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ADMINISTRATION USES MISLEADING ARGUMENTS TO JUSTIFY PROPOSED HOUSING VOUCHER BLOCK GRANT

by Barbara Sard

In Congressional testimony the week of March 3, Department of Housing and Urban Development Secretary Mel Martinez stated that the Administration's proposal to transform the housing voucher program into a state-administered block grant would eliminate two problems with the current program: (1) the failure of some housing agencies to use all their voucher funds; and (2) the time lag between changes in market rents and changes in voucher payment levels. Both claims are misleading.

Block-Granting Not Needed to Address the Problem of Unused Voucher Funds

In recent years a number of public housing agencies have not been able to use all of their voucher funds, often because the local housing market is so tight that many families cannot find apartments where they can use their vouchers. Unused funds have been recaptured by HUD and either used in HUD programs or rescinded by Congress and then used for other purposes. A block grant is not the solution to this problem, however, for several reasons.

- *Conversion to a block grant is not necessary to avoid unspent voucher funds because Congress has already addressed this problem.* The fiscal year 2003 appropriations act largely eliminated the need for recaptures by changing the way vouchers are funded. Now, housing agencies will receive funds only for vouchers they are able to use. No fiscal year 2003 voucher funds allocated to housing agencies will remain unspent.[1]

  The problem of unspent funds will not recur if Congress continues the new funding method. Recaptures of the type that have occurred in the past could resume only if funding for the voucher program were increased substantially beyond the amount needed to support the number of vouchers that housing agencies are able to use. Neither the Administration nor Congress has indicated it will propose such an increase.

- *Even before Congress acted, the number of unused vouchers was steadily declining.* The percentage of authorized vouchers that are not in use has fallen substantially in recent years, apparently as a result of policy reforms and a softening rental market. HUD estimates that *only four percent* of authorized vouchers will not be used in fiscal year 2004. This compares to eight percent in fiscal year 2000.

[1] Unless HUD alters its current policies some funds from earlier fiscal years will continue to be recaptured through the end of fiscal year 2004.

- *HUD already has the power to "reallocate" vouchers so they don't go unused.* While some local housing agencies continue to have difficulty using all of their vouchers, HUD already has the authority to address this problem. Since 2001, HUD has had a policy in place to transfer vouchers from local housing agencies that have been chronically unable to use them to agencies that are able to use them promptly to serve additional families. So far HUD has reallocated only a small number of vouchers; implementation of the reallocation policy has reportedly been delayed by administrative error at HUD. Fully implementing this policy — or establishing a more aggressive reallocation policy, as HUD has full authority to do — would raise voucher utilization more effectively than a radical transformation of the voucher program to a block grant.

Block-Granting Will Not Make the Program More Responsive to Rent Increases

Secretary Martinez testified that states could respond more rapidly than HUD to escalating private market rents by increasing housing voucher payments, and that this would improve the voucher program's effectiveness. HUD, however, now plays only a limited role in determining voucher payment levels. To the extent that lagging voucher payments are a problem in the program, neither state administration nor a block-grant funding structure is likely to fix it. To the contrary, because it would force states to offset voucher payment increases with *cuts* in the total number of families served, a block grant funding structure would likely provide *less* real flexibility to adjust voucher payments than exists under the current program.

- *Housing agencies already have the flexibility to set maximum voucher payments.* Currently, local housing agencies — not HUD — determine the maximum rent that a voucher can pay. Housing agencies can set the maximum voucher payment level, known as the voucher payment standard, anywhere between 90 percent and 110 percent of the Fair Market Rent. (Generally, the Fair Market Rent is HUD's estimate of the amount needed to cover the rental costs of the least expensive 40 percent of housing units in the local market. HUD sets the Fair Market Rent annually for each metropolitan area and non-metropolitan county.) If a housing agency decides that a payment standard above 110 percent of the Fair Market Rent is needed for part or all of its service area, it can ask HUD to approve an increase at any point in the year.

- *Under a block grant, states that raise voucher payments in response to local rent increases would need to cut the number of families receiving assistance.* While states would probably have some additional flexibility to adjust payment standards under a block grant — they would likely be able to set payment standards above 110 percent of the Fair Market Rent without approval from HUD — this independence would be heavily constrained by the substantial penalty that a block grant funding system would impose on states that opted to raise payment standards. Currently, a housing agency that raises its payment standard will receive sufficient federal funding to administer all of its vouchers at the new, higher cost that would result. Under a block grant, in contrast, the housing agency would receive *no* additional federal funds. It could set a higher payment standard only if it were willing to offset the added cost by reducing the number of families it assists.

For example, under the current system, if a housing agency that administers 2,300 vouchers received permission from HUD to raise its payment standard from 110 percent of the Fair Market Rent to 120 percent of the Fair Market Rent, it would receive sufficient federal funding to administer all 2,300 vouchers at the new payment standard. Under a block grant, the agency would receive no additional federal funding and would therefore need to reduce the number of families it serves. If the increase in the cost of the average voucher were even half of the increase in the maximum voucher payment,[2] the agency would need to reduce the number of families served from 2,300 to 2,200. By creating this strong penalty for raising payment standards, a block grant would reduce rather than enhance the program's flexibility.

- *New data will make Fair Market Rents more responsive to actual local housing costs beginning in 2004.* Currently, HUD sets Fair Market Rents each year without up-to-date data on local rents in many markets. As a result, the Fair Market Rent sometimes fails to keep pace fully with changes in rental costs. This can hinder housing agencies' ability to set voucher payment standards at a realistic level in certain areas.

  Beginning in 2004, however, HUD will have much more complete and up-to-date data on local rental costs. In April 2004, HUD will publish new proposed Fair Market Rents based on data from the 2000 Census. Beginning in 2006, data from the new American Community Survey is expected to provide HUD with updated rent data at least biannually. The availability of these data should enable Fair Market Rents to reflect current local housing costs much more accurately. As a result, fewer local housing agencies will need to set payment standards that are above 110 percent or below 90 percent of the Fair Market Rent and therefore require HUD approval.

- *Minor changes in current law could improve program flexibility.* If HUD or Congress determines that administering agencies need more flexibility to set voucher payment standards, this could be accomplished through minor changes in HUD policy or federal law. For example, HUD could make it easier for housing agencies to justify a request for higher voucher payments and could expedite its review process. Congress could allow housing agencies to set voucher payments somewhat above 110 percent of the Fair Market Rent without HUD approval. (Legislation approved by the House Financial Services Committee in 2002 would have raised the 110 percent limit to 120 percent.)

The voucher program already provides substantial flexibility for local agencies to respond promptly to rapid changes in local housing markets. Planned data improvements and minor policy modifications will enhance the program's ability to keep pace with change. A

[2] Actual average voucher costs are affected by other factors in addition to the payment standard, including the incomes of households with vouchers and the costs of the specific housing units rented by voucher holders.

block grant financing structure, in contrast, would undermine the flexibility of voucher payments and the effectiveness of the program.