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

Technical Appendix

This appendix describes the sources and methods used to obtain the estimates that appear in the body of this analysis. It discusses the following topics:

- Authorized and expiring voucher totals;
- Actual voucher funding in 2005;
- Voucher funding needs in 2006;
- Voucher funding under the 2006 HUD appropriations bill passed by the House of Representatives; and
- Voucher funding under the 2006 HUD appropriations bill passed by the Senate Appropriations Committee.

In each of these areas, we often used different methods to arrive at estimates for two groups of state and local housing agencies that administer vouchers. First, since 2003, HUD has determined funding levels for most housing agencies based on the number of their authorized vouchers in use and the cost of those vouchers, according to data for some period of time drawn from HUD's Voucher Management System (VMS).[1] The VMS contains data on the number of leased vouchers and subsidy payments to owners that agencies submit to HUD each quarter. At the time we carried out this analysis, we had access to VMS data covering the period through January 2005. Many of our estimates for "VMS-funded agencies" make use of those data.

[1] In some cases, VMS data were missing in one or more quarters for agencies that were required to submit the data. In these cases, we projected costs and utilization using data submitted by the agency for an earlier quarter and assumed that the agency's subsequent costs and utilization grew at the average rate reported for the same quarter at agencies with complete data. In other cases, agencies reported extremely high or low per-unit costs or utilization rates, indicating that the data were likely to be erroneous. In these cases, we adjusted the data in the same manner as for agencies with missing data or based on information on the agency's voucher program obtained from the agency.

A second group of agencies receives funding for some or all of their vouchers based on special agreements established as a result of their participation in the Moving-to-Work (MTW) Demonstration program. These agreements typically provide the agency with funding for all of the vouchers covered, rather than simply for those that are in use. For agencies with separate MTW funding agreements covering most or all of their vouchers, VMS data in many quarters are unavailable or unreliable as indicators of costs or funding levels in the agencies' full voucher programs. For these agencies, we usually were required to make estimates based on sources of data other than the VMS system.[2]

Our 2006 estimates necessarily rely on projections of the average cost of vouchers and, to a lesser extent, the proportion of authorized vouchers that agencies could put to use if they had adequate funding. Voucher cost and utilization rates are determined by a wide range of factors, including housing market trends in local areas around the country, and are consequently difficult to predict with precision. To the extent that actual cost and utilization rates in 2006 are higher or lower than those we assumed in this analysis, the effects of the House and Senate bills will differ as well.

Authorized and Expiring Vouchers

We estimate that the number of authorized vouchers was about 2,096,000 in January 2005 and 2,109,000 in July 2005. For most agencies, we estimated the number of authorized vouchers using data from HUD's Resident Characteristics Report (RCR) database that were downloaded in those months. For some state or local agencies, we relied on information on the number of authorized vouchers we received directly from the agency. As is discussed below, we adjusted the January 2005 figure in some cases where the RCR data were inconsistent with the amount of funding HUD provided to the state or local agency for 2005. In cases where the July authorized voucher data fell below the January 2005 authorized voucher data, we assumed that the July figure was incorrect (unless we obtained information to the contrary from the agency) and used the January 2005 figure in its place.

We estimated that the number of these vouchers that will "expire" in 2005 is 2,084,000. By "expiring" vouchers, we mean those vouchers whose costs must be covered by 2005 voucher renewal funds (as opposed to separately appropriated tenant protection voucher funds, which cover the cost of new tenant protection vouchers for 12 months after they are awarded). Congress provides new tenant protection vouchers each year to help ensure that families losing other federal housing subsidies continue to have an affordable place to live.

We estimated the number of full-year equivalent vouchers that would be covered by tenant protection voucher funds in 2005 by comparing each agency's estimated number of authorized vouchers in January 2005 to estimates of the number of authorized vouchers in 2004 drawn from RCR and other sources. We assumed that vouchers that first appeared in authorized voucher data in

[2] From time to time, some agencies cease to operate under special MTW funding agreements and begin to be funded through the VMS system, due to the end of their participation in MTW or to a change in the funding component of their MTW agreement with HUD, while other agencies enter into these special MTW funding agreements for the first time. Based on the available information, it appears that 16 agencies received special MTW funding for most of their vouchers in 2004, while 18 are currently slated to receive primarily special MTW funding in 2006 (including five agencies first receiving special funding under MTW in 2005 or 2006).

the first half of 2004 would, on average, exhaust their first-year new funding from the tenant protection account by April 2005, and consequently require 9 months of funding from 2005 renewal funds. These vouchers are counted as 75 percent of a voucher in our 2005 expiring voucher count. For vouchers that first appear to have been authorized in the second half of 2004, we assumed that first-year tenant protection funds would be exhausted by October 2005; for these vouchers, 3 months of 2005 renewal funding would be needed and the voucher is counted as 25 percent of an expiring voucher.[3]

In 2006, we estimate that 2,108,000 vouchers will expire. In addition to the 2,096,000 vouchers that were authorized in January 2005, this includes a portion of the tenant protection vouchers that HUD issued during calendar year 2005 and a small number of vouchers previously funded under multi-year contracts (see n. 3.). The Budget Justifications for 2006 that HUD provided to Congress earlier this year indicate that HUD planned to award 23,813 new tenant protection vouchers in 2005. Based on a comparison of our estimates of the number of vouchers authorized at individual agencies in July 2005 and January 2005, we estimated that about 13,500 of these tenant protection vouchers were issued by July 2005. We assumed that these vouchers would, on average, exhaust the 12 months of initial funding provided in 2005 by April 2006, and would consequently require 9 months worth of 2006 renewal funding. We assumed that vouchers that did not appear in the July 2005 authorized voucher data would require 3 months worth of 2006 renewal funding.

Vouchers Funded in 2005

The paper includes an estimate that the vouchers that require funding in 2006 include 75,000 vouchers for which renewal funding was cut in 2005. This estimate is made up of two components: (1) an estimate that the actual renewal funding level provided in 2005 left unfunded about 55,000 vouchers that HUD had determined eligible for 2005 renewal funding under the Congressionally-prescribed formula; and (2) an estimate that an additional 20,000 vouchers that agencies used during part of 2004 were ineligible for funding under the formula because they were not in use during the snapshot period from May-July 2004.

Vouchers Eligible Under 2005 Funding Formula

Congress instructed HUD to determine the number of vouchers that state and local housing agencies would be eligible to receive funding for in 2005 based on the number of authorized vouchers in use in May-July 2004 plus an adjustment for the first-time renewal of tenant protection vouchers. The fiscal year 2005 appropriations bill also directed HUD to set the per-voucher funding level by inflating each agency's May-July 2004 per-unit cost by a HUD-determined regional rent inflation factor called the "Annual Adjustment Factor" (AAF). In addition, adjustments to per-units costs were made in some cases for tenant protection vouchers with unusually high costs. HUD has not released national data showing the details of the 2005 funding calculations, but it has released a list showing the funding levels for which each agency was determined to be eligible and the amount

[3] In addition to vouchers covered by new tenant protection funds, some authorized vouchers do not expire in a particular year because they continue to be covered by funds allocated under long-term contracts in earlier years. A June 2004 HUD document indicates that across all agencies 1,580 vouchers will be funded in 2005 under multi-year contracts from previous years. In 2006, this figure will fall to 426 vouchers.

the agency was due to actually receive after HUD prorated the allocations for each agency due to a funding shortfall.

For VMS-funded agencies, we estimated the number of vouchers that were eligible for funding in 2005 by dividing each agency's pre-proration funding level by the agency's average May-July 2004 per-unit cost according to VMS data inflated by the 2005 AAF for the region. In cases where this calculation yielded an estimated number of vouchers funded that was above the number of vouchers HUD data showed the agency was authorized to administer in January 2005 — an impossible result if HUD calculated funding properly — we made adjustments to either the per-unit cost estimate or the number of authorized vouchers to reconcile the conflicting data sources.

Because we did not have access to information on the details of HUD's calculations, we determined whether to adjust the per-unit cost or the number of authorized vouchers based on the size of the discrepancy. For agencies where the estimates of vouchers funded exceeded the number of authorized vouchers by 5 percent or less, we assumed that this reflected an adjustment to the agency's per-unit cost. In cases where estimates of the vouchers funded exceeded the number of authorized vouchers by more than 5 percent, we assumed that it reflected an adjustment or lag in the data on the number of vouchers the agency was authorized to administer, and adjusted the agency's authorized voucher total accordingly. We made adjustments in this manner because we would generally expect per-unit cost adjustments to be smaller than adjustments in the number of units, which may result from the replacement with tenant protection vouchers of an entire building previously funded through another housing assistance program.

Most agencies with special MTW funding agreements for some or all of their vouchers receive renewal funding for all of their expiring vouchers covered by the agreement. For these agencies, we assumed that the number of vouchers eligible for funding in 2005 was equal to our estimate of the agency's number of expiring vouchers. Some housing agencies that first entered special MTW funding agreements in 2005 or part way through 2004 received funding based on the number of vouchers actually in use during some period in 2004 (rather than for all expiring vouchers). For these agencies we assumed that the number of vouchers eligible for funding in 2005 equaled the number of vouchers in use in May-July 2004.[4]

Based on this analysis, we estimated that the number of vouchers eligible for funding under the 2005 funding formula was about 2,022,560. This is 97.03 percent of the total of 2,084,000 authorized vouchers that we estimate were due to expire in 2005. The average per-unit cost that HUD used to determine the funding provided for these vouchers was $6,884. This figure includes administrative funding that is provided to agencies with special MTW funding agreements that receive administrative and voucher renewal funding together in a single lump sum. For most agencies, administrative funding is provided through a separate funding allocation.

[4] In some cases we did not have detailed information on the funding method used under an agency's MTW agreement. In all of the cases for which we have detailed information, agencies that entered MTW agreements before 2005 receive funding for all of their expiring MTW vouchers, so we assumed that this was the case for other agencies that were funded under special MTW funding arrangements before 2005. It appears that the practice of setting MTW funding levels based on recent utilization has only been used for agencies that first received funding under special MTW agreements in 2005, so in cases where we lacked detailed information, we assumed that utilization-based funding was used only for agencies that entered special funding agreements after 2005.

Vouchers Actually Covered by 2005 Renewal Funding

The number of vouchers that will be covered by 2005 renewal funding will differ from the number eligible for funding for two reasons. First, the proration HUD applied due to funding limitations reduced the amount of funding it provided to each state and local housing agency by 4.083 percent below the amount the agency was eligible for. At the per-unit costs HUD used to set 2005 funding levels (based mainly on May-July 2004 data adjusted by the AAF) this proration would have reduced the number of vouchers funded by about 80,000 vouchers.

More recent VMS data, however, show that from August 2004 to January 2005 voucher costs grew much more slowly than the AAF. As a result, even if costs grow by the AAF through the rest of the year, average voucher costs in 2005 will still be well below the average cost HUD used to set 2005 funding — and the number of vouchers left unfunded in 2005 is likely to be significantly less than 80,000.

To estimate the number of vouchers that will actually be covered by 2005 voucher renewal funding, we divided each agency's post-proration funding level by a projection of the agency's per-unit cost in 2005. Since we only had access to VMS data through January 2005, for VMS-funded agencies we generally estimated average per-unit costs for 2005 by applying six months worth of the regional AAF to the agency's per-unit cost for November 2004-January 2005.[5] The national weighted-average AAF in 2005 is 3.4 percent; the inflation factor we applied for the roughly half-year interval from the mid-point of the November 2004 – January 2005 quarter to the mid-point of the 2005 calendar year was approximately 1.7 percent on a national basis.

Because reliable cost and utilization data generally were not available for agencies that were funded through special arrangements under MTW demonstration agreements, we assumed for these agencies that the actual per-unit cost would equal the pre-proration funding they were eligible to receive divided by the number of their expiring vouchers.

We then calculated the number of vouchers funded at each housing agency by dividing the agency's actual funding level by our estimate of its 2005 per-unit cost, and capping this figure by the number of vouchers we estimate were due to expire in fiscal year 2005. Based on this analysis we estimate the number of vouchers actually covered by 2005 renewal funding will be about 1,968,000. This falls about 55,000 vouchers short of the number of vouchers HUD determined were eligible for funding.

The analysis also contains an estimate that the actual national average per-unit cost in 2005 will be $6,785 (including administrative fees for MTW agencies paid out of renewal funds). This figure uses

[5] In cases where the November 2004-January 2005 per-unit cost was at least 5 percent below the agency's August-October 2004 per-unit cost, we instead used the average per-unit cost from August 2004-January 2005. We did this because for many such agencies the VMS data for November and December 2004 reported sharp drops in total costs but not in units leased (suggesting that these figures may have been distorted by a year-end fiscal reconciliation process). It therefore appeared that average costs over the last six months for which data were available would provide a more reliable basis for projecting costs forward than data from November-January alone. The 2005 AAFs are available on the Internet at http://www.hud.gov/offices/pih/programs/hcv/863.pdf.

the same estimate of each agency's actual 2005 per-unit cost discussed in the preceding paragraphs, but is weighted based on the number of vouchers we estimate will be in use at each agency in 2005.[6]

Vouchers Cut Due to Use of Snapshot

The other component of the 75,000 voucher cut estimate is an estimate that renewal funding for 20,000 vouchers in use during part of 2004 was cut due to the use of the May-July 2004 snapshot period to determine 2005 funding. We estimated the cut due to the use of the snapshot based on the difference between the utilization level for an agency in the snapshot period and the higher of two other figures (both capped by the number of vouchers the agency was authorized to administer in January 2005):

- The number of the agency's vouchers in use according to the most recent nine months of VMS data available (covering the period from May 2004 to January 2005); and

- The number of an agency's vouchers that were in use during the agency's 2004 fiscal year.

The inclusion of this last figure was necessary because for some housing agencies, the May-July 2004 period on which HUD based 2005 funding levels happened to coincide with a dip in utilization at the agency. Counting data for the agency's full fiscal year smoothes out such quarterly fluctuations, and provides a more accurate indication than the May-July 2004 data of the number of vouchers that an agency could have used in 2005 if adequate funding had been available.[7]

Voucher Funding Needed in 2006

To estimate the funding needs of the voucher program in 2006, we estimated the number of expiring vouchers that could be used if full funding were provided. Funding shortfalls at many agencies in 2004 and 2005 made it inappropriate to use either the number of vouchers for which an agency was eligible to receive funding in 2005 or an agency's recent utilization level *alone* as the 2006 "full funding level." Instead, we assumed that the full-funding number of vouchers for an agency funded through VMS is equal to the highest of:

- The number of the agency's vouchers in use according to the most recent nine months of VMS data available (covering the period from May 2004 to January 2005);

- The number of vouchers that our estimates indicate HUD determined were eligible for renewal

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[6]For this purpose, we estimated 2005 utilization by assuming that the same number of authorized vouchers will be in use at each agency as were in use during November 2004-January 2005. Weighting based on the number of vouchers most recently in use is a more appropriate way to estimate the national average actual per-unit cost in 2005 than weighting based on the number of vouchers funded, because more vouchers will be in use in 2005 at some housing agencies than are covered by renewal funds (in part because some agencies have access to program reserve funds that could cover the costs of some vouchers), while other agencies will not be able to use all of the vouchers that their funding would potentially cover.

[7] As is discussed later in this appendix, the 2006 HUD appropriations bills approved by the House and the Senate Appropriations Committee both provide adjustments for agencies with higher voucher use in their 2004 fiscal years than in the May-July 2004 snapshot.

funding in 2005, before the 4.083 percent proration was applied; or

- The number of an agency's vouchers that were in use during the agency's 2004 fiscal year.

In cases where the highest of these figures exceeded an agency's total number of authorized vouchers in January 2005, we used the agency's authorized voucher level as the 2006 full-funding level. In all other cases, our estimated "full-funding" level would fund less than 100 percent of an agency's vouchers, consistent with the fact that few agencies have used all of their vouchers in past years. (HUD considers an agency to be "fully utilized" if it uses 98 percent of its authorized vouchers.)

For agencies with special MTW funding agreements, we assumed that the full-funding voucher number in 2006 was equal to our estimate of the agency's pre-proration number of units funded in 2005, plus an upward adjustment for any vouchers that were authorized in January 2005 but were covered by tenant-protection voucher funds for all or part of 2005.

In addition to the full-funding levels we estimated based on utilization numbers at individual agencies, the number of vouchers requiring funding in 2006 includes the 12,700 full-year-equivalent tenant protection vouchers awarded during calendar year 2005 that will expire in 2006. We did not seek to assign these vouchers to individual agencies, because information regarding which specific agencies received or will receive them is incomplete.[8]

We assumed that for each agency per-voucher costs in 2006 will rise by 2.7 percent, the inflation rate estimated by the Congressional Budget Office, above the per-unit cost that we projected for the agency in 2005. Using the resulting per-unit costs and the full-funding number of vouchers for each agency, we estimated that the total full-funding level for voucher renewals in 2006 will be $14.34 billion, and the average per-unit cost (including administrative fees for MTW agencies paid out of renewal funds) will be $6,967.[9]

Voucher Funding Under the House-Passed HUD Appropriations Bill

The HUD appropriations bill passed by the House provides $14.19 billion for voucher renewals. Using the 2006 average cost of $6,967 discussed above, we estimate that if those funds were distributed efficiently to housing agencies that could use them, they would support 2,036,800 vouchers. The rules for distributing vouchers under the House bill, however, would provide some agencies with more funds than they can use, because the funding level would exceed the amount the agency needs to support all of its authorized vouchers. Consequently, the number of vouchers the House bill would actually fund would be only about 2,025,000.

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8 As is discussed later in this appendix, some tenant protection vouchers issued in 2004 or before may not be fully accounted for in any of the three figures we used to estimate "full funding." We did not make an adjustment for these vouchers, because the number of such vouchers not included in the *highest* of the three figures is likely to be small on a national basis.

9 Some of the 2006 estimates in our analysis apply only to VMS agencies. For these estimates we used either the per-unit costs we projected for the affected individual agencies or the estimated average 2006 per-voucher cost without MTW administrative fees, which is $6,918.

House Formula Funding

Under the House bill, HUD would distribute funds to state and local housing agencies through two different mechanisms: $14.145 billion distributed through a primary funding formula and $45 million distributed through an adjustment fund. The funding formula in the House bill would allocate to each agency an amount of funding equal to the agency's 2005 funding level before the 4.083 percent pro-ration, inflated by the regional AAF and adjusted to cover the cost of newly expiring tenant protection vouchers.

In the event that the amount for which housing agencies are eligible under the formula exceeds $14.145 billion, the bill instructs HUD to pro-rate the funding levels for every agency to bring the total distributed within the cap. We estimated that housing agencies would be eligible for $14.452 billion in funding under the primary formula, requiring a proration of 2.13 percent in order to meet the cap. (The estimate in the paper that funding eligibility under the House bill would total $14.56 billion adds together this $14.452 billion figure with our estimate of eligibility under the adjustment fund, discussed below.)

The estimate that the House formula would set a pre-proration funding level of $14.452 billion consists of two components: funds agencies are eligible for based on their 2005 pre-proration funding level adjusted for inflation and funds to cover costs for newly expiring tenant protection vouchers. The total 2005 pre-proration funding level was $13.923 billion. AAFs for 2006 are not yet available; we assumed that the national AAF would be 2.7 percent. (This AAF rate is the same as the voucher cost inflation rate we assumed for 2006, based on CBO's estimate.) Inflating the $13.923 billion funding level for 2005 by 2.7 percent yields a 2006 funding level of $14.345.

Agencies will need renewal funding in 2006 for newly expiring tenant protection vouchers for two reasons. First, the twelve months of initial tenant protection voucher funding previously provided for new vouchers issued during 2005 will be exhausted at some point during 2006. These vouchers will then require renewal funds for the remaining months of 2006. We used the same estimate that about 12,700 full-year equivalent 2005 tenant-protection vouchers will require renewal funds in 2006 to calculate the cost of the House funding formula as we did in the full-funding calculations above.

Second, agencies could be eligible for additional renewal funds to cover the costs of tenant protection vouchers issued in 2004 that were not fully covered by their 2005 pre-proration renewal funding level. Agencies were eligible for a full year of 2005 renewal funding for all vouchers (including tenant protection vouchers) that were in use in May-July 2004; many of the 2004 tenant protection vouchers issued in the first half of the year likely would already have been in use in May-July and therefore would have been fully covered by renewal funds in 2005. Vouchers that were not in use in May-July 2004 (including all vouchers issued after July), would only have been eligible for partial renewal funding in 2005, under an adjustment required by the 2005 renewal formula (which was similar to the adjustment for newly expiring tenant protection vouchers contained in the House bill). Under this adjustment, agencies received funding to cover the remaining months of 2005 after the initial tenant-protection voucher funding is exhausted. These vouchers will require 12 months of renewal funds in 2006, so under the language of the House bill agencies could be eligible for adjustments to cover the costs of 2004 tenant protection vouchers in any months beyond those that were covered by renewal funding in 2005.[10]

We estimate, using conservative assumptions regarding the number of vouchers that were issued in the first half of 2004 and the number of those vouchers that were in use in May-July 2004, that under the House bill 5,500 full-year equivalent 2004 tenant-protection vouchers at VMS-funded agencies will require renewal funds in 2006 because they were only partly funded by 2005 renewal funds. In the case of MTW vouchers, added costs from expiring 2004 tenant protection vouchers were already included in our 2004 full-funding estimate.

We lacked sufficient information to assign adjustments for 2004 tenant-protection vouchers (at VMS-funded agencies) and 2005 tenant protection vouchers reliably to individual agencies. As a result, agencies that receive such adjustments could receive funding for substantially more vouchers than our local tables suggest.

House Adjustment Funding

The adjustment fund in the House bill would be used to provide added funds to agencies that qualify fewer than two criteria. First, agencies that were shortfunded in 2005 because their voucher utilization rate during May-July 2004 was lower than the utilization rate during their 2004 fiscal year will be eligible to receive extra funds. Second, the funds could be used to provide added funding to agencies whose costs go up because families use their vouchers to relocate to homes that are located outside the jurisdiction of the housing agency that issued them (a practice known as portability).

We calculated the national number of vouchers for which agencies would be eligible to receive an adjustment under the first, utilization-based, criteria by subtracting each agency's utilization of authorized vouchers during May-July 2004 from its utilization of authorized vouchers during its 2004 fiscal year. We found that agencies would be eligible for funding for an additional 15,685 vouchers. We then multiplied this figure by our estimate of the national voucher per-unit cost in 2006 to determine the total adjustment need. This amount came out to $106 million. The $45 million the House bill provides would cover 42.31 percent of this cost.

We did not have a reliable way to estimate which agencies incurred extra costs after the snapshot period due to portability, and in any event the bill is vague on how funds for portability costs would be distributed. Consequently we did not attempt to estimate the amount of adjustment funds that will be needed under the portability-based adjustment criteria or the amount of such funds that particular agencies could receive.

The bill does not specify how HUD should distribute adjustments if the amount for which agencies are eligible exceeds the amount the bill provides. HUD, for example, could provide adjustments on a first-come-first-serve basis as agencies apply, distribute adjustments only to

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[10] Both the House and Senate bills call for adjusting the base period data for the "first-time" renewal costs of tenant protection vouchers, without limitation to the year the vouchers were first issued. The adjustment for the additional cost in 2006 of vouchers that were only *partially* renewed in 2005 comes within the intent of the provision, as well as within the specific language. It is not certain, however, that HUD would provide this adjustment under the bills' current wording, particularly since the report accompanying the House bill indicates that the adjustment is for the first-time renewal of vouchers *issued in 2005*. (The Senate report provides no further specificity on this point.)

agencies that experienced the greatest loss due to the use of the May-July 2004 period to calculate voucher 2005 funding, or prorate the adjustment amounts for all eligible agencies to reflect the shortfall. Our analysis assumes that all eligible agencies would receive prorated adjustments — that is, each agency would receive funding for 42.31 percent of the vouchers for which it is eligible. (If HUD were to use a portion of the $45 million the bill sets aside for adjustments to assist agencies that incurred higher costs due to portability, the House adjustment proration would be deeper than 42.31 percent.)

Total Vouchers Funded Under House Bill

When our estimates of vouchers funded under the House bill's primary formula and its adjustment fund are added together, 541 agencies would receive funds for a total of 11,660 vouchers more than they are authorized to administer. Since agencies are not permitted to use more than their authorized number of vouchers on average over a full year, the number of vouchers actually funded would be 2,025,200 rather than 2,036,800 and $79 million would be left unused and likely be recaptured by HUD after the end of 2006.

The estimates of cuts in the state tables that accompany the analysis reflect reductions that housing agencies would be required to make below the number of vouchers in use from May 2004 to January 2005 (the most recent nine months for which data were available) capped by our estimate of the number of authorized vouchers at the agency in January 2005. In total, these cuts would amount to 27,889 vouchers at 1,013 agencies. This is a more conservative estimate of the number of vouchers cut by the House bill than if we had used the same figures that were the basis of the "full-funding" estimate described above. It does not include vouchers that agencies were able to use in the months of their 2004 fiscal year prior to May 2004 but that were not in use in the subsequent nine months, due to funding shortfalls or other cause.

Voucher Funding Under the Senate HUD Appropriations Bill

We estimate that the $14.09 billion in renewal funds provided under the Senate bill is sufficient to cover 2,022,400 vouchers at our estimated national average cost of $6,967. As with the House bill (though to a much smaller degree), the Senate bill distributes funds in a manner that does not always correspond with need and consequently results in some waste. When we take into account the manner in which funds would be distributed under the Senate bill, we estimate that the bill would actually fund 2,020,400 vouchers.

Senate Formula Funding

The Senate bill, like the House bill, sets a formula for distributing all but $45 million of the funding it provides for voucher renewals. The formula in the Senate bill funds all agencies, except those with special MTW funding agreements, based on utilization and costs during the most recent 12 months for which verified Voucher Management System data are available, adjusted by the 2006 AAF and for costs of newly expiring tenant protection vouchers. Agencies with special MTW funding agreements would be eligible for a funding level determined based on that agreement (but an MTW agency's funding level would be prorated just like any other agency's).

The bill does not specify which 12-month period would be used to determine funding allocations. Which period is used would depend most importantly on how long it takes HUD to verify VMS data (and on how the Department defines "verified"). Verified VMS data through April 2005 should certainly be available in time for HUD to set funding levels before the beginning of 2006, so the earliest 12-month period HUD is likely to use is May 2004-April 2005. Our analysis assumes that this period will be used. It is also quite possible, however, that HUD will have access to verified data through July 2005 (or conceivably even later), allowing it to set funding levels based on more recent cost and utilization data for 2005.

Since we were only able to use VMS data through January 2005 for this analysis, we projected utilization for February-April 2005 based on the data through January 2005. We estimated the per-unit costs for February-April 2005 by applying three months worth of each agency's 2005 AAF (as an approximation of cost inflation) generally to the agency's per-unit cost for November 2004-January 2005.[11] We then used these projections and the actual VMS data for May 2004-January 2005 to estimate the utilization level and average cost for the full May 2004- April 2005 period.

To estimate the amount of funding for which housing agencies would be eligible under the Senate bill, we inflated the May 2004-April 2005 average voucher cost estimate by 8 months of each agency's AAF (to bring the average cost for the 12 month period forward to the middle of calendar 2005)[12] and the full 12-month estimated AAF for 2006 (2.7 percent), and multiplied the result by our estimate of the number of vouchers in use in May 2004-April 2005. We then applied the same adjustment as we did in our calculations under the House bill for the costs of newly expiring 2005 tenant protection vouchers. These calculations resulted in an estimate that housing agencies would be eligible under the Senate primary formula for a total of $14,175,525,894,[13] requiring a 0.92 percent

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[11] As with the estimate of 2005 per-unit costs that we used to project actual 2006 costs, we used the average cost for August 2004-January 2005 as the basis for projections for agencies whose VMS data showed unusually sharp drops in per-unit costs in the November 2004-January 2005 period. See note 5 above.

[12] It is somewhat uncertain how the Senate Appropriations Committee intends the AAF adjustment its bill calls for to be implemented. The amount of an inflation adjustment should depend on the time elapsed between the date of the data to be adjusted and the dates of the period for which the adjusted data will be used. The mid-point of the January-December 2005 period that is being funded under the terms of the 2005 appropriations bill, for example, was just over twelve months after the midpoint of the May-July 2004 period that HUD used to determine 2005 funding. So HUD's use of the full 2005 AAF (which was calculated as a 12-month adjustment) to adjust the May-July 2004 data was a technically proper application of the inflation factor that Congress had mandated.

The midpoint of the May 2004-April 2005 period that we assumed would be used under the Senate bill is 20 months before the midpoint of calendar year 2006, the period that the bill would fund. We assumed that the Senate intended to apply the AAF in the manner needed to make a proper adjustment, so we applied the 20-month AAF adjustment described in the text. It is not clear, however, that the language of the Senate bill would require, or even allow, an adjustment of this type. If this apparently inadvertent drafting error is not corrected before a final bill is passed and HUD interprets the language of the bill strictly, the pre-proration funding level under the Senate bill would be substantially lower than our estimates indicate.

[13] To some degree, HUD also will need to make adjustments under the Senate bill for costs of 2004 tenant protection vouchers, because some of the 2004 tenant protection vouchers for which agencies received some renewal funding in 2005 may not be in use for part of the 12-month period on which the Senate bill would base funding. This is particularly likely the earlier in 2004 the 12-month period extends. We did not include such an adjustment in our analysis, however, for two reasons. First, the size of the adjustment under the Senate bill is more dependent on difficult-to-estimate utilization rates for newly issued tenant-protection vouchers than the adjustment under the House bill, so there would be a higher likelihood that an estimate would be far off the mark. Second, a Senate adjustment would involve a substantially

proration to estimate the post-proration funding level at each agency. (The estimate in the paper that funding eligibility under the Senate bill would total $14.25 billion adds together this $14,175,525,894 figure with our estimate of eligibility under the adjustment fund, discussed below.)

Senate Adjustment Funding

The provision establishing the $45 million adjustment fund under the Senate bill is worded almost identically to the corresponding provision in the House bill: it provides for an adjustment in cases where utilization during an agency's 2004 fiscal year was above utilization during May-July 2004 and to cover extra costs incurred due to portability. Because the Senate bill combined the adjustment with a very different primary funding formula than the House bill, however, its meaning is somewhat ambiguous. Taken most literally, it would provide an agency with extra funding to cover the difference between its fiscal year 2004 and May-July 2004 utilization, even in cases where such an adjustment together with the utilization level for the most recent 12 month period (which is the number of vouchers funded by the primary Senate formula) would fund more vouchers in 2006 than were in use in any of these periods — a result that goes considerably beyond the adjustment's apparent purpose of making agencies whole that were shortchanged due to the snapshot used to determine funding under the 2005 appropriations bill.

We assumed that HUD would implement the bill in a manner that avoided this outcome but followed the Committee's apparent intent, by making an adjustment for the lesser of: (1) the difference between fiscal year 2004 utilization and May-July 2004 utilization; or (2) the difference between fiscal year 2004 utilization and our estimate of May 2004-April 2005 utilization.

Using this method, we estimated that agencies would be eligible for adjustments for 10,618 vouchers, at a total cost of about $72 million. The $45 million adjustment fund would cover 62.51 percent of this need. As with the House bill, the Senate bill's adjustment provision does not specify how adjustments should be distributed in cases of a funding shortfall. We again assumed that HUD would impose a consistent pro-ration for all eligible agencies, resulting in an estimate that each agency would receive an adjustment equal to 62.51 percent of the total adjustment for which the agency would be eligible.

Estimates of Waste and Cuts Under Senate Bill

As under the House bill some agencies would receive funding under the Senate bill for more vouchers than they are authorized to administer, but the numbers are small: 198 agencies would receive funds for a total of 2,080 excess vouchers. This would leave $15 million unused.

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lower number of vouchers nationally than the House adjustment even if HUD bases 2006 funding on utilization from May 2004-April 2005. And if HUD instead based funding under the Senate bill on utilization from August 2004-July 2005 — and if the conservative assumptions we used to estimate the adjustment needed under the House bill are accurate — the total adjustment required for 2004 tenant protection vouchers under the Senate bill would be minimal on a national basis. (This is the case because most tenant protection vouchers issued over the course of 2004 are likely to be in use for most of a 12-month period beginning in August 2004.) Nonetheless, on the level of individual agencies, the same caveat noted for the House bill applies to the Senate bill: for some agencies, our estimates could significantly underestimate the funding they would actually receive under the bill, assuming that HUD interprets the final bill to require the adjustment for 2004 tenant protection vouchers that would be appropriate. See n. 10 above.

As with the House bill, the cut estimates in the accompanying state tables reflect reductions that housing agencies would be required to make below the number of vouchers in use from May 2004 to January 2005 (the most recent nine months for which data were available) capped by our estimate of the number of authorized vouchers at the agency in January 2005. These cuts totaled 11,866 vouchers at 955 agencies.

Applying the Senate Funding Policy at the House Bill's Funding Level

The additional $100 million for voucher renewals in the House bill compared with the Senate Committee bill distorts some of the comparisons we make of the effect of the bills' different funding *policies*. To provide "apples to apples" comparisons where appropriate, we used the same methods described above but assumed that the primary Senate formula — using the most recent 12 months of data — would be used to distribute $14.145 billion of renewal funding, like under the House bill. (An additional $45 million would be available for adjustments as discussed above.) Using this comparable higher funding level, the proration rate for the basic formula funding under the Senate bill would be 0.22 percent (rather than 0.92 percent).

At the House funding level, the level of "waste" generated by the Senate policy would increase, but still be less than under the House policy. Some 333 agencies would be eligible for more funding than the estimated cost of all of their authorized vouchers, resulting in $33.5 million that agencies would be unable to spend.

Many agencies, however, would receive more of the funding needed to support the number of vouchers in use in May 2004 – January 2005, reducing the number of vouchers cut. Only 629 agencies would receive less funding than they are likely to need to support the vouchers they used in May 2004 – January 2005, for a total of 6,004 vouchers cut.