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# THE LOCAL IMPACT OF PROPOSED CUTS IN FEDERAL HOUSING ASSISTANCE

## Teleconference
## Wednesday March 17, 2004 at 1:00 pm (CT)

**ROBERT GREENSTEIN:** Good afternoon, everybody. As you know, we are releasing at this hour a new study looking at the effects, local area by local area, of the proposed reductions in the Housing Voucher Program that are in the Administration's budget. It is posted on the Center's website, with data for each of the 2,500 local housing authorities in the United States.

With us to discuss this issue today are Barbara Sard, Director of Housing Policy at the Center on Budget and Policy Priorities and co-author of this report; Renee Glover, President and Chief Executive Officer of the Atlanta Housing Authority and President of the Council of Large Public Housing Authorities; and Curt Decker, Executive Director of the National Association of Protection and Advocacy Systems and Chairman of the Consortium of Citizens with Disabilities. We're going to go in that order, I believe: Barbara and Renee and Curt Decker. Then we will quickly get to your questions.

**BARBARA SARD:** Thanks, Bob. The Section 8 Housing Voucher Program is the nation's largest housing program for low-income families and elderly and disabled individuals and currently assists about two million households. The Administration's budget request proposes deep cuts in program funding and radical changes in program design. I'm going to briefly outline what the Administration has proposed, to give you background to understand the data that we released today, and then I'll give you an overview of what the data show about the impact of these proposals on local communities.

The Administration's budget request for renewal of the approximately two million existing housing vouchers is more than $1 billion below the funding level in fiscal 2004, the current year. This is a cut, not a freeze as the Administration has suggested it is doing for discretionary programs. The cut is even more severe than the comparison to '04 suggests. It is more than $1.6 billion below the amount needed to maintain current services, or about a 12 percent cut in fiscal year 2005. By 2009 the President's budget would cut funding by 30 percent.

The Administration also has proposed to transform the Housing Voucher Program into a block grant to housing agencies, with virtually no federal rules. This would be a major change. Currently, Congress determines the amount of funding needed based on the estimate of the number of vouchers that will be in use and what they will cost. That means Congress is responsible if any families with vouchers lose them because of lack of funding. A block grant would sever the connection between funding and actual cost and shift responsibility from Congress to local housing agencies. The shift would also make it more likely that the drastic cuts proposed for 2009 might occur.

The Administration's so-called "Flexible Voucher Program" proposal also would eliminate most of the federal rules that now apply regarding the income of families who are served, how much rent vouchers will cover, and how much of their income families have to pay. It would also loosen a number of administrative requirements.

Administration officials contend that their proposed funding cuts can be absorbed painlessly if these proposed changes in program rules are enacted. But at most, the changes would allow agencies to absorb the reduction in federal funding for administrative fees; administrative savings would be unlikely to offset any of the cuts in funding for housing subsidies.

The data that the Center on Budget releases today illustrate the real harm that could be caused if the Administration's proposals are enacted. Nationally, the funding cut will lead to about 250,000 fewer families receiving voucher assistance in 2005 and 600,000 fewer families receiving assistance in 2009. The tables that we have posted for each state and each housing agency show the share of these reductions likely to occur in each locality. The tables also show the likely economic loss to the rental housing sector of each community from the funding cuts in 2005 and 2009. These estimates of the economic loss are based on the share of the total vouchers administered by each agency and the average subsidy provided.

If the proposed changes in program rules are enacted, it is possible that agencies could try to absorb the funding cut by shifting costs to tenants. Nationally, that would cause an average rent increase of about $850 in 2005 and about $2,000 in 2009. But the actual rent increases that would have to be imposed to absorb this funding cut would vary quite substantially from locality to locality; the range of variation is up to about 50 percent above or below the national average. So by looking at the local data you can get a much more accurate sense of the extent of the rent increase that would have to be imposed in your local area.

In closing, I want to emphasize that all of the estimates we have done on voucher cuts, the funding cut, and the possible rent increases are based on quite conservative assumptions that are outlined in the Sources and Methodology paper. Thank you.

**RENEE GLOVER:** First of all, I think it's important for everyone to appreciate how important the voucher program is for housing low-income families. What we've found here in Atlanta is that the voucher program has been extraordinarily successful in providing improved opportunities in mixed-income communities. And I think about the Moving to Opportunity demonstration that was done in Chicago and how successful that was, because it opened up opportunities for families to live in neighborhoods that had better-quality schools, better-quality amenities in terms of retail, commercial, and that type of thing.

So the voucher program is really the wrong place to cut. The irony here is that the national utilization rate for vouchers has improved substantially; on average it's around 97-98 percent. There are opportunities to expand voucher use in neighborhoods with relatively few poor households, but there are costs involved, such as counseling for families and outreach with landlords. The question really is this: is the country prepared to make the investment that's needed for the program to succeed? Cutting the budget and then lowering the administrative fee — which is the pool of monies used by agencies to administer the program — is absolutely the wrong thing.

Clearly, we as agencies need to look at streamlining our processes and making them more cost-effective and cost-efficient. But the cuts, if they're not thoughtful, will result in families being institutionalized into bad neighborhoods and bad opportunities. Quite frankly, that will have an even greater cost to the nation because the families will be destroyed and won't have the opportunity to continue to grow and prosper and become productive members of society.

So I hope that the proposed cuts are considered in a larger context, because oftentimes, cuts have unintended consequences that over the long run will create even greater budget crises and other challenges.

**CURT DECKER:** This is Curt Decker. I chair the Consortium of Citizens with Disabilities. It's a coalition of over a hundred national disability groups that look at a range of policy issues for people with disabilities. Our Housing Task Force has looked closely at the whole issue of HUD programs, and vouchers in particular.

We're quite concerned about the Administration's proposal. Of the 250,000 households that are going to be affected by this billion-dollar cut in 2005, 50,000 — or 20 percent of those households — are persons with disabilities. Even though people with disabilities in this country have made tremendous progress over the last several decades, it's important to remember that the vast majority of people with disabilities are still living in poverty and depend on a variety of programs, such as Social Security and SSI as well as the housing programs of HUD, to survive their daily lives. The voucher program has virtually become a lifeline to people with disabilities. HUD policies over the last ten years have eliminated a lot of the resources for people with disabilities and have pretty much left this population dependent on the voucher program.

We're also very concerned about the proposals for the Flexible Voucher Program, which could spell serious problems for the families with disabilities who are dependent on this program. We're concerned about the fact that housing authorities will have an incentive to look to higher-income people as participants in the voucher program. Many people with chronic disabilities are not going to improve very much, and there's the potential under the Flexible Voucher Program that HUD or housing authorities could impose a time limit on the use of the vouchers. This would put many people with disabilities in jeopardy of losing their housing. The alternative for this population will be nursing homes, institutions, and homelessness if they lose this vital lifeline.

The Administration talks about wanting to deal with homelessness and says that it wants to make sure that people with disabilities are fully integrated into society. But its actual proposals, such as this Flexible Voucher Program, show that the Administration has some very shortsighted views and is really putting this very vulnerable population in jeopardy.

We're hoping that we can get the Administration to reconsider this very ill-thought-out attempt at what it sees as cost saving. It's been mentioned before that the additional cost to serve this population in alternative settings — which would be much more restrictive and expensive, as well as inappropriate — would far outweigh any possible savings this kind of a program could achieve.

**ROBERT GREENSTEIN:** This is Bob Greenstein from the Center. As we're holding this call today, the House Budget Committee has just approved a bill to impose caps for each of the next five years on the total amount that could be appropriated for non-entitlement programs. The voucher program is one of these non-entitlement programs.

These caps would be set at whatever final levels emerge from this year's Congressional budget resolution. The budget resolution that the Senate approved last week reduces total funding over the next five years for domestic non-entitlement programs outside homeland security by $117 billion, compared to the 2004 level adjusted for inflation. The budget resolution that the House Budget Committee is approving today contains reductions of $113 billion from that part of the budget. This is the part of the budget that includes the voucher program.

Let's go to your questions.

**QUESTION:** On the report you are releasing today, what kind of response do you expect, either from HUD or from the Administration?

**BARBARA SARD:** The Administration has been saying no one will be harmed, no one will be evicted. I have seen talking points the Administration has given to at least some Senate offices denying that anyone will be evicted, but the Administration has yet to state any facts that would demonstrate how agencies would be able to make savings of 12 percent on the subsidy payments and up to 35 percent on their administrative fees without harming families. I think that's the central issue they have been trying to avoid.

**CURT DECKER:** HUD also today released the list of agencies awarded housing vouchers for people with disabilities that were funded in the 2004 budget. The timing is interesting. This might be a preemptive strike to look like HUD is, in fact, doing something for people with disabilities.

**QUESTION:** I've heard a couple of times that this proposal could force housing authorities to give vouchers to people with higher incomes. Could someone talk a little more about that?

**BARBARA SARD:** Currently, 75 percent of vouchers each year that become available — either as Congress funds new vouchers or as families leave the program — have to go to households that are considered "extremely low-income." That means these families have incomes below 30 percent of the area median, which in most areas is roughly equivalent to the federal poverty line. That targeting requirement would be eliminated by the Administration's proposal.

On its face, the proposal appears to leave agencies free to make their own decisions about whether to serve higher-income households. But the Administration has also said that it would impose performance requirements on agencies, which would determine how much administrative fees they would earn. Those performance requirements would likely make agencies feel pressured to serve higher-income families. Plus, if subsidies are cut, the lowest-income families might not be able to use their vouchers because they wouldn't be able to afford their share of the rent. And that would be a further pressure on local agencies to direct vouchers towards higher-income people if those are the only ones who could succeed in using vouchers.

**QUESTION:** How can agencies help families use vouchers to move to lower-poverty neighborhoods?

**RENEE GLOVER:** If agencies are being thoughtful about where families are living, they need to provide counseling and support so families make good choices. Counseling has been very effective in helping families make better decisions about their housing. Agencies also have to have a proactive engagement with landlords so families do not leave one very distressed situation and move to another. Also, the fair market rents have to be competitive so the families again are not moving from one God-awful place to another.

When you consider all the issues that Congress and HUD are balancing, you can't move away from the fact that if we can provide families good living environments, that will cost less in the long-run than concentrating people in very bad housing situations.

**CURT DECKER:** And again in the disability context, people on SSI have incomes that average about 18 percent of median. The targeting provisions are critical to ensuring that the very low-income disabled population continues to get service.

**QUESTION:** Do you know how many elderly persons could fall into that group of 250,000 that could possibly lose vouchers?

**BARBARA SARD:** Nationally about 16 percent of the households receiving voucher assistance are elderly non-disabled individuals without children. It's actually a little bit higher than that if you include elderly people who are caretakers of minor children.

**ROBERT GREENSTEIN:** Barbara, if you could elaborate, we have an emailed question asking for a little more information on who the voucher recipients are.

**BARBARA SARD:** Okay. I'll give you the basics. There's a paper on the Housing Voucher portion of our website called "Introduction to the Housing Voucher Program" that breaks this down more. In 2000, about 15 percent of households with vouchers were headed by a disabled individual without minor children; 16 percent of households with vouchers were headed by an elderly individual without minor children; and 61 percent of households with vouchers consisted of families with children. (That 61 percent includes a small number of families that are headed by an elderly or disabled person with minor children.)  And among the families with children, more than half are primarily dependent on wages for their income; a relatively small proportion are on welfare.

About eight percent of households are outside of those three categories.  These are largely formerly homeless individuals or parents whose children are no longer minors.

**QUESTION:**  Many programs, like home health aides and Medicaid, are entwined with Section 8.  Will eliminating a family's access to housing through Section 8 affect their access to other programs?

**RENEE GLOVER:**  Absolutely.  One of the newer trends — and a very exciting trend in terms of creating affordable assisted living — is the use of vouchers to serve both frail elderly individuals who are no longer able to live independently but are not ready to move into a nursing home environment, and disabled families who need supportive services.  Vouchers have been used very successfully in supportive housing settings.  If the budget for vouchers is cut or if priorities are changed because of budget necessities, you will see a dramatic reduction in supportive housing settings.  This fact needs to be brought out and discussed.  Again, it shows that the proposed changes have much broader implications for the affected localities.

**CURT DECKER:**  Housing obviously is one of the mainstays of a system of supports to allow people with disabilities to live in the community.  Other support services then can be brought in to maintain that person in the community.  But if these individuals lose housing assistance and don't have a decent home to live in, they would lose their ability to access those other support services even if they didn't lose their eligibility for them.

**ROBERT GREENSTEIN:**  I'm going to group together two questions that we've received through email.  The first is from a reporter who notes that the HUD website shows that the budget request for '05 is $1 billion below the enacted level for '04, but the Center study refers to a $1.6 billion cut in '05.  Can you explain the difference between the $1 billion and the $1.6 billion number?

The second question notes that the HUD website says that the Administration's proposed changes would provide for a more efficient voucher program by eliminating large balances of unused resources.  Can these reductions in funding be accommodated through improved efficiencies, and are there large amounts of unused resources that are not needed in the program?

**BARBARA SARD:** First, on the dollar cut, the $1 billion is the straight reduction from the 2004 level. We and HUD agree on that number. The $1.6 billion that we have used as the shortfall in 2005 is also a HUD number; it is the shortfall compared to the cost of maintaining the 2004 package of services in 2005. One reason for the $600 million difference is that there are somewhat more vouchers that need renewal in '05 because their funding expires for the first time. There also is a small increase in the estimated average cost of vouchers in 2005.

There are HUD documents that also use the $1.6 billion figure. They just don't happen to post them on their website.

**ROBERT GREENSTEIN:** Barbara, let me interject. When you referred to the increase in costs in '05, that's simply because — as always happens — there is inflation in rent costs over time.

**BARBARA SARD:** That's right, although the rate of projected increase in rent costs from '04 to '05 is much lower than has occurred in previous years.

**ROBERT GREENSTEIN:** Last week the Republican Chairman of the House Appropriations Committee, Representative Bill Young, sent a letter to his colleagues informing them of some of the reductions in the President's budget. His letter, which is public, says the amount in the President's budget for this program is $1.7 billion below what is needed to maintain the current level of services. Barbara, could you answer the second part of the question?

**BARBARA SARD:** Unless you consider it efficient simply to serve fewer people, there is no common use of the word "efficient" that would explain how agencies could cope with these funding cuts. It is true that in prior years there was a large balance of unused funding in the voucher program. That was largely because when the real estate market was very tight in many areas, agencies were having more difficulty using housing vouchers, so some funds went unspent.

Beginning in 2003, though, Congress changed the way housing vouchers are funded so that funding is now provided only for vouchers in use and not for all authorized vouchers. This has essentially eliminated the prior experience of unused funds in the program. In fact, HUD documents show that in 2005 HUD expects to recover only $50 million from the voucher program that had not been used. So large balances are a thing of the past.

**RENEE GLOVER:** I wanted to underscore an earlier comment. One of the additional reasons for improved utilization of vouchers is the additional counseling, so that families are more successful in using the vouchers, and also reaching out to landlords.  The softness in the real estate market has certainly helped with that effort as well.  But if you cut the administrative fee, that will reduce the ability of housing agencies to have the counseling and the outreach effort that I think have been so successful with the program.  So again, the types of cuts and the approach are very shortsighted and are going to cause some real hardship.

**ROBERT GREENSTEIN:** Just so everyone's clear, when Renee says families are more successful with their vouchers, she means more successful in actually renting a unit with the voucher.

**RENEE GLOVER:** That is correct.

**ROBERT GREENSTEIN:** As contrasted with turning it back if they couldn't find a unit they could rent.

**QUESTION:** I'm wondering if this proposed cut to Section 8 vouchers would jeopardize a HOPE VI application that requests a lot of new Section 8 vouchers to deal with all those homes being demolished.  Could any of you comment on that?

**RENEE GLOVER:** What we've done in Atlanta is a very aggressive revitalization program to get people out of very bad living environments.  Our primary relocation and replacement housing resource has been the voucher.  We found that at least 75 percent of the families who are affected by demolition and revitalization activities have elected to take vouchers so they will have great housing opportunities again.  Quite honestly, if the vouchers are cut back, that will seriously impair our ability to relocate these families and clean up some of these terrible areas of blight. So again, the Administration's voucher proposals are a shortsighted, poorly-thought-out approach to the whole affordable housing issue.

**QUESTION:** With respect to housing authorities potentially absorbing these cuts by rent increases, does that mean that housing authorities would be raising rents on tenants whether or not their incomes went up?

**BARBARA SARD:** Yes.  In order to absorb a funding cut of 12 percent in 2005 and up to 30 percent in 2009, agencies either have to cut people off the program or reduce the amount they are paying for most households.  Our estimates are based on the assumption that the rent charge to the families would be increased to make that funding reduction because there simply aren't large numbers of units that could be rented at a much lower cost than the units families currently rent (if the units have to pass inspection, which would still be a requirement of the program).

The assumption is that the families would go from paying generally 30 percent of their income, as they do now, to paying potentially much, much more. The Administration's proposal has no limit at all on the percentage of income that families could be charged for rent.

**QUESTION:** When you talk about local housing authorities being confronted with the possibility of distributing vouchers to people in higher income brackets, does that say anything about the sort of the financial shape that a lot of local housing authorities may be in? Are some in particularly bad shape and therefore may have even more incentive to try to adjust their books or whatnot?

**BARBARA SARD:** The answer to that question is somewhat different from the public housing context. For public housing, the way it's funded, agencies can benefit in their operating funding if they admit higher-income households. In the voucher program it doesn't work quite like that. Agencies are going to have a big hole in their budget, making it difficult to sustain the rent subsidies to landlords. They cannot make up enough of that funding cut on the administrative side — in fact, the funding cut is more than 100 percent of the administrative fees paid in the program.

So the subsidies to the landlords would have to be lowered, in many cases requiring housing agencies to actually break existing contracts with landlords. That is not only going to hurt the families involved, but could be very economically damaging to the primarily small landlords that are the backbone of the Housing Voucher Program. And so there could be economic consequences throughout the community. But I don't think it's really a question of the housing authority's budget per se.

**RENEE GLOVER:** I agree with that. As Barbara mentioned, there are really two components to the funding: the housing assistance payment, which goes directly to the landlord for the unit of housing that's under lease, and the administrative fees, which are used to administer the program. There's not a lot of room in the budget to manipulate costs or anything of that nature. So any cuts will absolutely directly impact the families — and, as Barbara mentioned, the neighborhoods, because a number of the smaller landlords have housing in different neighborhoods, and if that housing is taken off the program, not only do the families lose but the neighborhoods also lose.

**QUESTION:** Curt, you mentioned that 20 percent of those with vouchers are disabled. Is there a particular part of the country where the percentage is particularly high or particularly low?

**CURT DECKER:** I'd have to get back to you on that. We don't really have that kind of demographic. But I think the percentage probably gets high where people have been pushed out of elderly-only housing, which has pushed us to rely almost totally on vouchers.

**BARBARA SARD:** That question highlights the fact that the figure I gave earlier is just the national average; the demographic makeup of the voucher program in particular localities can vary quite a bit. Local agencies would have that data.

**QUESTION:** What are some of the performance requirements for agencies administering these vouchers, and what's the mechanism for measuring performance?

**BARBARA SARD:** Much of that is unclear. The legislation that the Administration filed simply says that that HUD shall establish performance standards by regulation, including but not limited to agencies' effective use of their funds and the extent to which agencies promote home ownership and reduce the number of years that families spend on the program. Some HUD spokespeople have also mentioned that they might reward agencies that assist more people, which would then drive down the subsidy level per family and pressure agencies. All of these measures would combine to pressure agencies to shift vouchers to higher-income people.

**QUESTION:** This is a question for Bob Greenstein. I talked with HUD Assistant Secretary Liu today, who said that the problem with agencies targeting the 30-percent-of-median-income bracket is that it encourages people not to get a job. He said it's a stereotyping of the poor, which the Administration rejects. In an earlier teleconference on that subject, you said that one of the issues we need to think about is what kind of a country we want to be. Could you talk about that?

**ROBERT GREENSTEIN:** Unfortunately, sometimes — and I don't mean to single out Assistant Secretary Liu — but sometimes politicians and political appointees make blanket statements that make nice sound bites but really don't relate to the issue in question. We have that here. Under current law, public housing authorities already have the flexibility to set priorities so that they can give priority to working families with incomes of under 30 percent of area median income. There have been increasing efforts by many PHAs to work with local welfare agencies to use the voucher program in ways that reward families that are moving from welfare to work and thereby enhance people's ability to get a job. But if you direct vouchers away from the people who are below the poverty line and toward families making $30,000,

$40,000, or $45,000 a year, you're going to do virtually nothing to help people move from welfare to work.

His statement also ignores some research suggesting that where vouchers helped people move from high-poverty areas to areas they otherwise couldn't afford but had more jobs, these people had better employment opportunities and better school opportunities for their children, and their children in turn had higher employment opportunities later on.

So this to me is a sound bite that may try to use the resentment some Americans feel against people who get assistance without working to make it look like that's what this proposed cut is about. The cut really has nothing to do with that. To the degree that local housing agencies have to shift vouchers higher up the income scale, among the primary groups that would be hurt are the working poor and people who could use voucher assistance to move to places where job opportunities are better and to improve their chances of successfully leaving welfare for work.

**BARBARA SARD:** Let me add just one thing. A number of other housing programs funded by the federal government do a reasonably good job — not enough, but reasonably well — of serving households with incomes above about 45 percent of the median income. The low-income housing tax credit is one of these programs. But those programs do not effectively serve families under 30 percent of area median.

So when we're looking at the role that housing vouchers play in conjunction with other housing programs, it is critical to have vouchers available to enable the housing production programs to serve the lowest-income families. Nationally, about $15,000 a year is about 30 percent of area median income. All too many working families earn less than that amount.

**QUESTION:** Can you please explain a little bit more about the increase in annual rent?

**BARBARA SARD:** If an agency decided it didn't want to terminate families that are currently receiving voucher assistance — that the better way to absorb the funding cut was to spread the pain among all the families — the figure for each agency represents the estimate of the annual increase in rent paid by each participant in the voucher program served by that agency. The numbers vary so substantially from agency to agency because the average subsidy paid by each agency varies a great deal, largely because of the difference in rental costs from locality to locality.

**QUESTION:** What is the total funding request for Section 8 that the Administration is making? And I'm going to guess they'll say that they're not cutting funding; they're just not increasing it as much as you would like. How would you respond?

**BARBARA SARD:** Well, they can't say that and be truthful.

The Section 8 voucher program is part of a larger budget account that's called the Housing Certificate Fund. The Administration's budget shows that in 2004 the Housing Certificate Fund received $19.37 billion and that they have requested $18.46 billion for 2005. That comes out to about $900 million less in 2005. The reason the actual cut from '04 is over $1 billion is that within the account, monies are broken down into various pieces; when you add up just the pieces that apply to the renewal of housing vouchers in '04 and '05, the '05 level is $1.05 billion below the '04 level.

**QUESTION:** I was hoping that Barbara could go over a couple of numbers that she mentioned at the start of the call that went by kind of fast. We talked about the $1 billion versus $1.6 billion, but you also said that the proposed level represents a 12 percent cut from …

**BARBARA SARD:** The '04 funding level.

**QUESTION:** For subsidy payments, administrative payments, or both?

**BARBARA SARD:** Just subsidy payments.

**QUESTION:** Nationally you said about 250,000 families receiving voucher assistance now would not receive it in 2005 and that this figure would rise to about 600,000 families by 2009?

**BARBARA SARD:** Yes.

**QUESTION:** Why do we keep referring to 2009? What is it about the budget that makes 2009 important?

**BARBARA SARD:** It ties into what Bob explained earlier. The Administration also submitted documents that show their anticipated funding level for each discretionary program for the next five years, including the four years after 2005. That document shows a cut of over $6 billion in the Section 8 program. The Congressional Budget Office redid those numbers, corrected some mistakes in the Administration's proposal and said that their figure would really amount to a $4.6 billion reduction in funding.

The reason that's important is that if these caps on discretionary spending for the next five years are enacted, the overall level of discretionary spending proposed by the Administration for 2009 would be a ceiling that could not be exceeded except in extreme circumstances. That would make it extraordinarily difficult to get more money than the Administration has indicated for a program, because you could only make up for the 30 percent cut in housing vouchers by cutting something else.

**ROBERT GREENSTEIN:** Let me add a little. The Congressional Budget Office analysis of the President's budget found that the reduction in the voucher program in '09 would be $4.6 billion or 30 percent, relative to the level needed to maintain today's level of services. In a normal year, analysts like ourselves do not pay that much attention to levels shown in a President's budget for individual program accounts for the second, third, fourth, or fifth year because Congress only appropriates one year at a time.

But this year is different because of the Administration proposal to write into law binding ceilings on the total amount that can be appropriated. It's certainly true that within those ceilings, Congress could appropriate more for the voucher program in 2009 and intervening years than the President's budget shows. But to do that, Congress would have to cut other program areas more deeply. Congress would have, for example, to cut defense or the war on terrorism or veterans' health benefits or education to a lower level. Part of what makes this difficult is that when you look at the levels in the President's budget for 2006, 2007, 2008, and 2009, nearly all domestic non-entitlement accounts in the entire budget, with the exception of space exploration, already are scheduled for cuts.

The larger problem, in my view, is that the President's budget and the House and Senate budgets that are emerging take one relatively small part of the budget — domestic non-entitlement programs, which make up about one-sixth of the budget — and put virtually all of the deficit reduction pressure on that part of the budget.

The voucher program is one of the major pieces of the domestic non-entitlement part of the budget. Of the major programs in that part of the budget that we've looked at, it would have one of the deepest cuts (if not the deepest cut) by 2009. In fact, were the program actually to be cut 30 percent by 2009, that would represent the largest cut in a major low-income program since the early years of the Reagan Administration.

**QUESTION:** Thank you very much for that perspective. Could I bring you back to one more micro-question here? Renee said something about what the national utilization rate for vouchers has been in recent years, and I missed that.

**RENEE GLOVER:** Barbara, you may know. I think it's 97 or 98 percent.

**BARBARA SARD:** The Congressional Budget Office and HUD have both used the 97 percent figure as the national rate.

**QUESTION:** The President's budget justifies the conversion of this program into a block grant by saying that last year, $1.7 billion in available federal aid that would have assisted 200,000 families was not used by PHAs. How true is that?

**BARBARA SARD:** It's not true at all for 2004. There was money left over in 2003 but it was for a one-time reason. The Administration changed the way it wrote contracts with local agencies: instead of giving them 12 months of funding when a contract expired, it went to a three-month contracting period, which meant that money from one fiscal year did not carry into the middle of the next fiscal year the way it used to. That generated a one-time saving. You can't play that accounting trick each year.

I'm not trying to say it was a gimmick. It was actually a reasonable response to the change in the way Congress funded the vouchers, but it generated a one-time saving that Congress used to increase funding in '04 more than $1 billion above the Administration's request. So yes, the number is a true number but it doesn't reflect something that is going to happen this year. Now that vouchers are funded only if they are used, the program is basically on a very tight financial leash, and all of the money that Congress has appropriated is likely to be used in fiscal 2004 unless agencies get so terrified by these proposed changes that they stop trying to use all their vouchers.

A very important issue that hasn't come up so far is that projections for what will happen to costs in this program show essentially a flat line. A paper linked to the data we issued yesterday on rent issues in the program includes a new graph in which we show the Congressional Budget Office's projections for spending under the Section 8 program through 2009. It shows that once you adjust for inflation and for certain underestimates that are built into the CBO baseline, you get essentially a straight line. The cost increases that occurred in the last three years and caused a certain amount of alarm in Congress and at HUD are basically over. The reasons for those cost increases have run their course; they're not going to be driving costs up in the future.

**QUESTION:** I have a question for Renee Glover. If the Administration proposal passes, would you serve fewer families, or would you place a bigger burden on each tenant with a voucher?

**RENEE GLOVER:** Of course, all solutions are local, and we'd have to work through them. But I think that inevitably fewer families will be served because one of the things we will *not* do is place families in communities that are very distressed and have no quality-of-life amenities, like great schools or job opportunities or commercial resources. So we will end up serving fewer families. We also will be very thoughtful about whether or not a family can pay more incrementally, but there's no getting around the fact that at the end of the day, fewer families will be served.

**QUESTION:** I wonder if you agree with this statement that I received today in a conversation I had with Michael Liu: "Regardless of the reform, there are going to be changes to freeze or cut the budget for Section 8. The question is, would managers want to face those changes with the tools that we propose or without them? When they look at the issue that way, they would frankly rather have the new tools."

**BARBARA SARD:** Mr. Liu cannot predict the future. If Congress acknowledges the reality that funding cuts of this depth would harm families, I believe it can find a solution this year and the problem can be avoided. HUD has been using what Mr. Liu said to you with individual housing agencies, saying, "Wouldn't you rather have the tools to deal with this problem?" But that assumes that the President's budget proposal will pass, which is not inevitable.

**CURT DECKER:** Our Housing Task Force will testify next week before the HUD Appropriations Subcommittee with a young man with a disability and his landlord to talk about how this actually will affect him. We'll make him available that day to any people in the press who would like to talk to him about it.

**BARBARA SARD:** Last year Congress came up at the end of the day with $1 billion in additional funding that had not been part of the House or Senate budget. When Congress feels it is politically vulnerable for a budgetary decision that would cause harm, Congress can find ways to solve the problem.

**ROBERT GREENSTEIN:** I would note that Mr. Liu's record last year on a related issue was not that strong. For about nine months, he kept insisting that analysts who had concluded the Administration's budget request for the voucher program was about $1 billion short of the amount needed to maintain funding for vouchers in use were wrong, and that the additional $1 billion was not needed. When it got to the point where OMB figures, CBO figures, and Center on Budget figures all showed that the HUD budget request understated voucher funding needs in fiscal year 2004, HUD quietly acknowledged that its own figures were out of date and an extra

$1 billion was in fact needed to avoid removing people from the program; the additional $1 billion was then provided.

But for a number of months, while HUD was pushing a previous version of its block grant proposal, Mr. Liu argued that the Administration's budget request was adequate and that CBO and other analysts were off base. Mr. Liu personally questioned the credibility of the CBO figures only a few months before HUD essentially acknowledged that the CBO figures were more accurate than the figures HUD had been pushing.

It appears that there now is an effort to use the block grant as a way to sell deep funding cuts. Last year, in the absence of a block grant, when federal appropriators faced the choice of coming out $1 billion short and having tens of thousands of vouchers eliminated or finding the $1 billion, at the end of the day, they found the $1 billion. However, if you move to the proposed block grant structure, it will no longer be able to be said that if the Appropriations Committees don't provide the necessary funds, 100,000 or 200,000 fewer households will be served. If appropriators can simply say that every local agency in the country should find "efficiencies," there is likely to be much less pressure on the Appropriations Committees to find the money within the amounts made available to them for total appropriations to maintain current service levels in the voucher program.

In short, the argument that the money won't be provided could become a self-fulfilling prophecy if the rules are changed so federal policymakers are no longer held accountable for the human consequences of cutting voucher program funding.

**QUESTION:** Who can explain a little bit more about the difference in the rent increase projections in different states? I see that Massachusetts would have about a $300 higher increase than New York, let's say, in 2005, and an $800 higher increase in 2009. To what can we attribute those numbers?

**BARBARA SARD:** The difference is the average cost of rental subsidies in each state. Massachusetts actually has the highest average rent increase of any state. New York is lower because it's a very big state and there are lots of places with relatively low rents that balance out the places with high rents. I think the very lowest is North Dakota. The range is quite enormous, but the reason for the variation is that the average cost of a housing subsidy in each local agency is based on local rents and the incomes of local participants. The lower the rents and the higher the incomes, the lower the subsidy — and thus the smaller the rent increase that would have to be imposed to absorb the funding cut.

**ROBERT GREENSTEIN:** Rents vary across the country more than incomes do. While there certainly are differences in wage levels in different parts of the country, the differences in rent levels are much larger.

**QUESTION:** Is there anything flexible and desirable about the rule changes that could be implemented under the block grant proposal?

**RENEE GLOVER:** The issue of reforming a program and looking for areas where there can be programmatic efficiencies or improvements in systems should not be used as a quid pro quo to seek approval for a budget cut. The issues are completely separate. Having said that, I think as responsible administrators we should always be in a conversation with the regulatory agency, and the regulatory agency as well should be eliminating things that don't add value to the program.

It's very disingenuous to basically say that in exchange for your support of these program flexibility items, we will want you to support a severe cut in the budget. The two things are separate issues. A lot of very good programmatic changes and improvements are being implemented around the country, but that fact is being masked by the suggestion that somehow there are greater efficiencies that can make up for large funding cuts. We all as good administrators continue to look at programmatic improvements like the counseling we talked about, landlord outreach, and so on, because you get a multiplier effect when families are able to move into healthier communities — you get people participating in their community, higher rates of employment. So I think this is all a charade, quite frankly, to tie two things together that should exist separately on their own merit.

**QUESTION:** This has been a pretty popular program with Congress over the years. How likely is it that Congress would go along with these cuts that the Administration's asked for?

**BARBARA SARD:** It's unclear. You're right, it has been a bipartisan program. It was originally a Republican idea that Democrats have endorsed and strongly supported. Last year the Administration's block grant proposal was soundly rejected by Republicans as well as Democrats.

What is different now is the fiscal pressure. If the appropriators feel they are tied in knots and they can get away with this cut, maybe they will do it. But as we said earlier, if they had to face the harm that would happen in local communities across the country, we think there is reason to be optimistic that they will not go through with it.

By the way, the Senate budget resolution included language that rejected the cuts proposed by the Administration.

**ROBERT GREENSTEIN:** There's a little bit of a conundrum here. On the one hand, the early indications are that this cut is not popular on Capitol Hill. Senator Bond, who chairs the HUD Appropriations Subcommittee in the Senate, has indicated that he's not favorable toward it. If that's all there was to it, you would say this cut is probably going to be rejected. You might even say it was dead on arrival.

But it isn't dead on arrival, because the total amount of money that the House and Senate budget resolutions give to the Appropriations Committee for all of the appropriations bills this year is unusually tight. The subcommittee that has jurisdiction over the HUD programs is expecting to get a very tight allocation. That subcommittee is also facing a lot of pressure from veterans' groups, since veterans' programs are in the same appropriations bill and the veterans' groups are very unhappy with the levels requested for veterans' programs in the President's budget.

So the appropriators may face a conflict in which they really don't want to institute this housing cut but they don't have enough money to do the things they would prefer to do in writing the HUD/VA appropriations bill this year. Because of that pressure, I think we will not know the final outcome for a good six months or so.

**QUESTION:** A quick question for Renee Glover. Do you have a waiting list of people eligible for housing vouchers?

**RENEE GLOVER:** Oh, absolutely. I'm glad you asked that question. The last time we opened the waiting list, about a year and a half ago, there were some 2,000 vouchers that were to be distributed and we had over 25,000 eligible families apply for those 2,000 vouchers. So there's certainly no lack of interest or need in the program. If the program is administered well, it can have tremendously positive impacts on localities and families.

**ROBERT GREENSTEIN:** Thanks, everyone, for joining us today.

**END**