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SENATE VA-HUD APPROPRIATIONS BILL MAKES DAMAGING CHANGES IN SECTION 8 HOUSING PROGRAM FOR LOW-INCOME HOUSEHOLDS

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Introduction

The Senate recently approved legislation funding the Department of Housing and Urban Development for FY 2002. While this bill restores public housing cuts proposed in President Bush's budget, it contains provisions damaging to the Section 8 housing voucher program and the project-based Section 8 program. It funds the Section 8 voucher program at a level below the President's request, providing fewer incremental vouchers than the Administration's budget. It also contains a $640 million reduction in the Section 8 voucher program reserves that the Administration proposed. Finally, the Senate bill contains an unprecedented, far-reaching rescission of Section 8 funds that was not included in the Administration's budget or the House VA-HUD bill and that is likely to cause problems in the future for the financing of the Section 8 program. Some 80 percent of the rescinded Section 8 funds would be transferred to non-housing programs.

The voucher program is the leading source of federal housing assistance for extremely low-income families. These households are far more likely than better-off families to have severe housing problems. A growing number of studies also have found that families with vouchers work more hours and experience higher earnings because they are able to live in neighborhoods with better employment opportunities than similar families without housing assistance or with other forms of housing assistance. Despite this evidence, the Senate bill reduces the number of new vouchers more than 70 percent below last year's level. The bill provides rental assistance to fewer families than either the Administration's budget or the House VA-HUD bill.

In addition, the Senate bill cuts the Section 8 reserves by $640 million, a reduction that was proposed in the Administration's budget and included in the House VA-HUD bill. These reserves provide additional funds to public housing agencies (PHAs) that face budget shortfalls due to escalating rental costs or other factors. When this cut was first proposed, it was not intended to reduce the number of families served by the voucher program. However, without appropriate guidance from Congress, the Section 8 reserve cut could, in fact, reduce the number of families that some PHAs are able to serve. The reserve cut also could deter other PHAs from taking steps to make their voucher programs more effective. The Senate bill fails to provide clear guidance to avoid these adverse outcomes.

Finally, the Senate bill contains an unprecedented rescission of unused Section 8 funds, or "recaptures," that HUD collects from PHAs and from expired Section 8 contracts with private owners. HUD typically uses these recaptures to offset the cost of funding the Section 8 program in the upcoming fiscal year. Congress typically rescinds a specific portion of Section 8 recaptures that it anticipates HUD will not need to help finance the Section 8 program. However, the Senate bill goes much farther by including an open-ended transfer of future recaptures of unused Section 8 funds from FY 2002 and prior years to other programs. This would prevent HUD from using these funds as it normally does to help fund the voucher program and the project-based Section 8 program in the coming fiscal year.

By depriving HUD of the use of these recaptured funds for the Section 8 program, the Senate bill risks setting up the voucher program and the project-based Section 8 program for future funding squeezes. The rescission could hamper efforts to improve the voucher program's effectiveness in helping poor families secure affordable housing and may result in fewer vouchers for low-income families. In addition, if HUD does not have sufficient funds to make adjustments in private owners' contracts when they encounter unanticipated cost increases, such as the recent escalation of utility bills, more owners may decide to opt-out of the Section 8 program. Finally, the transfer of recaptured funds would result in little increase in the production of affordable housing, as only 20 percent of the funds would be retained for housing purposes. The remaining 80 percent of the recaptured funds would be transferred to other agencies, primarily the National Aeronautics and Space Administration.

Vouchers Serve Families With the Most Severe Housing Needs

The voucher program helps families afford rental housing by subsidizing the costs of apartments they find in the private housing market. Families that use their vouchers generally pay between 30 percent and 40 percent of their incomes in rent and utilities, with vouchers subsidizing the balance of their costs.

Housing vouchers are the leading source of federal housing assistance for low-income families with children. Two-thirds of vouchers issued in any year go to families with children, with the remainder predominantly used by people with disabilities and elderly people. Nearly one million families with children are currently served by the voucher program, almost twice the number of families with children in the public housing program. Furthermore, new vouchers are more targeted than other forms of federal housing are on extremely low-income families that are at or below 30 percent of the Area Median Income, which is roughly equivalent to the poverty line in most areas.

These families experience the most acute housing needs of any segment of the population. Census data show that in 1999, nearly 70 percent of extremely low-income households that did not receive housing assistance either paid more than half of their income for rent or lived in severely substandard housing. By contrast, 22 percent of renter households that had incomes between 31 percent and 50 percent of the area median income and received no housing assistance experienced these housing problems. Fewer than 5 percent of households with incomes between 51 percent and 80 percent of AMI faced these problems. Exacerbating this situation, the number of private, unsubsidized units affordable to extremely low-income renter households dropped by more than 200,000 between 1997 and 1999 due to rent increases as well as continuing abandonment of unprofitable rental housing.[1]

Vouchers are especially important for families moving from welfare to work, because such families are unlikely to earn enough to afford decent quality housing. Typically, households that previously received welfare benefits and have at least one working member earn less than \$3,500 per quarter; many state studies report average earnings significantly below this amount. On average, however, a family must earn at least \$12.47 per hour of full-time work — about \$25,000 per year — to afford a two-bedroom housing unit at the Fair Market Rent.[2]

Vouchers can enable families to move to areas with greater job opportunities. A growing number of studies find that families with vouchers experience greater increases in employment and earnings than similar families that do not have vouchers.

Senate Bill Provides Too Few New Vouchers

In view of the severe housing needs of extremely low-income families, the Senate VA-HUD FY 2002 appropriations bill provides an inadequate level of new vouchers. The bill funds 25,000 new vouchers,[3] which is 9,000 fewer than the 34,000 new vouchers approved by the House bill, which is roughly the same level the Administration requested. (The President's budget proposes 33,700 new vouchers.) In contrast, Congress last year funded 87,000 new vouchers. The Senate bill reduces the number of new vouchers by more than 70 percent compared with the additional vouchers funded in FY 2001.

Furthermore, 8,000 of the Senate bill's new vouchers are set aside for persons with disabilities. While vouchers for such individuals are an important priority, this means that not all of the Senate's new vouchers can be used to address general housing needs. Only 17,000 of the Senate's new vouchers can be used to address the general housing needs of low-income families. The reduction in these general, so-called "fair share" vouchers, from last year's level is even

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[1] Joint Center for Housing Studies, *The State of the Nation's Housing 2001* at 24. This figure may include the affordable units lost due to demolition or abandonment, but not units that are still part of the housing stock but are no longer affordable to extremely low-income families. HUD estimates the total loss between 1997 and 1999 in the number of units affordable to extremely low-income families may have been twice as great as the Joint Center's report indicates.

[2] National Low Income Housing Coalition, *Out of Reach, 2000* at 5.

[3] Some 17,000 of these new vouchers would be distributed to public housing agencies (PHAs) through the "fair share" allocation system. Only PHAs demonstrating that they are using 97 percent or more of their voucher funds will be eligible to apply for these new vouchers. In addition, the Senate bill funds 8,000 new vouchers for disabled persons.

greater than the reduction in the total level. Compared to last year's 79,000 new fair share vouchers, the Senate's level is a reduction of nearly 79 percent.

New vouchers are critical to ensuring that the problems faced by extremely low-income families in affording decent housing do not grow worse. Recently, the private housing market has lost 100,000 units per year that are affordable to extremely low-income families. By providing only 25,000 new vouchers, the Senate bill thus addresses less than one-quarter of the increased affordable housing needs of extremely low-income households for next year.

The Senate VA-HUD appropriations committee report defends its decision to fund fewer new vouchers than the number the Administration requested by arguing that "vouchers do not always provide the best opportunities for low-income families to obtain affordable housing," and that HUD has failed to address "inefficiencies" in the program.

Upon closer examination, however, this argument does not provide a rationale for the Senate's reduction of new vouchers below the Administration's request and below last year's level. It is certainly true that the shortage of rental housing is indeed so severe that some families given vouchers are unable to find apartments to rent with their vouchers. Yet even in these areas of extreme shortage, hundreds of thousands of families *already have housing,* but need vouchers to offset the excessive cost of that housing. More than three-fourths of the nearly five million households with what HUD considers to be "worst case" housing needs -- very low-income families that pay more than 50% of their income in rental costs or live in substandard housing -- occupy decent quality uncrowded housing that could be made affordable if they had housing vouchers. Furthermore, in most areas, there are sufficient rental housing vacancies to allow families without housing to find affordable housing if they have voucher assistance. Finally, and of particular note, nearly all vouchers *are* used: HUD recently reported that about 93 percent of vouchers were in use.

To be sure, the voucher program needs reform. In the last year, HUD has instituted a number of reforms to address specific reasons why families may be unable to use their vouchers. Most of these reforms give new authority to PHAs to increase the size of voucher payments, so that the voucher payment (in combination with the family's contribution) will be adequate to cover the rental costs of a large number of units that meet HUD's standard for quality. More remains to be done. It is ironic and deeply unfortunate that the Senate bill includes provisions (discussed below) that will have the unintended consequence of undercutting these very reforms and further reducing voucher utilization.

Senate Bill Reduces Section 8 Reserves Without Protecting PHAs From Budget Shortfalls

The Senate bill adopts the Administration's proposal to reduce the "Section 8 reserves" from $1.28 billion to $640 million. The Section 8 reserves provide additional funds to public housing agencies whose voucher program costs exceed their budget allocation in a given year.

The reserves currently ensure that PHAs may have two months of funding beyond their 12-month budgets; if a PHA approaches the final months of its fiscal year and needs more funds to pay landlords, it can request up to two months worth of additional funding from HUD.

The reserves are critical to the program's financing because HUD bases each PHA's annual budget *not* on its expected costs in the coming year but rather on its actual costs in the prior fiscal year or even two years earlier, plus an adjustment for inflation. Various factors, such as rising housing and utility costs, may cause a PHA's costs to be significantly higher than in the base year. For example, PHAs in tight housing markets may need to increase their payment standards (the amount of rent that a voucher payment subsidizes) to keep pace with escalating rents. In such cases, a PHA's budget allocation may be insufficient to pay landlords unless the PHA uses some of its reserve funds. Without adequate reserves, PHAs may be forced to reduce the number of families they serve (by not reissuing vouchers to new families when existing voucher-holders no longer use them).

Budget shortfalls can result from tight housing markets or other uncontrollable factors. They also may arise if PHAs are taking deliberate and appropriate steps to increase utilization of vouchers. Low voucher utilization occurs when families cannot use their vouchers to secure housing, usually because the voucher's subsidy is not large enough to cover adequately the cost of renting available units. In response to Congressional and other concerns regarding these problems, HUD has instituted new policies in the last year, aimed at increasing voucher utilization, to allow PHAs to increase the size of voucher payments in certain circumstances. As a result, many PHAs have new authority to increase the size of voucher payments. PHAs will be deterred from taking such steps, however, if they do not have access to adequate reserves, and anticipate as a result that increased voucher utilization could raise their costs enough to cause a budget shortfall.[4]

Historically, HUD has administered the reserves in such a way that each PHA gets its own "piece" of the reserve. HUD thus treats the reserves as though they are divided into 2,600 accounts (the number of PHAs that administer housing voucher programs), each containing two months worth of reserve funds. If HUD administers the reserves as it has in the past, it will divide the reduced reserve dollars into 2,600 portions equal to one month, rather than two months, worth of reserves — effectively halving the amount of reserve funds each PHA could access. A PHA whose costs exceed a one-month reserve thus would not have access to adequate reserves *even if other PHAs are not exhausting their reserves and significant total reserve funds remain unused nationally*.

This problem can be solved. If Congress is going to cut the Section 8 reserves in half, it should direct HUD to administer the reduced reserve funds in a way that ensures that PHAs needing more than one month of reserves can access additional funds. Congress could direct

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[4] For a more detailed explanation of the recent changes in HUD policies and other reasons why PHAs' costs may exceed their budgets in 2002, see Barbara Sard and Suzanne Walsh, "Reduction in Section 8 Reserves in House and Senate VA-HUD Bills Will Likely Reduce the Number of Families the Voucher Program Serves," Center on Budget and Policy Priorities, forthcoming in August 2001.

HUD to establish a "headquarters" reserve that could be used to supplement PHAs' individual reserves, ensuring that PHAs needing more than one month of reserves can access additional funds. HUD could finance a modest headquarters reserve by recapturing unused voucher funds more frequently from PHAs that do not need them, and using these recaptures to create and replenish a central fund. (PHAs' fiscal years end at various times throughout the calendar year. HUD could identify PHAs that have completed their fiscal years with unused voucher funds and recapture those funds well in advance of the end of the *federal* fiscal year. Currently, HUD recaptures unused funds annually, in August.) HUD also could finance such a reserve by setting aside a small portion of the $640 million as a headquarters fund and dividing the remainder among PHAs.

The Senate bill, however, does not authorize a central reserve or direct HUD to manage the reserve in such a way that PHAs will have access to adequate reserves. The Senate Committee report expresses concern about the potential impact of the reduction in Section 8 vouchers on voucher utilization, but then fails to take steps to address the very concerns the report appropriately raises.

Senate Bill Contains a Damaging Rescission

In addition to providing an inadequate level of new vouchers and cutting Section 8 reserves in half without taking steps to minimize the adverse consequences of such action, the Senate bill contains a rescission of unused Section 8 funds from FY 2002 and earlier years. In the past, Congress has rescinded certain amounts of unused voucher funds that it expects HUD to collect at the end of the fiscal year, as well as funds remaining in expired project-based Section 8 contracts.[5] (Each year HUD collects funds from PHAs that have been unable to use all of their voucher funds by the end of their fiscal year, as well as unused budget authority in expired contracts with private owners.) Because HUD uses recaptures as an additional funding stream for the Section 8 program, Congress normally rescinds only what it believes to be "excess" funds that HUD cannot otherwise use.

The Senate bill continues this practice by rescinding $615 million of unused Section 8 funds that HUD is expected to collect through fiscal year 2002. However, the Senate bill takes an additional, unprecedented step — it also rescinds *all* Section 8 funds that may be recaptured in the future from FY 2002 and prior years, beyond the specified $615 million, regardless of whether there may be other pressing needs for these funds within the Section 8 programs. Thus, the bill rescinds funds that may not truly be "excess" and reallocates them for other purposes. It also may be noted that only 20 percent of the recaptured Section 8 funds would be transferred to

[5] The Section 8 program has two components. The tenant-based or voucher program provides approximately 1.8 million subsidies, administered by public housing agencies (PHAs), that families can use to rent private housing that they locate. The project-based Section 8 program now houses about 1.1 million households, consisting primarily of elderly and disabled individuals, in privately-owned units selected by HUD or state agencies. Funding for the annual renewal of both components of the Section 8 program is contained in a single appropriation.

other housing programs. (The remaining 80 percent of the funds would be transferred to the National Aeronautics and Space Administration, which would receive the lion's share of these funds, and the National Science Foundation.)

Rescission Would Set the Stage for Future Reductions in the Section 8 Program

This open-ended rescission of all future recaptures sets the stage for a serious funding strain in the voucher program and possibly in the project-based Section 8 program as well. It also may lead to additional owners opting not to renew their Section 8 contracts if HUD does not have sufficient funds to make needed emergency adjustments in the funds that owners receive. The Administration strongly objected to the Senate bill's transfer of recaptured Section 8 funds for other purposes.[6]

HUD uses recaptured funds in part to finance the costs of the voucher program in the coming fiscal year. It also relies in part on recaptured funds to finance the renewal of expiring project-based Section 8 contracts and to make mid-term adjustments to these contracts for unanticipated cost increases. For example, HUD this year provided more than $75 million in additional funds to private owners with project-based Section 8 contracts to offset unanticipated utility cost increases. When it calculates how much funding to request from Congress to re-issue all existing vouchers and renew expiring project-based Section 8 contracts, HUD assumes that a portion of recaptured Section 8 funds will be used to fund vouchers and project-based Section 8 renewals in the coming fiscal year. Under the Senate provision, HUD would lose this funding source and could not use recaptures to offset costs of the Section 8 program in the coming fiscal year. Congress thus would need to appropriate more money than would otherwise be the case simply to maintain the size of the Section 8 programs.

This increased funding pressure could, in turn, squeeze new vouchers out of future appropriations bills. HUD will require a larger direct appropriation from Congress simply to fund renewal vouchers and project-based Section 8 contracts. Unless Congress expands the overall pot of funds for the Section 8 program in the future, fewer funds would be available to provide new vouchers. If that occurred, the voucher program would be unable to keep pace with the housing needs of low-income families, which continue to grow as the affordable private housing stock shrinks.

Rescission Would Deprive HUD of a Tool to Mitigate Impact of Reductions in Reserves

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[6] The Statement of Administration Policy on the Senate committee bill, S. 1216, states:

> [T]he Administration strongly objects to a provision in the bill that transfers the HUD Housing Certificate Fund and Annual Contributions for Assisted Housing unobligated balances for FY 2002 and prior years, on a pro-rata basis, to a variety of science and housing programs. Determinations concerning the use of such balances are inappropriate when made separate from the development of the President's budget.

The reductions in Section 8 reserves, combined with the rescission of all Section 8 recaptures, could cause damage to the Section 8 voucher program. As noted above, the potentially harmful effects of cutting the Section 8 reserves by $640 million could be mitigated if the Senate bill were to include language calling for management of the reserves so the reserves could be allocated to those PHAs that need the funds. As also discussed above, one way for HUD to ensure adequate reserves is to use a more-frequent recapture process to create and replenish a central fund for those PHAs that need more than one month of reserves. Such an approach would not require any additional budget authority, since recaptures represent previous years' unused budget authority. The provision of the Senate bill that creates an open-ended rescission of Section 8 funds, however, may make such an approach impossible to use. By rescinding *all* future recaptured Section 8 funds, the Senate bill effectively blocks HUD from using more frequent recaptures as a way to ensure that unused voucher funds can be accessed by PHAs that otherwise will have inadequate reserve funds as a result of the $640 million reduction in the reserves.

80 Percent of Rescinded Section 8 Funds Would Be Transferred to Non-Housing Programs

The Senate bill would transfer all rescinded Section 8 funds (above the rescission of $615 million already specified in the bill) to four other accounts on a "pro rata" basis. Two of these are housing accounts. The other two are the National Aeronautics and Space Administration and the National Science Foundation. Since 80 percent of the total funds that the VA-HUD bill appropriates for these four accounts go to NASA and NSF, 80 percent of the rescinded Section 8 funds would go to these programs rather than to meet the housing needs of poor households that lack affordable housing. NASA alone would receive 55 percent of the rescinded Section 8 funds.

Conclusion

Section 8 vouchers are a critical source of housing assistance for extremely low-income families, particularly families with children, which face the most acute housing needs of any segment of the population. New vouchers are needed to prevent these families' needs for affordable housing from growing worse. Policies also are needed to increase voucher utilization and ensure the voucher program serves families more effectively, rather than hindering such efforts.

The Senate VA-HUD bill's level of new vouchers is inadequate to address the housing needs of poor families. It is lower than the level the Administration requested and the House of Representatives provided. The Senate bill also contains provisions that are likely to have the unintended effect of weakening the financing of the Section 8 program, undercutting recent Section 8 reforms and decreasing voucher utilization, and reducing the number of families the Section 8 program serves.