD's Multifamily Tenant Characteristics System.

TABLE 1

Projected Voucher Cost Growth Based on Income and Housing Cost Trends, 1997-2003

<table>
<tr><th></th><th>1997 Estimated Actual</th><th>2003 Projected Based on Economic Trends</th><th>2003 Estimated Actual</th></tr>
<tr><td>Rents and Utilities</td><td>$7,691</td><td>$9,372</td><td>$9,526</td></tr>
<tr><td>Tenant Payment</td><td>$2,888</td><td colspan="2">$3,436</td></tr>
<tr><td>Subsidy</td><td>$4,710</td><td>$5,937</td><td>$6,090</td></tr>
<tr><td>Administrative Fee</td><td>$588</td><td colspan="2">$646</td></tr>
<tr><td>Total Cost</td><td>$5,391</td><td>$6,583</td><td>$6736</td></tr>
</table>

from calendar year 1996 to 1997. For this purpose and for the direct references in the paper to bottom quintile incomes, we used data from the Current Population Survey (CPS).

In order to weight the expected impacts of housing costs and incomes on voucher costs, it is necessary to estimate housing costs and income levels for voucher holders in 1997. The HUD per-voucher cost estimate from which the 1997 cost of $5,391 was derived did not indicate what the associated housing costs and tenant incomes were. We estimated tenant payments and housing costs in 1997 using the relative magnitudes of tenant payments and housing costs that were reported in 1999 HUD Multifamily Tenant Characteristics System (MTCS) data. This was the earliest year for which data showing tenant payment and housing cost levels were available.[18] We then estimated the actual income levels of voucher holders assuming that throughout the 1997-2003 period households had average income deductions under the voucher rent formula totaling $80. This deduction level was drawn from December 2003 HUD data on average voucher tenant payments and income levels.[19]

Our analysis indicates that housing costs rose by 21.9 percent from the period affecting 1997 voucher costs to the period affecting 2003 costs. During that same interval, HUD data show that tenant incomes rose by 17.3 percent, which we estimate would have resulted in an increase of 19.0 percent in the average tenant payment. Because incomes of voucher holders (and therefore tenant payments) did not increase as quickly as housing costs, the projected growth in voucher costs due to housing cost and income trends is somewhat higher than the growth in housing costs: 23.6 percent or $1,133. Together with the estimated administrative fee growth, this amounts to projected cost

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[18] As noted in the text, because of limitations on data availability we used data on the relative magnitudes of tenant payments, rents and utility costs from 1999. To establish the baseline for our analysis we then derived the relative magnitudes of these factors in 1997 assuming that rents, utility costs, and incomes changed based on the indices described elsewhere in this paper.

[19] HUD Resident Characteristic Report data from http://pic.hud.gov/pic/RCRPublic/rcrmain.asp accessed in December, 2003. It is possible that there would have been some increase in deduction levels from 1997 to 2003. It is likely, however, that the increase is not large, because the largest deductions (a dependent deduction and a flat deduction for elderly and disabled households) are fixed dollar amounts that do not change from one year to the next.

growth of $1,192, which is 89 percent of the actual $1,345 increase in the average per-voucher cost from 1997 to 2003.[20]

Estimating the Number of Section 8 Units

To estimate the growth in the number of Section 8 units, we began our analysis in 1996, because more complete data are available for 1996 than for 1997. From fiscal year 1996 to fiscal year 2003, we estimate that the number of authorized Section 8 units rose by 466,000. This included an increase of about 657,000 in the number of authorized vouchers and a decline of 191,000 in the number of project-based units. As is discussed in more detail below, a change in the Section 8 funding method caused the number of vouchers for which outlays were recorded in 2003 to be about 89,000 lower than it would have been under the funding method in place in 1996. As a result, the number of Section 8 units that generated outlays in 2003 was about 377,000 above the number generating outlays in 1996.[21]

During the same period, we estimate that the number of Section 8 units funded under long-term contracts (and consequently counting toward outlays each year but not requiring appropriation of new budget authority) fell from 2,498,000 units in 1996 to 470,000 in 2003.[22]

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[20] These figures all reflect the averaging of housing cost growth over three years, as described in the text. If these adjustments had not been made and only current year growth had been used in the analysis, the proportion of voucher cost growth explained by trends in housing costs and incomes would have been higher than 89 percent.

[21] The analysis also contains an estimate that only one in four households eligible for vouchers receive any form of federal housing assistance. Basic income eligibility for the principal income-based rental assistance programs is set at 80 percent of the area median income (on a national basis, $46,000 for a family of four in FY 2004). By this measure, nearly 17 million renter households (in addition to those already assisted) and nearly 25 million owner households were eligible for income-based rental assistance in 1999. Not all of these households would benefit from, or be interested in applying for, income-based rental assistance, however. As housing assistance waiting lists are often closed and there is very little outreach to educate eligible households about the availability of housing assistance, there is no definitive indicator of the true "demand" for housing assistance, One potential proxy for demand is the number of renter households with incomes below 50 percent of the area median income (on a national basis, $28,750 for a family of four) with one or more housing problems as defined by HUD (paying more than 30 percent of income for housing, overcrowded, or living in a unit with moderate or severe housing quality problems). Some 8.7 million renter households fit this description in 1999, yet lacked income-based rental assistance, suggesting that the 4.6 million assisted households represent about one-third of the total of 13.3 million households in need of assistance. Expanding the proxy to include the balance of income-eligible renter households with housing problems and income-eligible homeowner households with housing problems would quickly reduce the share of the need being served to one-fourth or lower. Data on the frequency of housing problems come from U.S. Department of Housing and Urban Development, *Trends in Worst Case Needs for Housing, 1978–1999: A Report to Congress on Worst Case Housing Needs*. 2003.

[22] For 1996, we estimated the number of Section 8 units with previously appropriated multi-year funding by subtracting the number of annual renewals in 1996 indicated in HUD's 1998 budget justifications, page B-9 (407,603), from the total number of authorized units estimated in the manner indicated below. For 2003, we used a figure from the Congressional Budget Office's Summer 2003 baseline to estimate the number of units that received multi-year funding. CBO's overall estimate of the number of Section 8 units is 62,494 below an estimate in HUD's 2004 Performance and Accountability Report that appears to be more reliable. We assumed, however, that the entire difference between the two estimates was composed of renewal units subject to annual appropriation. We made this assumption because (1) HUD's lower estimate appeared to result from a lower estimate of the number of tenant-based units and (2) only a small minority of tenant-based units had multi-year funding in 2003.

Number of Vouchers in 1996

We used an estimate that there were 1,400,000 Section 8 tenant-based vouchers and certificates in 1996. This estimate is based on data from a 2000 HUD study on the history of the Section 8 tenant-based assistance program, which reported that there were 1,390,000 authorized vouchers in 1994 (including some vouchers that were newly authorized in that year) and that the only increase in the number of authorized vouchers from 1994 to 1996 consisted of vouchers that replaced other federally-assisted housing.[23] It is likely that no vouchers authorized in 1996 and only about 10,000 of the 20,000 vouchers authorized in 1995 would have been in use (and therefore counted toward outlays in 1996.[24] When added to the 1994 estimate, these 10,000 vouchers result in a 1996 total of 1,400,000.[25]

We assumed that all vouchers under contract to state and local housing agencies would have contributed to outlays in 1996 (with the exception of vouchers recently awarded to replace public housing units, as discussed above), even though each year some vouchers are not in use and consequently do not result in real costs to the federal government. The federal government measures voucher outlays based on the amount of funds HUD transfers to state and local housing agencies, not the amount state and local housing agencies actually disburse to landlords to cover the housing costs of participants. In the years before 2003, housing agencies were permitted to draw sufficient funds from HUD to cover the costs of all of their vouchers, regardless of whether all of the vouchers were in use. HUD later recaptured funds that were not spent because some vouchers were not in use. These unspent funds were either carried over and used to support Section 8

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[23] U.S. Department of Housing and Urban Development, *Section 8 Tenant-Based Housing Assistance: A Look Back After 30 Years*, March 2000.

[24] HUD did not publish notice of the FY 1995 awards (about 20,000) until February 1996 (61 FR 4,455, February 6, 1996), and of the FY 1996 awards (about 30,000) until June 1997 (62 FR 32,891(June 23, 1997). There is usually a delay of several months between the time HUD awards new vouchers to agencies and the time the paperwork is completed that enables a housing agency to draw funds from the Treasury for the vouchers. Consequently, we have assumed that it is unlikely that any of the new vouchers funded in the FY 1996 appropriations act were reflected in 1996 outlays. Of the 19,961 additional vouchers funded in FY 1995 that HUD awarded prior to February 1996, we think it is reasonable to assume that the approximately 9,000 vouchers issued to replace project-based subsidies in privately-owned buildings as well as the 994 vouchers issued to assist disabled individuals excluded from public housing or project-based section 8 units due to the "designation" of such housing for the elderly did result in additional outlays in 1996. The approximately 10,000 remaining vouchers were awarded to replace public housing units that were going to be demolished several years later under HOPE VI grants. There is a record of multi-year delays in relocation under HOPE VI grants, so it is unlikely that most housing agencies would have used these new vouchers for relocation in 1996.

[25] It is possible that the estimate of 1,400,000 vouchers is somewhat too high. A 1996 HUD report indicated that there were 1,346,000 authorized vouchers. (Paul Burke, *A Picture of Subsidized Households*, U.S. Department of Housing and Urban Development, December 1996.) The higher figure reported in HUD's 2000 publication for 1994 appears more reliable, however, in light of the additional time available to clean the data. Furthermore, the figure of 1,400,000 vouchers in 1996 is roughly corroborated by a recent paper by current and former HUD staff with access to internal HUD data, which reports 1.5 million voucher and Moderate Rehabilitation units in 1996. The report indicated the figure was rounded to the nearest 10,000 units, so it indicates that the number of vouchers and Moderate Rehabilitation units was between 1,495,000 and 1,504,999. The report separately indicates that there were about 108,000 Moderate Rehabilitation units in 1996, so the estimate indicates that the number of vouchers was between 1,387,000 and 1,396,999. (Jill Khadduri, Mark Shroder and Barry Steffen, "Can Housing Assistance Support Welfare Reform?" in Barbara Sard and Amy S. Bogdon, eds., *A Place to Live, a Means to Work: How Housing Assistance Can Strengthen Welfare Policy*, Fannie Mae Foundation, Washington D.C., 2003.)

expenditures in subsequent years or rescinded by Congress, but they were not deducted from the outlays reported for Section 8.

It appears likely that housing agencies would have drawn funds for all or close to all of their authorized vouchers in 1996. Agencies faced no sanctions for drawing more funds than they needed to cover the cost of vouchers in use unless the amount they drew down exceeded their actual costs by more than 5 percent, and having extra funds on hand provided a useful cushion in case per-voucher costs or the number of vouchers in use rose unexpectedly. Data on the number of vouchers in use in 1996 are not available, but because the rental market was loose in most areas and few new vouchers had been authorized in the preceding year, it was probably high. If 96 percent or 97 percent of vouchers were in use on average, agencies could have drawn enough extra funds to cover the remainder without running up against the 5 percent limit on extra funds. If agencies actually drew down funds for fewer units in 1996, the overall increase in the number of units covered by Section 8 outlays from 1996 to 2003 would be greater than our estimate of 377,000.

Number of Vouchers in 2003

For 2003, we estimated that there were 2,056,000 authorized vouchers. Of these, 1,960,000 were reported through VMS in July 2003, the last month in fiscal year 2003 in which data on the number of authorized vouchers (in contrast to vouchers *in use)* was reported in VMS.[26] We estimated based on data downloaded from HUD's on-line PIC system and telephone interviews with state and local agency staff that the 16 Moving-to-Work agencies that were not required to submit VMS data administered an additional 96,000 vouchers. The resulting total of 2,056,000 authorized vouchers likely includes most of the approximately 27,000 new tenant protection vouchers authorized by Congress for fiscal year 2003, but may not include all of these vouchers.

Because of a change in the method used to fund vouchers, we did not assume that all authorized vouchers contributed to outlays in 2003, as we did in 1996. In the fiscal year 2003 appropriations act, Congress for the first time directed HUD to provide funds to state and local housing agencies only for the number of vouchers in use. As a result of this policy change, our analysis assumes that only vouchers in use in 2003 are reflected in that year's outlays. Based on analysis of the VMS data, we estimated that 1,870,000 of the 1,960,000 vouchers administered by agencies submitting VMS data were in use on average during fiscal year 2003. HUD provided 2003 funding to agencies with special MTW funding arrangements for all of the 96,000 vouchers they administered, regardless of whether the vouchers were in use, so we estimate the total number of vouchers funded to be 1,967,000. This amounts to 95.7 percent of the estimated 2,056,000 vouchers that were authorized by July 2003.

Because of this shift, we estimate that Section 8 outlays in 2003 supported about 90,000 fewer vouchers than they would have under the approach taken in previous years, and our estimate of the increase in the number of vouchers contributing to outlays from 1996 to 2003 consequently is lower

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[26] The total number of authorized vouchers that agencies reported in VMS should have included only Section 8 vouchers, but it appears that some agencies mistakenly reported vouchers for people with disabilities (known as "five-year mainstream vouchers") that Congress funds separately through the Section 811 program. There are approximate 12,000 such vouchers. We do not have sufficient information to determine how many of these vouchers were reported through VMS; to the extent that they were reported, this would mean that our estimate that there were 2,056,000 authorized vouchers in 2003 would be too high.

than it would have been if the voucher funding method had not been changed. It is important to note, however, that over a shorter period leading up to 2003 it is likely that the number of vouchers contributing to outlays *rose*, or at least stayed level, rather than falling. This is the case in part because the utilization rate fell to 90.5 percent in fiscal year 2001, so even if agencies on average had drawn five percent more than needed to cover vouchers in use, the amount drawn (and therefore counted toward outlays) would have fallen well below the amount needed to cover 100 percent of vouchers.[27] In addition, improvements since 1996 in the budgeting techniques used by HUD and state and local housing agencies probably reduced agencies' need for a funding "cushion" and therefore lowered the amount of extra funds they drew down. It is thus quite likely that the percent of vouchers contributing to outlays in 2001 was below the 95.7 percent that we estimate were in use and contributing to outlays in fiscal year 2003. Therefore it is likely that some growth in outlays in these years — though probably not in the longer period from 1996 to 2003 — was the result of rising utilization.

Number of Project-based Section 8 Units in 1996

The estimate that there were 1,506,000 project-based Section 8 units in 1996 includes 106,000 Moderate Rehabilitation units and 1,400,000 other project-based units.

The estimate that there were 1,400,000 regular project-based units in 1996 is from a paper published in 2003 by current and former HUD staff, based on HUD data from December 1996. This figure is somewhat lower than — but not necessarily inconsistent with — an estimate in a 1996 HUD report[28] that in fiscal year 1996 there were a total of 1,465,000 units in project-based Section 8 (not including Moderate Rehabilitation units) and two similar rent subsidy programs that are not part of Section 8: the Rent Supplement program and the Rental Assistance Program (RAP).[29]

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[27] House Appropriations Committee, Subcommittee on VA, HUD, and Independent Agencies, Record of Hearings on HUD Appropriations for 2003, March 19, 2002, p. 75. The 90.5 percent figure for 2001 is an adjusted lease-up rate used in HUD's "SEMAP" performance measurement system that was calculated in a somewhat different manner than the 95.7 percent figure for 2003. The SEMAP rate excludes all new vouchers for 12 months after they are awarded, excludes some vouchers administered by MTW agencies or awarded as a result of fair housing lawsuits, and does not count leasing of vouchers above an agency's authorized number (which are counted in our estimate because they are covered by an agency's reserve funds and consequently incur outlays). We do not have sufficient data to calculate a SEMAP-adjusted leasing rate for 2003 with precision. Using calculations roughly reproducing the SEMAP exclusions, however, we estimate that the adjusted rate would have been approximately 96 percent.

[28] Paul Burke, *A Picture of Subsidized Households*, U.S. Department of Housing & Urban Development, December 1996, p 23. We used this estimate instead of the estimate of 108,000 in Khadduri et al, 2003, because the data in the Burke report were downloaded in September 1996 while the data in Khadduri et al were downloaded in February 1997. Since the numbers of SRO Moderate Rehabilitation units was growing during this period, the Khadduri et al figure may include new units that did not incur costs in 1996.

[29] Available data indicate that there were at least 39,000 units in the Rent Supplement and RAP programs in 2000; the programs have been declining in size over time, so it would be expected that in 1996 the number of units they included was somewhat higher than 39,000. It is thus likely that RAP and Rent Supplement account for much of the difference between the two estimates of the number of project-based units. In addition, the data in the 1996 report were gathered primarily in October 1995 (that is, at the very beginning of fiscal year 1996). Because the number of project-based units was beginning to decline during this period, the estimate in the 1996 report could include some units that were in the program in October 1995, but were lost before the end of 1996. Finally, the 2003 paper could have benefited from corrections to HUD's data that occurred after the 1996 report was issued.

For the number of Moderate Rehabilitation units in 1996, we used an estimate from the 1996 HUD report that there were 106,000 Moderate Rehabilitation units in that year.[30] It is likely that this figure includes about 6,900 SRO Moderate Rehabilitation units for the homeless.[31]

Number of Project-based Section 8 Units in 2003

We estimated that there were 1,315,000 authorized project-based units in fiscal year 2003, including all Moderate Rehabilitation units. This figure was derived by subtracting our estimate that there were 2,056,000 authorized vouchers in 2003 from a HUD estimate that there were a total of 3,372,000 Section 8 units in that year.

Analysis of Growth in Number of Vouchers

Our estimate that that there were 2,056,000 authorized vouchers in 2003 reflects an increase of 657,000 above our estimate that there were 1,400,000 vouchers and certificates in 1996. For 595,000 vouchers of the increased number of vouchers from 1996 to 2003, we were able to obtain some information about when and for what specific purpose the vouchers were awarded. Since this falls short of our estimate of the increase in the number of authorized vouchers during this period, it appears that about 62,000 vouchers were awarded for which we were unable to find sufficient information about the purpose for which the vouchers were awarded.[32]

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30 See Burke, note 28. The data for Section 8 Moderate Rehabilitation units are derived from a HUD data file dated September 1996.

31 HUD budget documents for 2005 indicate that 6,903 SRO Moderate Rehabilitation units will expire and need renewal funding in 2005. Funding for these units initially is provided for 10 years. That means that contracts for this number of units began in 1995 or earlier, and were likely reflected in 1996 outlays.

32 The count of the number of vouchers awarded is based the following *Federal Register* notices: 61 FR 4455-76 for FY 1995 awards, 62 FR 32,891-32,902 for FY 1996 awards, 62 FR 66,648-9 for FY 1997 awards, 64 FR 4,688-4,695 for FY 1998 awards, 65 FR 17,662-17671 for FY 1999 awards, 66 FR 12,537-41 for FY 2000 awards, 67 FR 4,456-4,468 for FY 2001 awards, 67 FR 71,583—87 for FY 2002 awards, and 69 FR 7,779-86 for FY 2003 awards. It is possible that some of the 27,401 vouchers HUD reports were awarded in 2003 had not yet been awarded by July 2003, the date of the VMS data that we used to estimate that there were 2,056,000 authorized vouchers in 2003. If this were the case, the number of added vouchers for which we do not have information would be higher than 62,000.

It is likely that all or most of the approximately 62,000 additional vouchers without an identified reason for authorization were created in one of four ways. First, the number of Moderate Rehabilitation units converted into voucher assistance could have been more than the 45,070 we assumed. HUD does not publish the number of vouchers awarded to replace Moderate Rehabilitation units that expire and are not renewed, as it does with vouchers awarded to replace other types of housing assistance. We estimated that 45,070 such vouchers were created because data provided by HUD to Congressional staff show that the number of Moderate Rehabilitation units fell by this amount from 1996 to 2003. New vouchers would have been created to replace all or nearly all of these lost units. Other HUD data, however, suggest that the number of Moderate Rehabilitation units lost during this period may have been as high as 60,000, which would indicate that roughly 15,000 additional vouchers were created for this purpose.

Second, our estimate that 18,000 vouchers were authorized in 1998 to make permanent subsidies that PHAs initially funded out of their reserve funds could be low. We estimated this figure based on HUD budget documents that showed that renewal of vouchers originally funded from agency reserve funds cost $100 million in FY 1998 and assuming that the average cost of these vouchers was $5,499, the average cost of vouchers overall in that year. If the average cost of these vouchers was less than $5,499, or if HUD's spending figure of $100 million is too low, the number of vouchers

At least 275,000 of the new vouchers (or 46 percent of those for which information was available) were provided to families that had previously received subsidies under other federal housing assistance programs. These families generally lost assistance under these other programs because of various Congressional decisions to allow assistance to end. Because they took the place of existing subsidies, this group of new vouchers did not result in a net increase in the number of families receiving housing assistance, and the growth in voucher costs that these vouchers have engendered is offset to some degree by a reduction in expenditures elsewhere in the budget.[33]

Most of the 275,000 vouchers that replaced other federal subsidies fall into three categories. About 144,000 went to families who had previously received assistance under the project-based Section 8 program (including the Moderate Rehabilitation program), replacing some of the 191,000 project-based Section 8 units that we estimate were lost from 1996 to 2003.[34] About 66,000 replaced public housing units that were demolished or converted to other uses, often as part of projects funded under the "HOPE VI" public housing revitalization program. An additional 65,000 were used to maintain affordability for tenants that lived in other HUD-assisted developments, mainly where owners increased rents after prepaying HUD mortgages.[35]

Another 320,000 of the additional vouchers (54 percent of those for which information was available) enabled state and local housing agencies to expand the number of families receiving federal housing assistance. Of these vouchers, 156,000 were general purpose "fair share"

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created for this purpose would be greater than 18,000. Anecdotal evidence suggests that this figure could be as high as 50,000.

Third, it is possible that HUD did not always announce the award of vouchers to replace housing assistance under programs outside of Section 8. And fourth, it is possible that our estimates of the number of vouchers in 1996 or 2003 were somewhat too high or too low.

[33] Specific data on the cost of units replaced by vouchers are not available. It is likely that the lost federal mortgage subsidies cost far less than the vouchers that replaced them in almost all cases. The lost public housing units and project-based Section 8 units likely had costs that were closer to (although still usually less than) those of the vouchers that replaced them. (In addition, over time vouchers may be reallocated to larger-size families than the original recipients displaced from other housing, leading to higher costs. Vouchers go to the next family on the waiting list, and increase in cost if the next family to be served needs a larger-sized unit than the family leaving the program.) Federal outlays would not have been reduced to reflect the loss of public housing units until adjustments were made to the operating and capital fund subsidies that HUD provides to local housing agencies to enable them to cover the day-to-day costs of public housing units. Adjustments to this subsidy may take several years, so it is likely that there was a substantial lag between the time new costs were incurred for vouchers that replaced lost public housing units and the time operating and capital fund costs were reduced to reflect the loss of those units.

[34] Our estimate that 144,000 vouchers replaced project-based Section 8 units includes 28,000 "property disposition" vouchers that were awarded to protect tenants from unaffordable rent burdens when buildings are transferred from HUD ownership. It appears that all or almost all property disposition vouchers went to units that previously had project-based Section 8 contracts that did not continue under a new private owner, but it is possible that some of the vouchers went to units that were only subsidized under other, non-Section 8 HUD programs. If this is the case, the number of vouchers that replaced project-based Section 8 units would be lower than 144,000.

[35] Some 927 of these replacement vouchers were provided to families that had been receiving project-based assistance similar to Section 8 under programs that were repealed many years ago, known as Section 23 and Rent Supplement. It is likely that the number of vouchers that replaced Rent Supplement units was higher than this figure, but this is all that we were able to identify from available documents.

TABLE 2	
Additional Vouchers Awarded 1996-2003[36]	
"Fair Share" Incrementals	155,604
Welfare-to-Work Vouchers	50,000
Set Aside for People with Disabilities[37]	57,441
Family Unification Vouchers[38]	34,275
Other Not Replacing Other Subsidies[39]	22,751
Total Not Replacing Other Subsidies	320,071
Replacement of Project-Based Section 8 Subsidies[40]	143,856
Replacement of Public Housing	65,686
Prepayment (displacement prevention)	64,380
Other Replacing Subsidies Outside Section 8	927
Total Replacing Other Subsidies	**274,849**
No Information Available (Estimated)	**61,670**
Total (Estimated)	**656,590**

incremental vouchers that Congress authorized to enable agencies to serve additional families from their waiting lists. Other new vouchers were set aside for particular groups. In 1999, Congress authorized 50,000 vouchers to assist families moving from welfare to work. A total of 57,000 new vouchers were set-aside for individuals with disabilities. Most of these were intended to offset housing opportunities lost because public housing or project-based Section 8 developments that had previously been available to people with disabilities were set-aside solely for elderly tenants. (These vouchers had the effect of expanding the total number of households receiving federal housing assistance, because the subsidies they replaced were merely shifted to another group of recipients,

[36] Some tenant protection vouchers included in the table were funded in 1995 but do not appear to have been included in the 1996 count, as discussed in the text above.

[37] 6,396 of the vouchers in this category (authorized in FY 2002) were labeled as incremental vouchers by Congress but restricted to use by persons with disabilities. Most of the remainder were set aside for people with disabilities affected by a policy change designating certain public housing and project-based developments as elderly only (and thus excluding non-elderly people with disabilities from those developments).

[38] Congress authorized HUD under section 553 of the Cranston-Gonzalez National Affordable Housing Act of 1990 [42 USC 1437f(x)] to fund Family Unification Vouchers using funds provided for vouchers to assist families at risk of losing assistance under other federal housing assistance programs that were not needed for that purpose.

[39] This includes vouchers awarded as a result of fair housing litigation, vouchers authorized in 1998 to make permanent subsidies created through PHA reserves (see note 32 above), and vouchers for witness relocation.

[40] This total includes an estimated 45,070 vouchers that replaced Section 8 Moderate Rehabilitation units. It also includes 27,644 property disposition vouchers; as discussed in note 34 above, some of these vouchers may have gone to units that did not previously have Section 8 contracts.

not eliminated.) An additional 34,000 vouchers, referred to as "Family Unification Vouchers," were set aside for families who needed housing in order to enable them to regain custody of children who had been placed in foster care or to prevent children from being placed in foster care. Another 23,000 vouchers were provided for a variety of other purposes.