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HIGH STAKES FOR THE HOUSING VOUCHER PROGRAM IN THE 2006 APPROPRIATIONS BILL

Senate Bill's Proposed Funding Policy Would Distribute Funding More Efficiently and Restore Program Stability

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Executive Summary

Since 2002, Congress and HUD have implemented a series of substantial changes in funding policy for the “Section 8” Housing Choice Voucher Program. These changes have been driven in part by concerns over the rising costs of the program. Those concerns have been overblown, according to an analysis of HUD’s recent voucher cost data. Moreover, the year-to-year changes in funding policy, along with a funding shortfall in 2005 and, at times, poor implementation by HUD, have produced a series of troublesome effects: funding instability and shortages among state and local housing agencies, a decline in the number of vouchers leased, and growing fears among landlords that the program is unreliable. The results have been damaging to the voucher program, as well as to the two million low-income families that rely on voucher assistance.

Congress’ challenge for fiscal year 2006 is to restore stability to the voucher program. This challenge includes two major goals: first, to restore funding for vouchers that have been lost in 2004 and 2005; and second, to implement a stable voucher funding policy that will distribute funding to public housing agencies equitably and efficiently over the long term.

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To their credit, both the House and Senate Appropriations Committees have acknowledged these challenges, and have attempted to meet them in their HUD funding bills for 2006. Both bills would provide a sizeable increase in voucher funding in 2006, with the goal of restoring at least some of the voucher funding that was lost in 2005. In addition, each bill proposes modifications of funding policy for 2006 that aim, at least in part, at improving upon the shortcomings of the past few years.

Our analysis of recent HUD data shows that, while the House bill falls far short of these goals, the Senate bill – and, in particular, the Senate-proposed voucher funding policy – would provide a solid foundation for the efficient distribution of voucher funding in coming years. Our key findings are as follows:

- **Restoring lost vouchers would require an appropriation of \$14.3 billion for voucher renewals in 2006.** By our estimate, funding is needed for approximately 2,055,000 vouchers in 2006 to restore the vouchers in use in 2004 and to provide renewal funding for new vouchers issued in 2005 to families that have lost other forms of federally-assisted housing. (Such vouchers are known as “tenant-protection vouchers.”) It is important to note that **Congress could provide full funding for voucher renewals while remaining within the President’s proposed overall budget of \$15.8 billion for tenant-based voucher assistance.**
- **The funding levels of the House and Senate HUD spending bills for 2006 would restore most, but not all, of the 75,000 vouchers that were left unfunded in 2005.** The House and Senate bills (HR 3058) would provide \$14.19 billion and \$14.09 billion, respectively, to renew housing vouchers. If the funding were distributed efficiently, the Senate funding level would restore funding for all but about 32,000 vouchers in 2006. The additional \$100 million provided by the House bill would restore an additional 14,000 vouchers left unfunded in 2005. That analysis assumes, however, that the renewal funding would be distributed efficiently to the housing agencies that need it most, which would not be the case under the funding policy proposed in the House bill.
- **Although both the House and Senate bills propose budget-based voucher funding policies, the formula proposed in the Senate bill would distribute voucher funding among housing agencies more efficiently and would set a better foundation for long-term renewal policy.** The Senate bill would distribute voucher renewal funding based on the actual leasing rates and voucher costs of housing agencies over the most recent 12-month period. Under this approach, funding would be more likely to be distributed to agencies that need it to renew vouchers currently being used. In contrast, the voucher renewal formula proposed in the House bill would base funding on out-of-date leasing and cost data, and effectively convert voucher funding into an inflation-adjusted block grant. Under this formula, agencies would be less likely to receive a share of funding that matches their actual leasing rates and costs.

Our analysis of the HUD data shows that, under the House-proposed funding policy, some 541 state and local housing agencies *would be overfunded by a total of \$79 million*, while more than 1,000 agencies would be left underfunded, *placing at risk nearly 28,000 vouchers currently in use*. The inefficiency of the House formula also would result in every state and local agency’s funding *being prorated by more than 2 percent, nearly 10 times the rate that would be required under the Senate formula* (assuming the higher House funding level is applied to each bill’s funding formula).

- **The most recent Voucher Management System (VMS) data from HUD show that the growth in the average cost of vouchers peaked in 2003, and has since declined for seven consecutive quarters through January 2005**, the last month for which we have data. The average cost of a voucher grew by less than 0.1 percent over the six months ending in January 2005, and by only 2.1 percent over the previous year, well below the overall rate of inflation. This trend should ease Congress’ concerns about voucher costs, allowing Members to focus on the two remaining challenges – restoring vouchers lost in 2004 and 2005, and putting into place a stable voucher funding policy that will distribute funding equitably and efficiently.

- **While the Senate has taken the critical step of basing voucher renewal funding on the most recent 12 months of leasing and cost data, further improvements would help agencies meet their commitments to landlords and families.** Funds should be made available to agencies during the funding year to cover costs associated with allowing families to benefit from the “portability” feature of housing vouchers. In addition, steps should be taken to assist agencies in restoring their reserves. Finally, funding adjustments should be allowed in special circumstances — such as an existing commitment to “project-base” vouchers — to support vouchers that were not fully in use during the base period used to determine annual funding. These recommendations are discussed in more detail below.

A table comparing the key provisions of the two bills and the final fiscal year 2005 appropriations bill is included as Appendix 1.

Appendix 1: Summary of Analysis of Voucher Provisions of House and Senate FY 2006 Bills

| Key Features of the Bills | FY 2005 | House Bill | Senate Bill |
|--|--|---|--|
| Voucher renewal funding | \$13.36 billion | \$14.19 billion | \$14.09 billion |
| Tenant Protection vouchers | \$162 million | \$166 million | \$192 million |
| Administrative fees | \$1.200 billion | \$1.225 billion | \$1.295 billion |
| Total tenant-based account | \$14.7 billion | \$15.6 billion | \$15.6 billion |
| Voucher funding formula | Budget-based; determined by agency's average leasing and voucher costs during May – July 2004. | Budget-based; determined by each agency's share of renewal funding in FY 2005. | Budget-based; determined by agency's average leasing and voucher costs during the most recent 12-month period. |
| Voucher funding adjustments available to state and local housing agencies | For first-time renewal of "tenant-protection" or HOPE VI vouchers. | (1) Up to \$45 million for agencies harmed in 2005 because their average costs for FY 2004 were higher than during May – July 2004. (2) Same as FY 2005. | Same as House bill. |
| Renewal of Section 811 Mainstream Vouchers | Included in Section 811 account. | Included in Section 811 account. | Included in Tenant-based Rental Assistance account, with potential to deepen shortfalls. |
| CBPP Analysis of the Bills | | | |
| Vouchers cut in 2005 and left unfunded in 2006 | 75,000 | 18,200 | 32,600 |
| Total vouchers funded (subtracting wasted vouchers) | 1,968,300 | 2,036,800 (2,025,100) | 2,022,400 (2,020,200) |
| Amount of funding wasted because formula would overfund some agencies | Likely some, but amount undetermined | \$79 million (equivalent to 11,660 vouchers) | \$15 million (equivalent to 2,250 vouchers) |
| Vouchers in use cut because formula would underfund some agencies* | | 27,900 | 6,000 |
| Agencies facing voucher cuts because of underfunding* | | 1,013 agencies administering 47 percent of vouchers | 629 agencies administering 27 percent of vouchers |
| Agencies facing significant cuts (at least 50 vouchers or 5 percent of vouchers in use)* | | 387 agencies administering 29% of vouchers | 54 agencies administering 11% of vouchers |
| Cost of full funding of bill's formula | \$13.92 billion | \$14.56 billion | \$14.25 billion |
| Funding proration required under the funding formula* | 4.08 percent | 2.13 percent | 0.22 percent |
| Agencies that would receive funding for more vouchers under the funding formula* | | 833 agencies, administering 31 percent of vouchers | 1,148 agencies administering 53 percent of vouchers |
| *For the purpose of making a fair comparison of the effects of the different voucher funding policies proposed in each bill, these figures assume that \$14.19 in renewal funding is applied to each bill's voucher funding formula. | | | |

National Summary Table

The table below displays estimates of the number of vouchers that housing agencies in each state would need to cut under the 2006 HUD funding bills passed by the U.S. House of Representatives and by the Senate Appropriations Committee. The key national findings are:

- Under the **House bill**, housing agencies would have to cut **27,900 vouchers**.
- Under the **Senate bill**, housing agencies would have to cut **11,900 vouchers**.

The cuts would occur at the same time that other agencies would receive more funding than they need to cover vouchers now being used. Indeed, because of a flawed formula the House bill would provide many agencies with more funding than they need to cover all of the vouchers they are legally permitted to issue. Because of this waste, the House bill imposes larger cuts even though it provides more funding for voucher renewals than the Senate bill.

- If the **Senate bill were funded at the same level as the House bill**, housing agencies would have to cut **6,000 vouchers**.

For further information on the potential cuts and other issues raised by the House and Senate bills, see <http://www.cbpp.org/8-24-05hous.htm>.

| State | Total Authorized Vouchers | Vouchers in Use Assisting Families According to Recent HUD Data | Reductions in Families Assisted at Agencies Facing Cuts in 2006 | | |
|----------------------|---------------------------|---|---|-------------|---|
| | | | House Bill | Senate Bill | House Funding Level with Senate Formula |
| Alabama | 29,510 | 27,256 | -482 | -298 | -164 |
| Alaska | 4,089 | 3,994 | -233 | -81 | -54 |
| Arizona | 20,308 | 19,355 | -157 | -123 | -67 |
| Arkansas | 22,673 | 21,545 | -352 | -131 | -71 |
| California | 295,469 | 289,580 | -1,591 | -598 | -215 |
| Colorado | 27,905 | 27,181 | -490 | -170 | -58 |
| Connecticut | 34,946 | 32,814 | -600 | -209 | -116 |
| Delaware | 4,264 | 4,078 | -24 | -12 | -5 |
| District of Columbia | 10,147 | 10,147 | -216 | -94 | -22 |
| Florida | 90,079 | 84,569 | -1,143 | -870 | -572 |
| Georgia | 50,349 | 48,369 | -864 | -226 | -65 |
| Hawaii | 12,029 | 10,347 | -231 | -127 | -85 |
| Idaho | 6,463 | 6,267 | -240 | -118 | -75 |
| Illinois | 90,529 | 86,213 | -1,340 | -639 | -231 |
| Indiana | 37,429 | 34,671 | -577 | -218 | -109 |
| Iowa | 21,518 | 20,628 | -211 | -60 | -12 |
| Kansas | 11,666 | 10,549 | -261 | -59 | -31 |
| Kentucky | 31,910 | 30,864 | -717 | -195 | -78 |
| Louisiana | 38,198 | 34,404 | -585 | -232 | -130 |
| Maine | 12,339 | 11,708 | -114 | -23 | -9 |
| Maryland | 39,658 | 37,763 | -516 | -230 | -82 |
| Massachusetts | 71,393 | 69,265 | -722 | -244 | -85 |
| Michigan | 49,428 | 44,039 | -359 | -120 | -65 |
| Minnesota | 30,643 | 29,114 | -181 | -82 | -66 |
| Mississippi | 18,472 | 17,194 | -199 | -92 | -65 |
| Missouri | 41,056 | 37,994 | -381 | -147 | -77 |
| Montana | 5,683 | 5,426 | -15 | -8 | -5 |
| Nebraska | 11,501 | 10,850 | -138 | -43 | -14 |

| State | Total Authorized Vouchers | Vouchers in Use Assisting Families According to Recent HUD Data | Reductions in Families Assisted at Agencies Facing Cuts in 2006 | | |
|----------------|---------------------------|---|---|-------------|---|
| | | | House Bill | Senate Bill | House Funding Level with Senate Formula |
| Nevada | 12,100 | 11,576 | -71 | -38 | -5 |
| New Hampshire | 9,076 | 8,775 | -35 | -17 | -2 |
| New Jersey | 64,725 | 61,430 | -899 | -394 | -276 |
| New Mexico | 13,910 | 13,077 | -107 | -88 | -46 |
| New York | 207,957 | 197,973 | -4,545 | -2,176 | -1,220 |
| North Carolina | 54,979 | 52,675 | -624 | -272 | -155 |
| North Dakota | 7,460 | 7,155 | -81 | -43 | -20 |
| Ohio | 87,332 | 82,953 | -717 | -265 | -95 |
| Oklahoma | 22,823 | 22,378 | -908 | -137 | -38 |
| Oregon | 31,081 | 30,151 | -387 | -221 | -146 |
| Pennsylvania | 82,254 | 78,509 | -1,303 | -515 | -205 |
| Puerto Rico | 30,333 | 27,451 | -543 | -250 | -140 |
| Rhode Island | 9,426 | 8,312 | -227 | -119 | -94 |
| South Carolina | 24,031 | 22,773 | -424 | -127 | -76 |
| South Dakota | 5,769 | 5,476 | -67 | -40 | -15 |
| Tennessee | 31,286 | 29,578 | -293 | -99 | -24 |
| Texas | 140,834 | 134,765 | -2,165 | -743 | -388 |
| Utah | 10,293 | 9,843 | -62 | -34 | -15 |
| Vermont | 5,682 | 5,544 | -7 | -6 | -2 |
| Virginia | 44,358 | 40,846 | -475 | -147 | -76 |
| Washington | 44,955 | 43,825 | -546 | -337 | -138 |
| West Virginia | 14,788 | 13,860 | -155 | -112 | -62 |
| Wisconsin | 27,996 | 26,783 | -257 | -229 | -139 |
| Wyoming | 2,208 | 2,052 | -50 | -2 | -2 |
| U.S. Total* | 2,109,372 | 2,007,517 | -27,889 | -11,866 | -6,004 |

*National totals include U.S. territories that are not listed on the table.

Note on Estimates: Estimates of reductions at agencies facing cuts are calculated from projections of average voucher costs and the number of authorized vouchers that will be in use in 2006 based on data through January 2005. Estimated cuts in assistance reflect reductions below the average number of authorized vouchers in use from May 2004-January 2005, the most recent 9 months for which data are available. The data shown in the table on the number of authorized vouchers are from July 2005.

In some cases, housing agencies could respond to funding reductions by cutting assistance through steps other than reducing the number of families assisted, but these steps would also harm low-income families. For example, agencies could reduce the amount of rent a voucher can cover, but this would make it more difficult for families to rent apartments outside the lowest-rent neighborhoods — which often have high crime, poor schools, and few jobs. For additional information on the assumptions used in making these estimates, see the technical appendix available on the internet at <http://www.cbpp.org/8-24-05hous.htm>.