Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

Revised August 24, 2005

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

by Barbara Sard, Douglas Rice and Will Fischer

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.

TABLE OF CONTENTS

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.

Background: What is at Stake in the HUD Spending Bill for 2006?

The Housing Choice Voucher Program is widely recognized to be effective in providing housing assistance to low-income households, more than 90 percent of which are families with children, seniors, or people with disabilities. Vouchers make housing affordable for the two million families that use them, and research suggests that vouchers can have positive effects on employment, earnings, educational outcomes, and child health and well-being. The voucher program is the most cost-effective federal housing assistance program, according to a 2002 report by the Government Accountability Office (GAO).[1]

The unmet need for voucher assistance far exceeds the supply of housing vouchers. According to a new analysis of 2003 census data by the Joint Center for Housing Studies of Harvard University, over 7 million low-income renter households in the bottom fifth of the income distribution have severe housing cost burdens. This represents an increase of 845,000 such households, or more than 13 percent, since 2000. The Harvard study also confirms that severe housing cost burdens — that is, situations where families pay more than half of their income for housing — have a broad impact on families, forcing them to cut back on other basic necessities such as food, clothing, and health care.[2]

Historically, the voucher program has received strong, bipartisan support in Congress, and this support has continued into the current session. For the third straight year, Congress has declined to act on Administration proposals to transform the program into a block grant that would eliminate most federal protections for low-income families and make the program more vulnerable to future

---

1 GAO, *Federal Housing Assistance: Comparing the Characteristics and Costs of Housing Programs* (2002).

2 Joint Center for Housing Studies of Harvard University, *State of the Nation's Housing: 2005* (President and Fellows of Harvard College, 2005), Tables A-11 and A-12, pp. 39 and 40, respectively. Available at: http://www.jchs.harvard.edu.

funding cuts.[3] Yet Congress has in recent years identified some areas of concern, some of which it has tried to address by implementing policy changes through annual appropriations legislation. While some of these steps have been positive, others have been ineffective or even counterproductive, creating instability and uncertainty within the program and producing a loss of vouchers in many communities. Nevertheless, the experience of the past few years offers lessons as well as challenges, and Congress has an opportunity to place the voucher program back on solid footing in 2006.

Getting Voucher Funding Distribution Policy Right This Year Is Essential

Since 2002, Congress and HUD have implemented three different voucher renewal policies in three consecutive years. The substantial changes made year to year, introduced sometimes many months into the fiscal year, have created funding volatility and shortfalls for agencies, while fostering fears among landlords and voucher tenants that the voucher program may no longer be reliable.

These problems have been aggravated by features of the funding policies themselves. For instance, new voucher renewal formulas were implemented in 2004 and 2005 that sharply limited HUD's ability to make funding adjustments for state and local housing agencies in response to local changes in rents, leasing rates, or tenant incomes. These formulas also made use of three-month snapshots of voucher leasing and average costs to determine the share of funding for each housing agency. As a consequence, hundreds of agencies that, by coincidence, had been underleased during the snapshot periods were forced to operate under funding deficits, because their funding allocation did not accurately reflect their needs. In the 2005 appropriations act, moreover, Congress required HUD to reduce agencies' program reserves from the one-month to the one-week level, which diminished the resources on which they could draw to adjust to the policy changes in ways that would not harm low-income families.

These changes in funding policy, combined with a voucher renewal funding shortfall of 4 percent in 2005, have led to a decline in the number of families receiving voucher assistance, as well as a marked drop in landlord confidence in the program.[4] A major challenge facing Congress this year is to put into place a voucher funding policy that will distribute funding equitably and efficiently, while restoring stability and reliability to the program.

A Second Challenge Is to Restore the Vouchers Lost in 2004 and 2005

According to our estimates, which are discussed below in detail, funding for 75,000 vouchers was eliminated in 2005, mostly due to the shortfall in appropriations this year. This loss follows a 1.3 percent decline in the number of vouchers leased over the final eight months of 2004 – a loss of 24,000 vouchers that most likely was caused primarily by the new voucher funding policy that HUD implemented in April 2004.

---

[3] See Sard and Fischer, "Administration Housing Proposal Lays Groundwork for Planned Funding Reductions," May 9, 2005, available on the internet at http://www.cbpp.org/5-9-05hous.htm.

[4] See Barbara Sard, "Funding Instability Threatens to Erode Business Community's Confidence in the Housing Voucher Program," (October 14, 2004), available on the internet at http://www.centeronbudget.org/10-14-04hous.htm.

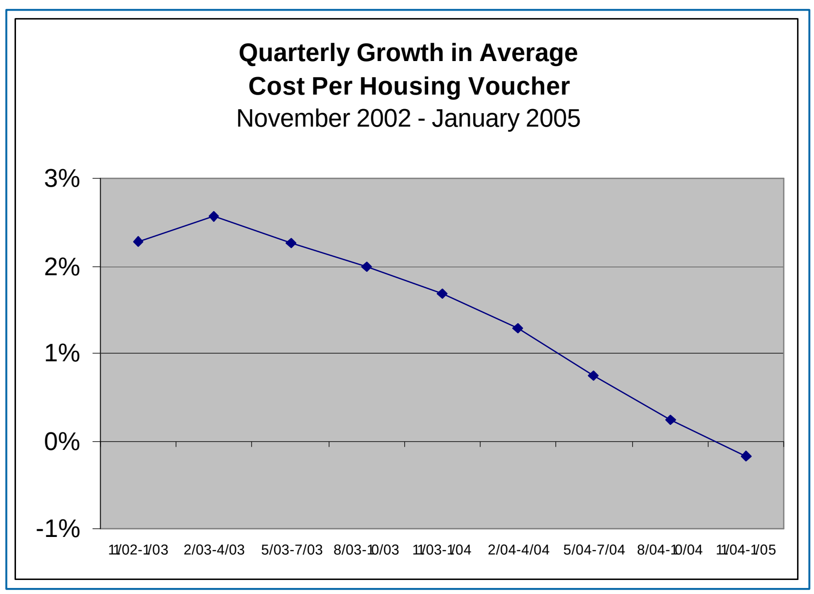
These voucher losses harm families and imperil the improvements in voucher utilization that public housing agencies have achieved over the past several years. In the late 1990s, Congress became concerned that voucher utilization – which refers to the percentage of authorized vouchers that housing agencies actually succeed in leasing – was too low nationally. When voucher utilization is low, badly needed housing assistance goes unused, and voucher funds are exposed to recapture through Congressional rescissions.

In response to these concerns, Congress, HUD, and many local housing agencies implemented reforms to strengthen program management and improve voucher utilization. Within a few years, these reforms were producing impressive gains in utilization. Indeed, the recent Voucher Management System (VMS) data from HUD show that the improvements in utilization continued through April 2004, when utilization rose to about 96.5 percent of authorized vouchers, up from 90.5 percent in fiscal year 2001.[5]

Yet with the loss of 24,000 vouchers over the last eight months of 2004 and the elimination of funding for 75,000 vouchers in 2005, these gains are now at risk of being undermined permanently. One important goal of the final HUD appropriations bill for 2006 should be to restore funding for these vouchers.

Voucher Cost Growth Has Slowed Dramatically, Which Should Ease Congress' Concerns

Congress has in recent years expressed unease over the rising costs of the voucher program. This unease – which has been intensified by the pressures of meeting the tight overall budget targets set in each of the past three years – has prompted Congress to implement a series of changes to voucher funding policies, some of which were described above.



However, there is growing evidence that just as the initial funding policy changes were being implemented in 2003, the rate of growth of voucher costs had reached its peak and was beginning to fall. Earlier this year, CBPP released an analysis showing that the growth in average cost per housing voucher declined sharply from the early months of 2003 through the mid-point of 2004.[6] Our analysis of the most up-to-date VMS data shows this trend has continued through

[5] See Fischer and Sard, "Sources and Methods Used to Estimate Components of Changes in Section 8 Expenditures from 1996 to 2003" at p. 14, n. 27, available on the internet at http://www.cbpp.org/3-16-05hous-meth.pdf.

[6] See Fischer and Sard, "HUD Data Show Housing Voucher Costs Leveled Off Starting In 2003 As Rental Market Cooled" (revised August 23, 2005).

January 2005. Indeed, the data show that the average cost of a housing voucher rose by less than 0.1 percent over the six months ending in January 2005, and by 2.1 percent over the previous year, both of which are below the overall rate of inflation. Although this trend may or may not continue through 2005, it is noteworthy that voucher cost growth has now declined for seven consecutive quarters through January 2005.

The strong downward trend in cost growth shown in the VMS data reinforces the conclusion that the factors that caused the uptick in voucher costs prior to 2003 have run their course. Moreover, the timing of the decline suggests that the market-based mechanisms built into the voucher program – rather than policy changes implemented by Congress or HUD – were primarily responsible for the drop in the rate of cost growth, at least through April 2004, when the rate of growth in average voucher costs already had been cut in half from its peak in early 2003.

House and Senate Bills Aim to Restore Vouchers and Modify Voucher Funding Policy

With voucher costs under control, Congress faces two major challenges in 2006 – restoring the vouchers lost in 2004 and 2005, and putting into place a stable voucher funding policy that will distribute renewal funding in a fair, equitable, and efficient manner. To their credit, both the House and Senate Appropriations Committees have acknowledged these challenges and taken positive steps to meet them in their respective HUD funding bills for fiscal year 2006. Both bills would aim to restore lost vouchers by increasing voucher renewal funding in 2006. Equally important, each bill proposes a set of modifications to voucher funding policy that would attempt to remedy the funding distribution problems created by the policies of recent years. Our analysis below indicates that the voucher funding policy proposed by the Senate is substantially superior to the one proposed by the House.

House and Senate Bills Would Boost Voucher Funding in 2006 But Fall Short of the Administration's Budget Request

The fiscal year 2006 HUD funding bills recently approved by the full House and the Senate Appropriations Committee would each allocate a total of $15.6 billion for tenant-based assistance, over $200 million less than the funding requested by the Bush Administration, but nearly $900 million more than the amount appropriated in 2005.[7] Within this amount, the House and Senate bills would provide $14.19 billion and $14.09 billion, respectively, for renewal of expiring voucher contracts. The House bill thus provides $100 million more than the Senate bill for voucher renewals, thanks to a successful floor amendment sponsored by Representatives Nadler (D-NY), Velazquez (D-NY), and Frank (D-MA).

The bills also differ in the amount of funding they would allocate to other major components of voucher program funding. The House-passed bill would set aside $1.225 billion for administrative fees, while the Senate bill would provide an additional $70 million, or $1.295 billion.[8] Both bills

---

7 Both the House and Senate versions of the bill are numbered HR 3058 and are available online at: http://thomas.loc.gov.

8 These fees are for agencies that do not have special funding agreements under the Moving to Work (MTW) demonstration. If HUD follows its practices in 2004 and 2005, another approximately $99 million in administrative fees

would distribute administrative funding to each agency based on the share of fees it was eligible to receive in 2003, rather than on the previous per-unit-leased basis.[9] The Senate bill also would provide slightly more funding for new tenant protection vouchers, which are granted to households that have lost other forms of federal housing assistance; this can happen, for example, when the owner of a federally-subsidized property opts out of the federal program or public housing units are demolished. The Senate bill would allocate $192 million for tenant protection vouchers, while the House bill includes $166 million for this purpose.[10]

TABLE 1

HOUSING VOUCHER FUNDING

	2005 Final	President's FY06 Request	House	Senate Committee
Voucher renewals	$13,355,285,088	$14,089,755,725	$14,189,756,000	$14,089,756,000
Central Fund	0	$45,000,000	$0	$0
Tenant Protection vouchers	$161,696,000	$354,081,218	$165,700,000	$192,000,000
Administrative fees	$1,200,426,144	$1,295,408,094	$1,225,000,000	$1,295,408,000
Family Self-Sufficiency	$45,632,000	$55,000,000	$45,000,000	$48,000,000
Working Capital Fund transfers	$2,880,768	$5,949,150	$5,900,000	$5,900,000
Other transfers	$0	$0	$0	$5,000,000
Total tenant-based account	**$14,765,920,000**	**$15,845,194,187**	**$15,631,356,000**	**$15,636,064,000**
Rescission from Housing Certificate Fund	$1,557,000,000	$2,500,000,000	$2,493,000,000	$1,500,000,000

Both the House and Senate Appropriations Committees have acknowledged that many housing agencies have been unfairly harmed by the use of a three-month snapshot of voucher leasing and costs to determine renewal funding in 2005. The House and Senate bills attempt to address this problem by adding a measure of flexibility to the 2006 renewal formula – namely, by allowing agencies to request an adjustment in funding if they can demonstrate that they were harmed by the

would be paid out of the funds set aside for voucher renewals. Combining the administrative fees for MTW agencies in the renewal account with the fee line item, the total funding for administrative fees under the House bill would be 9.4 percent of the proposed renewal funding, while the total proposed for administrative costs under the Senate bill would be 9.95 percent of the lower renewal funding level.

[9] Prior to 2004, administrative fees for agencies were earned primarily on the basis of the number of vouchers in use each month. The House and Senate bills would base each agency's administrative funding in 2006 on the agency's fees in 2005. In 2005, however, agencies' fees were based on their fees in 2004, and the 2004 fees in turn were based on fees that agencies were eligible to earn in 2003. In effect, agencies' fees in 2006 would be tied to their voucher utilization in 2003.

[10] One of the reasons for the increased allocation of funds for tenant protection vouchers in the Senate bill is the decision to provide up to $12 million for the costs of judgment and settlement agreements. The House bill includes no set-aside for this purpose. This additional funding is intended at least in part to meet obligations of the Housing Authority of Baltimore City (HABC) in two different cases. The rigid funding formula adopted in 2005 precluded HUD from providing previously-promised funds to HABC.

use of the three-month snapshot in 2005. Both bills would set aside up to $45 million of voucher renewal funding for this purpose.

House and Senate Bills Propose Different Mechanisms for Distributing Voucher Funding

The House and Senate fiscal 2006 HUD appropriations bills differ markedly with respect to an issue that is critically important this year – voucher funding distribution policy. As noted above, Congress has implemented three different voucher renewal formulas in each of the past three years. This volatility, compounded by problems created by the use of a three-month snapshot and other aspects of the policies themselves, has generated funding instability and shortfalls at some public housing agencies, as well as widespread uncertainty among agencies, landlords and families participating in the program.

The base renewal formula proposed by the House would distribute voucher renewal funding according to each agency's level of pre-proration funding in 2005 – the funding each agency was eligible to receive in 2005 prior to the 4.1 percent cut HUD imposed on all agencies – adjusted by a local or regional inflation factor to be determined by HUD. Because the 2005 formula based each agency's funding on its share of costs during the three-month period of May to July, 2004, the House formula would, in effect, lock in place each agency's share of voucher funding according to its share of voucher costs in May – July 2004. For the first time in the history of the voucher program, voucher funding would be detached from the most recent actual leasing costs borne by housing agencies.

In contrast, the Senate bill offers a much-improved renewal formula. Rather than basing the funding formula on the 2004 three-month snapshot, as the House bill would continue to do, the Senate bill would distribute renewal funding based on each agency's leasing and cost data for the most recent 12-month period. As will be demonstrated in detail below, this mechanism would ensure that funding is distributed fairly and efficiently, in accord with each agency's most recent performance, and would be the best way to make certain that funding is provided for vouchers currently in use.

House and Senate Bills Would Not Fully Restore Funding for Vouchers Cut in 2005

In April 2004, HUD notified housing agencies that it would apply a rigid new formula to allocate voucher renewal funding for 2004. HUD's implementation of this new policy, which was announced in late April and made retroactive to January, created immediate funding shortfalls for many agencies. Many PHAs responded by cutting the number of families receiving voucher assistance, reducing subsidy amounts, or taking other steps to close deficits.[11]

As a result, fewer families were being assisted by vouchers at the end of 2004 than had been assisted in the earlier part of the year. Our analysis of the most recent Voucher Management System data from HUD shows that the total number of leased vouchers peaked in April 2004, and then declined through the remaining months of 2004, falling by a total of 1.3 percent to just over 95

[11] See "Local Consequences of HUD's Fiscal Year 2004 Voucher Funding Policy," http://www.cbpp.org/7-15-04hous-survey.htm.

percent of authorized vouchers. This amounts to a loss of voucher assistance for over 24,000 families from April to December 2004.[12]

Voucher losses are likely to accelerate in 2005 as state and local housing agencies absorb the 4-percent cut in voucher renewal funding in 2005. The 4-percent shortfall eliminated funding for about 55,000 vouchers that HUD had determined would need renewal funding in 2005 based on agencies' leasing rates in May – July 2004. In addition, because the 2005 voucher renewal formula relies on a three-month snapshot as the basis of annual funding, agencies that were using fewer vouchers during the snapshot period than at other times in 2004 lost additional funding that they needed to maintain the number of vouchers in use. We estimate that the affected agencies lost funding for an additional 20,000 vouchers due to the use of the three-month snapshot period.[13]

Restoring Lost Vouchers Would Cost $14.3 Billion in 2006

By our estimate, funding is needed for approximately 2,055,000 vouchers in 2006 to restore the number of vouchers in use in 2004 and to provide first-time renewal funding for new vouchers issued in 2005 for families that lost other forms of federally-assisted housing (i.e., for tenant-protection vouchers).[14] At this program level, communities would again be able to provide housing assistance to the number of families served prior to the funding shortfalls that agencies experienced in 2004 and 2005. Agencies on average would receive sufficient funds to use 97 percent of their expiring vouchers, the same share of vouchers that HUD found required renewal funding in 2005.

As noted above, recent data indicate that average voucher costs are significantly lower than Congress and HUD anticipated last year. Using revised estimates of per voucher costs based on these recent data, $14.3 billion would be required to fund 2,055,000 vouchers in 2006.[15]

Funding Needed Only 2.8 Percent Above Level HUD Found Was Required in 2005

The voucher renewal funding level we estimate is needed in 2006 – $14.3 billion – is nearly $1 billion above the level of funding appropriated in 2005. The increase in funding needed appears large, however, only because 2005 funding fell well short of what was needed to renew vouchers this year. In January 2005, HUD estimated that $13.9 billion was needed to renew vouchers in 2005,

---

12 The number of authorized vouchers in use fell from 2,014,709 in April 2004 to 1,990,838 in December 2004, according to HUD's Voucher Management System (VMS) data. These data include the approximately 112,000 vouchers administered by agencies with special funding agreements with HUD in 2004 under the Moving to Work Demonstration.

13 In part because HUD's estimate of the amount of renewal funding needed in 2005 relies on leasing data from May to July 2004, it is likely there is some overlap among the 24,000 vouchers that fell out of use between April and December 2004, and the 75,000 vouchers that have lost funding in 2005.

14 The Technical Appendix explains the bases of this estimate.

15 This estimate includes $99 million in administrative fees for the 18 agencies that receive the bulk of their voucher funding under a special agreement with HUD as part of the Moving to Work demonstration that allows those agencies to combine housing assistance and administrative funding streams. See n. 12 above and the Technical Appendix.

$568 million more than the $13.3 billion that Congress had appropriated.[16] As a result of the shortfall, HUD was required to prorate agency funding by 4.1 percent in 2005. If Congress had fully funded the renewal formula in 2005, the further increase needed in 2006 would be 2.8 percent, less than the likely rate of inflation in rent and utility costs.[17]

Most of the Increased Funding Needed To Maintain Vouchers in Use in 2005

Despite the appropriations shortfall in 2005, it is likely that state and local housing agencies will manage to assist about two million families this year, and possibly more, from renewal funds and other sources.[18] These include more than 26,000 families, seniors and people with disabilities assisted by tenant protection vouchers that were first awarded in 2004 and 2005 out of separate funds and will need to be renewed in 2006. To avoid terminating families' housing subsidies, many agencies report they are draining reserve funds to supplement the new money they have received from HUD. Others have stretched available funds to cover as many families as possible by reducing rents to owners and increasing the share of rent borne by low-income households.

Merely to maintain assistance to two million families in 2006, at a time when agency reserves have been nearly depleted and can no longer be relied on to supplement inadequate federal appropriations, will require a $600 million increase over the funding allocated for renewals in 2005. The remainder of the increase is needed to restore funding for approximately 55,000 vouchers in use in 2004 that were left unfunded in 2005.[19]

---

[16] See letter from David Vargas, Director of Housing Voucher Programs at HUD, to public housing agency executive directors, January 21, 2005.

[17] In 2005, the weighted average adjustment HUD used for rent and utility cost increases was 3.4 percent. HUD has not yet determined the inflation adjustment rates for 2006, but its proposed Fair Market Rents for 2006 would increase more than 3 percent from 2005. The Congressional Budget Office has estimated that actual voucher costs will increase 2.7 percent in 2006. Unlike HUD's inflation factors, CBO's estimate takes into account likely changes in tenant incomes. Increases in tenant incomes reduce subsidy costs.

[18] In 2005, agencies have funds available from four sources to pay voucher subsidies to owners:

(1) Renewal funds -- $13.355 billion in renewal funding appropriated for 2005 will support an estimated 1,968,000 vouchers.
(2) Tenant-protection funds – HUD provided 12-month grants for an estimated 26,263 tenant-protection vouchers over the course of 2004. We estimate that funds to support the annual equivalent of 13,923 vouchers will be available in 2005 out of these first-year grants. In addition, HUD plans to award 23,813 new tenant-protection vouchers in 2005 using the $162 million appropriated in 2005 for this purpose. These vouchers will require renewal funding for a portion of 2006. (We estimate that the annual equivalent of 12,700 vouchers will require renewal funding in 2006).
(3) Multi-year funding – In 2005, 1,580 vouchers continued to be funded under multi-year contracts using prior-year appropriations, according to HUD. Some 1,154 of these vouchers will expire for the first time in 2006.
(4) Reserve funds – At the beginning of 2005, agencies were permitted to have a reserve equivalent to one month's subsidy costs. Some agencies had depleted their reserves in 2004, but many still had funds available. We estimate that 5,000 - 10,000 vouchers will be supported in 2005 from reserve funds.

[19] These figures are based on our estimate that the average voucher cost in 2005, including the costs of specially-funded Moving-to-Work agencies, will be $6,785, and the CBO estimate that average voucher costs will increase 2.7 percent from 2005 to 2006. See the Technical Appendix.

House and Senate Bills Provide Sufficient Funds to Restore Most But Not All Unfunded Vouchers

As noted above, the fiscal year 2006 HUD funding bill approved by the House of Representatives includes $14.19 billion to renew housing vouchers, including $100 million that was added on the House floor in June by an amendment sponsored by Representatives Nadler (D-NY), Velazquez (D-NY) and Frank (D-MA). We estimate that this funding level, if efficiently distributed, would be sufficient to support 2,036,800 vouchers in 2006, about 18,000 fewer than would be supported if all vouchers lost in 2005 were restored. (For the reasons discussed below, we estimate that the House bill would actually fund only about 2,025,000 vouchers, due to its inefficient distribution formula.) The Senate Appropriations Committee bill proposes $14.09 billion to renew expiring housing vouchers. The $100 million difference in the two bills means that the Senate bill could support about 14,350 fewer vouchers than the House-passed bill. Nonetheless, by providing funds for 2,022,400 renewal vouchers, the Senate funding level would renew all vouchers in use and could restore funding for more than 40,000 vouchers left unfunded by the 2005 appropriation. (As explained below, the Senate bill actually would fund about 2,020,400 vouchers.)

Risks of Reductions in Renewal Funding Remain

Normally, it is reasonable to expect that the funding level for a program ultimately agreed to in the final appropriations act will be within the parameters set by the House and Senate bills. This year, however, there are at least two reasons to be concerned that the actual funding made available to renew housing vouchers in 2006 could be less than even the Senate has proposed.

First, the Senate bill includes language that would transfer the renewal of vouchers from the Section 811 Mainstream Voucher Program to the Section 8 housing voucher program, which could require up to $80 million in regular voucher renewal funds to be used to renew expiring vouchers for people with disabilities. It is unclear whether the funding for the transferred vouchers is intended to come in whole or in part from the $14.09 billion set aside for renewal of expiring *Section 8* vouchers, or whether it is intended to be paid for out of the account for tenant-protection vouchers.[20] Renewal of vouchers previously funded under Section 811 does not appear to be a permissible purpose of the voucher renewal account, but Congress could alter the uses of the voucher account if it wished to.

---

[20] In the portion of the Senate Committee bill appropriating funding for the Section 811 Housing Program for Persons With Disabilities, the bill states only that "renewal of tenant-based assistance contracts shall be renewed from funding made available under the heading Tenant-Based Rental Assistance." In effect, this shift in the account responsible for meeting the renewal costs of these vouchers frees up additional funds for the construction of new housing for people with disabilities.

The President's 2006 budget requested $80 million for renewal or amendment of mainstream voucher contracts within the Section 811 account. (Amendments are needed if remaining multi-year contracts have insufficient budget authority to complete their term.) Available data indicate that budget authority for about 9,000 Section 811 Mainstream Vouchers is due to expire in 2006, and that the cost of renewing these vouchers in 2006 would likely not exceed $60 million, including administrative fees. (Based on available VMS data, we estimate that the average cost of a Section 811 Mainstream voucher in 2006 will be $5,800, $1,120 less than the average cost of a regular voucher primarily due to the smaller family size of program participants.)

Replacing expiring Section 811 Mainstream vouchers with separately-funded, new "tenant protection" vouchers would make more sense, as these vouchers are intended to replace other federal housing assistance. But it is unlikely that more than a small portion — only $8 - $14 million — of the $192 million that the Senate bill provides for tenant protection vouchers could be used to renew expiring Section 811 vouchers without diminishing resources needed for the usual purposes that new tenant protection vouchers serve.[21] Unless additional funds are added to the account that supports the regular voucher program, the remaining cost of renewing the 811 Mainstream vouchers would have to be met by reducing the funding otherwise available for regular housing vouchers or agency administrative fees. (The Senate bill includes $70 million more than the House bill for administrative fees. See Table 1 on page 7.) In effect, this well-intentioned policy change could result in a further net loss of funding for housing vouchers.

Second, it is likely that the House (Senate) conference agreements on funding levels for all HUD programs — and most other non-defense programs, as well — will be reduced by an across-the-board cut as part of a final omnibus appropriations bill. This is what occurred in 2004 and 2005 as Congress struggled to keep funding levels within the overall total sought by the President. This year Congress also is bound by its own Budget Resolution to appropriate no more than $834 billion for discretionary programs. Action on individual appropriations bills considered so far suggests that Congress will not succeed in keeping total funding within that limit without again resorting to an across-the-board cut. Even an across-the-board cut of 0.8 percent, as occurred in 2005, would reduce voucher renewal funding by about $113 million.

Taken together, these possibilities suggest that there is a risk that agencies may receive no funds to restore *any* of the vouchers cut in 2005. Therefore, although Members of the House and Senate should be commended for including increased funding for vouchers in their respective HUD appropriations bills for 2006, policy makers will need to be reminded over coming months of the importance of restoring funding for vouchers lost in 2004 and 2005.

Senate Bill Would Allocate Funds More Efficiently and Set the Foundation for a Better Long-Term Renewal Funding Policy

There is a very significant difference in how the House and Senate bills would distribute available renewal funds among the nation's more than 2,400 state and local housing agencies. Both the House and Senate appropriations bills have proposed voucher funding policies for 2006 that are budget-based. Each would require housing agencies to manage their programs on fixed budgets for the year, the total sum of which could not exceed the amount appropriated by Congress in the 2006 appropriations act. Budget-basing would supplement the strong fiscal controls already in place in

---

[21] HUD estimates that 16,026 tenant protection vouchers will be needed in 2006 to maintain affordable housing for the primarily elderly and disabled tenants in privately-owned buildings that cease to have other federal subsidies. In recent years, this account has funded about 9,000 additional vouchers annually to relocate families from public housing units that are demolished. HUD, *Congressional Budget Justifications for 2006*, p. C-18. (Both the House and Senate Committees rejected the Administration's request for an increase of about $190 million for additional tenant protection vouchers for families living in public housing units subject to conversion to voucher assistance under an upcoming rule that has not yet been issued.) We estimate the cost of 25,000 new tenant protection vouchers in 2006 at about $173 million, without administrative fees. The House bill provides $166 million. It is not clear if the House is assuming a lower per-unit cost than the $6,918 we estimate, a lower number of vouchers needed, or the availability of carry-over funds.)

the program, such as the caps on each agency's number of authorized vouchers and rules that ensure the reasonableness of rents and constrain the maximum subsidy that agencies may pay per unit.

The bills differ markedly, however, in how they direct HUD to calculate each agency's annual budget. The House formula bases each agency's funding in 2006 on its leasing rate and costs in the "snapshot" period of May – July 2004, adjusted by HUD-determined local and regional inflation factors for 2005 and 2006. The Senate bill, in contrast, would allocate funding based on the number of vouchers in use and their cost to each agency in "the most recent 12 months for which data are available," adjusted by the applicable 2006 HUD inflation factor.

There are two major differences in these policies. The first and most important is the Senate's use of *recent* rather than out-of-date data to allocate voucher funding in 2006. Basing funding allocations on recent data makes more efficient use of available resources, avoiding the inequitable result of some agencies receiving more funds than they need or can spend while others have to cut back on the number of families served. Second, by broadening the base for determining each agency's funding from a 3-month to a 12-month period, the Senate policy avoids the arbitrariness inherent in using data from a quarter of the year when agencies' leasing rates have varied for multiple, locally-driven reasons. (The Senate bill would leave it to HUD to determine which recent 12-month period to use as the basis of 2006 funding determinations. By necessity, HUD would have to use data beginning at some point in 2004; complete data for 2005 will not be available until several months into 2006.)

The bills allow similar minor adjustments to these different basic formulas. Before allocation of the formula funding, both bills would set aside $45 million to help remedy the arbitrary effects of the "snapshot" funding approach used in 2005. (This adjustment and its limitations are discussed below.) In addition, both bills direct HUD to increase agencies' renewal funding to extend through 2006 new tenant protection vouchers that were received in 2005.

By Failing to Match Funding to Recent Changes in Voucher Costs, the House Formula Would Overfund Some Agencies and Underfund Others

Recent data demonstrate that average voucher costs nationally — and costs in many local areas — have increased only slightly since May – July 2004, well below the rate anticipated by the inflation factors that HUD used to set agencies' 2005 funding. Nationally, those factors predicted an annual increase in agencies' voucher costs of 3.4 percent in 2005. Average costs for the six months ending in January 2005 increased by only 0.1 percent. Even if voucher costs pick up at the anticipated rate after January, the average actual cost increase from mid-2004 to mid-2005 would be 1.8 percent, slightly more than half of HUD's inflation adjustment. (HUD's "annual adjustment factors," or AAFs, reflect changes in rent and utility costs approximately two years earlier. They are not based on changes in actual voucher costs.) There is no reason to expect changes in the economy or in the housing market to cause the rate of change in average voucher costs to accelerate markedly over the next year.

The fact that actual voucher costs in the last year have increased at substantially less than the anticipated rate at many agencies means those agencies will likely need less money in 2006 to support their vouchers than they would be eligible to receive under the House formula. It also means that, on a national basis, *full funding under the House formula* — based both on average voucher costs in mid-2004 and on the 2005 and 2006 HUD adjustment factors — *would cost considerably more than under a formula based on more recent actual data.* At the same time, it would cost substantially more than the amount included in the House-approved bill. This means that if Congress were to adopt the House formula without fully funding it, each agency's actual funding would be cut proportionately below the amount it would be eligible to receive under the formula. The effect of such a proration would be to deprive agencies whose costs have increased at the expected rate of the funds they need to support their vouchers.

The inefficiency inherent in the House formula's reliance on out-of-date data means that some agencies would be allocated more funds than they could use while others would not receive the funds they need. The results in 2006 are likely to be particularly stark. **If the final appropriations act incorporates the voucher renewal provisions of the House bill, some $79 million — or 11,660 housing vouchers — would in effect be wasted, while more than 1,000 agencies would receive less funding than they are likely to need to support vouchers in use.**

House Bill Would Waste $79 Million

We estimated the amount of funding that each agency would be eligible to receive under the formula specified in the House bill, using data from HUD and the Congressional Budget Office.[22] We found that 541 agencies would be eligible to receive $79 million more than they would need to support all of their authorized vouchers. (Both bills propose to continue to prohibit agencies from leasing more than their authorized number of vouchers. This policy has been in effect since 2003.) An agency would be eligible for excess funding if its actual average voucher costs since July 2004 are lower than anticipated by HUD's inflation adjustment. In effect, funds intended to provide 11,660 needy families with voucher assistance would likely go unused (and be recaptured and diverted to other purposes in the following year). Under the Senate bill, in contrast, we estimate that as much smaller amount – $15 million, equivalent to 2,250 vouchers – would be allocated to agencies that would be unlikely to be able to use the funds in 2006.[23]

---

22 We relied primarily on HUD's figures on each agency's pre-proration funding eligibility in 2005 and the CBO estimate that voucher costs will increase by 2.7 percent in 2006. (HUD has not yet published the 2006 local and regional AAFs.) The Technical Appendix describes the minor adjustments we made to these figures to account for the costs associated with the first-time renewal of tenant protection vouchers. Our estimates assume that the $45 million adjustment fund in the House bill would be allocated on a pro rata basis to agencies that leased more vouchers in their 2004 fiscal year than in the May – July 2004 snapshot period.

23 There are two reasons that agencies could be eligible for more funding than they need or could use in the funding year even under a formula that bases funding on the most recent 12 months adjusted by HUD's AAF. Under such a policy, the beginning of the period used could be more than a year earlier. If average voucher costs decline markedly, higher costs at the beginning of the period could make the average of costs over the 12 months somewhat above the actual 2006 level. In addition, because HUD's AAFs are about two years out of date, a softening in the rental market is not immediately reflected in the adjustment HUD would make of the recent data. Reflecting these trends, we estimated that some 198 agencies could be eligible to receive funding under the Senate bill for about 2,080 more than their authorized number of vouchers, using cost data from May 2004 – January 2005. (The number of "overfunded" vouchers is somewhat less than the 2,250 in the text because the per-voucher cost of the overfunded agencies is higher than the national average per-voucher cost. To facilitate comparisons between the funding policies in the House and Senate bills, we used the national average per-voucher cost to determine the number of vouchers that could be used if the appropriated funds were distributed with maximum efficiency.) If later data are used to implement the policy under the Senate bill, the extent of "over-funding" would be likely to decline. Lifting the cap on adjustments for agencies with higher leasing rates in fiscal year 2004, as discussed below, would have minimal effect on the amount of "wasted" funds under each bill.

The notable difference between the Senate and House bills in the efficiency of distribution of funds results primarily from their funding policies and not from the difference in funding levels. If the final bill were to appropriate the House level of renewal funding and distribute it under the Senate funding policy (rather than pursuant to the House policy), about 7,000 more vouchers would be funded with the same appropriation.

Out-of-Date House Formula Would Require Deeper Proration Than Senate Policy

By building on HUD's determination of the renewal funding that each agency was eligible to receive in 2005, the House formula incorporates the full 2005 AAF adjustments on top of mid-2004 average voucher costs. Primarily for this reason, full funding of the House formula in 2006 would cost significantly more than full funding of the Senate formula. We estimate that to avoid a reduction in each agency's funding, the House formula would require an appropriation of $14.56 billion in renewal funding, some $311 million more than the $14.25 billion that would be needed for full funding of the Senate policy.[24] Because the Senate formula uses 12 months of recent data – of which at least nine months are likely to be subsequent to the May – July 2004 period that underlies the House formula – it takes advantage of the lower-than-expected rate of increase in voucher costs that has occurred. The other reason that the House formula would cost more is that voucher use was higher in May – July 2004, on average, than subsequently, when many agencies reduced the number of families receiving voucher assistance in order to manage within the rigid funding allocations they received in 2004 and 2005.

Neither bill provides sufficient renewal funding to avoid proration under its specified formula. The cut in formula funding, however, would be deeper under the House-passed bill than under the Senate bill. This is the case despite the fact that the House bill provides $100 million more in voucher renewal funding than the Senate committee bill. As the bills now stand, we estimate that each agency's formula funding would be reduced by 2.13 percent under the House bill and by 0.92 percent under the Senate bill.

The different renewal funding levels, however, mask the real extent of the difference that the funding formulas would make in the proration rate. If the final bill included the House renewal funding level of $14.19 billion but distributed it according to the Senate policy, there would be virtually no net reduction in formula funding; the proration would be only 0.22 percent, about one-tenth of the reduction rate under the House bill. Conversely, if the final bill includes the Senate funding level and the House distribution policy, the proration factor would be 2.82 percent, more than three times greater than the proration factor with the same funding level and the Senate funding policy.

Deeper Proration Under House Policy Would Underfund Some Agencies

The different proration rates that flow from the bills' different funding policies will affect agencies in various ways, depending on how their voucher programs have changed since May – July 2004. If an agency's average costs have increased after July 2004 at the rate anticipated by the 2005 and 2006

---

[24] These figures include the $45 million that each bill directs HUD to use for adjustments for agencies that had higher leasing rates in their 2004 fiscal year than in the snapshot period of May – July 2004. The Technical Appendix explains how we estimated the funds needed for full funding of each bill's stated policy.

AAFs, the agency will need all the funding due under the House formula to continue to meet current average costs. A proration would likely force such an agency to cut vouchers in use, and the size of the cut would be determined by the depth of the proration.

For example, an agency that used 98 percent of its 1,000 vouchers in the snapshot period, and experienced a subsequent cost increase precisely at the level of the HUD inflation adjustment, would receive funding under the House bill for only 959 vouchers in 2006, 21 fewer than the 980 families it was serving in mid-2004. In contrast, under the Senate bill (assuming the agency had been able to maintain average leasing at the mid-2004 level through the recent 12-month period) the same agency would receive funding to serve 12 more families than under the House bill. If the Senate policy was used to distribute the same amount of renewal funding as the House bill proposes, the agency would receive funding for 978 vouchers, only two less than the number in use during the snapshot period. Agencies with costs that increase at a higher rate than the AAFs — potentially due to factors beyond their control such as a factory closing in the area — would be even more disadvantaged by the House policy.

Adjustment Fund to Remedy Snapshot Problems Promising But Too Limited Under House Bill

To its credit, the House Appropriations Committee acknowledged that the 2005 funding distribution formula — as well as the overall funding shortfall — created difficulties for some agencies this year. A major weakness of the 2004 and 2005 formulas was their reliance on a single three-month snapshot of leasing costs to determine each agency's share of voucher renewal funding. The use of a three-month snapshot created arbitrary shortfalls for agencies that were temporarily underleased during the snapshot period, and has generated substantial funding inequities among agencies overall. These inequities have likely contributed to the loss of vouchers since April 2004.

The House bill attempts to address these problems by adding a measure of flexibility to the 2006 formula – namely, a one-time adjustment for some agencies that were harmed by the three-month snapshot used in 2005. The bill sets aside $45 million for these adjustments from the $14.19 billion that it provides to renew housing vouchers. Adjustments are permitted for agencies that used fewer vouchers during May – July 2004 than were leased on average in the 12 months of the agencies' 2004 fiscal year.[25] (The bill also permits HUD to use a portion of the $45 million to adjust funding for agencies that incurred increased costs due to the "portability" of vouchers to other jurisdictions since the snapshot period. The ineffectiveness of this provision to accomplish its goal is discussed below.) The Senate bill includes an identical provision, although it would work somewhat differently due to the difference in the basic funding formula.

Using HUD's Voucher Management System data, we determined the number of additional vouchers that would meet the statutory criteria for a funding adjustment under this provision. We found that 944 agencies would potentially be eligible for a funding adjustment for up to a total of 15,685 vouchers under the House bill. Such adjustments would cost approximately $106 million – more than double the amount of funding that the bill sets aside for this purpose. If HUD were to allow a proportionate adjustment for each qualifying agency, agencies would receive credit in the

[25] The relevant public housing agency fiscal years ended in March, June, September or December 2004.

funding formula only for 42 percent of the vouchers they lost due to the snapshot funding policy in 2005.

Agencies also lost funding in 2005 for about another 5,000 vouchers for which no adjustment is available under the House bill. These vouchers were leased in 2004 *after* the snapshot period but not during the particular agencies' 2004 fiscal year. See the text box, "The House Adjustment Would Fail to Restore Funding for Many Agencies," *[below]* for an example.

The House Adjustment Would Fail to Restore Funding for Many Agencies

For many agencies arbitrarily affected by the three-month snapshot period, an adjustment based on leasing rates in the agencies' 2004 fiscal year will not be effective. For example, the Michigan State Housing and Development Agency (MSHDA), which administers more than 22,000 vouchers throughout the state of Michigan, provided voucher assistance to 756 more families on average in the last quarter of 2004 than during the snapshot period of May – July 2004. Moreover, MSHDA's leasing rate continued to increase in 2005 as the agency overcame a number of administrative challenges. Yet MSHDA would not receive any adjustment under the House bill, because its increased leasing occurred after its 2004 fiscal year ended on June 30, 2004. More than 300 housing agencies leased more vouchers on average from August 2004 through the end of the calendar year than in the May – July snapshot period or in their 2004 fiscal years. Agencies like MSHDA would be better served by the Senate bill's more efficient funding policy that relies on recent data, rather than by the House bill's approach of fixed funding based on an outdated snapshot period.

Fewer adjustments are needed under the identical provision of the Senate bill because agencies would get credit under the formula — and so would not need an adjustment — for any additional vouchers used after July 2004 compared to the snapshot period or their 2004 fiscal year. We estimate that 706 agencies would be eligible for adjustment for 10,618 vouchers under the Senate provision.[27] With the smaller number of vouchers needing an adjustment under the Senate bill, eligible agencies could receive additional funding for 62.5 percent of their lost vouchers if HUD implemented the adjustment provision on a pro rata basis.

Policy-makers may not have realized that the $45 million allocated for agencies that lost vouchers due to the snapshot policy would be inadequate to meet the identified need. In the final bill, Congress could increase the set-aside or lift the limit entirely.

---

[27] This estimate assumes that the months remaining in 2004 after the May – July snapshot period are included in the 12 months of data to be used as the basis of funding determinations under the Senate bill. We cannot determine the number of vouchers eligible for adjustment under the Senate provision as precisely as under the House bill because some of the data necessary for the analysis of the Senate bill are not yet available. The Technical Appendix explains how we developed the estimate of the number of vouchers eligible for adjustment under the Senate bill. Voucher use may have gone up in this period if agencies received additional funds from HUD after prevailing on the appeals that HUD permitted of the 2004 funding formula, or due to the wide variety of local factors that affect monthly leasing rates.

There are trade-offs, however, that would be important to consider. Unless additional funding were provided for voucher renewals, any increase in funding made available for such adjustments would deepen the proration required of the basic formula funding. In light of the inherent arbitrariness of basing funding on a 3-month snapshot period, it might be fairer, if the House policy were incorporated in the final bill, to allow a full adjustment to agencies that had a higher leasing rate in their 2004 fiscal year than in the snapshot period. Removing the limit on the funds available to adjust for higher voucher leasing in an agency's 2004 fiscal year without increasing the total funding available for voucher renewals would increase the proration applied to the basic formula funding under the House bill by 0.4 percent. This would amount to a cut of only $4,000 for each $1 million of funding an agency receives.

In contrast, lifting the adjustment limit under the Senate bill would not appear to be justified. As discussed below, the Senate funding policy would target available funds to the agencies that most need them to support vouchers in use. Unless later data indicated that more funds could be used for such adjustments without deepening the proration applied to basic formula funding, it would be a higher priority to make sure that agencies could continue to support current vouchers than to adjust for past losses.

Senate Funding Policy Is Better Designed to Support Vouchers Currently In Use

It should be a priority for any funding policy – and particularly at a time of constrained resources – to distribute available funds in a way that will ensure that agencies can continue to meet their current obligations to owners and tenants. Housing agencies face grave difficulties when the funding they receive is inadequate to support vouchers currently in use. When agencies have only bad choices — imposing precipitous rent cuts on owners or rent increases on tenants (or even worse, possible termination of families' subsidy payments) — it may be impossible to navigate a path that does not harm vulnerable families or damage the effectiveness of the program over the longer term.

By basing renewal funding on the actual costs and number of vouchers in use in the most recent 12-month period for which data are available, the Senate bill's funding policy is better designed to provide the funding necessary to continue to support vouchers in use.[28] It is particularly important to use the more efficient distribution policy if Congress does not fully fund the renewal formula that it adopts. As discussed above, fully funding the Senate policy in 2006 will cost some $311 million less than fully funding the House renewal formula, because the Senate policy benefits from average costs increasing at less than HUD's inflation factors. As a result, at any given funding level, the proration required under the Senate policy will be less severe, thereby ensuring that agencies receive more of the funding they need. In addition, as discussed above, in contrast to the House policy based on out-of-date data, the Senate policy is substantially less likely to waste scarce funds on agencies that do not need (and probably cannot use) the money in question to support authorized vouchers.

---

[28] To provide the funds likely to be needed to support vouchers in use in the upcoming calendar year, the Senate policy needs to incorporate inflation adjustments for the correct period of time. Adjustments are needed to bring the mid-point of the 12 months of data HUD that uses to determine each agency's funding forward to the mid-point of calendar 2006. Unless HUD uses data from the whole of calendar year 2005 to determine 2006 funding, which is unlikely as a practical matter because these data would not be available in time, proper implementation of the Senate policy requires use of more than a one-year adjustment factor. This issue is discussed more fully in the Technical Appendix.

Our findings on the likely impact of the House and Senate funding policies on individual agencies underscore these conclusions. Under the House bill, 1,013 of the 2,439 agencies that currently administer Section 8 housing voucher programs would receive less funds than they are likely to need to support vouchers currently in use, placing at risk vouchers for 27,900 families. If Congress were to adopt the Senate funding policy to distribute the same renewal funding level, however, the loss of vouchers would be substantially reduced: 629 agencies could lose funding for 6,004 vouchers, and only 54 agencies would lose funding for a significant number of vouchers (defined as loss of at least 50 vouchers or 5 percent of the agency's vouchers in use).[29] (Under the Senate bill currently, with $100 million less allocated to renew vouchers than the House bill proposes, the loss of vouchers would be less than half the likely loss under the House bill.) See "Estimated Voucher Cuts in 2006 Under House and Senate Bills," available at http://www.cbpp.org/8-24-05-hous.htm.

More Agencies Would Benefit From Senate Funding Policy

The funding policy in the Senate bill is not only more efficient than the House policy. It also would produce more "winner" agencies than the formula in the House bill.

- 1,148 state and local housing agencies, which administer more than half of all vouchers (53 percent), would have more authorized vouchers funded under the Senate formula, while 833 agencies administering less than a third (31 percent) of all vouchers would have more vouchers funded under the House bill (assuming the higher House funding level is applied to each bill's funding formula). 458 agencies would receive funding for the same number of vouchers under both bills.

- The funding differences are significant for many agencies. 354 agencies administering 30 percent of all vouchers would receive funding for a total of at least 50 or 5 percent more vouchers under the Senate bill than under the House bill, if the higher House funding level is applied to each bill's funding formula.

- The 18 agencies with special voucher funding agreements under the Moving-to-Work demonstration all would receive more funding under the Senate formula than under the House formula, due to the deeper proration required by the inefficient House policy. (MTW agencies are included in the above findings.)

In Future Years, Basing Renewal Funding on 12 Months of Recent Data Would Continue to Be More Efficient and Provide Greater Stability at the Local Level

One lesson of the past few years is that frequent changes in voucher funding policy can produce fiscal instability in voucher programs at the local level, which can place low-income families at risk and make landlords lose confidence in the program. In 2006, Congress should aim to put in place a funding policy that will stabilize local programs, as well as be fiscally prudent and efficient over the long term.

---

[29] These estimates are calculated from projections of average voucher costs and the number of authorized vouchers that will actually be in use in 2006 based on data through January 2005. Estimates of 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. For additional information on the assumptions used in making these estimates, see the Technical Appendix.

In addition to allocating available funds more efficiently in 2006, the Senate policy of basing agency budgets each year on recent data has a number of important advantages over the House policy of continuing to distribute funds based primarily on 2004 leasing and costs. Overall, the formula proposed in the Senate bill would:

- allow Congress and HUD to fund the voucher program in a more predictable and efficient manner;
- make funding more responsive to local market changes such as changes in leasing success rates and tenant incomes, as well as rents;
- maintain a connection between funding and the quality of housing agency management; and
- allow Congress and HUD to put in place better incentives to improve housing agency performance.

Predictability

First, while both formulas would enable Congress to determine how much full funding of the formula would cost, only the Senate formula would allow Congress to predict voucher funding needs on the basis of accurate data on the number of vouchers that are actually in use. These data would allow Congress to make a more precise prediction of how much funding would be needed to renew leased vouchers. Since ensuring the renewal of all vouchers in use should be a priority for voucher funding policy, this is a clear advantage for the approach advanced in the Senate bill. If desired, an additional measure of predictability could be achieved if Congress, based on data available at the time of the final conference agreement, were to specify the 12-month period to be used for the renewal formula, rather than leaving determination of the period to HUD.

Responding Efficiently to the Market

A major defect of the voucher funding policy proposed in the House bill is that it would eliminate any connection between voucher funding and local changes in tenant incomes and leasing rates over the long term. By detaching each agency's voucher funding from local leasing rates and tenant incomes, the House renewal formula would not be capable of responding appropriately to relative changes in local labor and housing markets. In effect, the House funding policy attempts to impose non-market distribution principles on a market-based program, which would cause it to be more inefficient over the long term.

We have shown that the differences in efficiency would be significant in 2006. Our analysis of the VMS data, for instance, shows that the House funding policy would overfund 541 housing agencies by an estimated $79 million in 2006, while simultaneously cutting funding for 27,900 vouchers that another 1,013 housing agencies are likely to have leased in 2005.

The disadvantages of the voucher funding policy proposed by the House would not be limited to 2006. If the House formula continued in place, the inefficient distribution of funding would be repeated, and magnified, in subsequent years.[30] For instance, in communities where tenants are

---

[30] The House Committee's report makes clear that it intends that the funding policy put in place in 2006 remain the basis of voucher renewal funding in the future. It states that Congress "set the baseline for all future appropriations" in the 2005 appropriations act. See House Report 109-153, p. 83. It is unlikely that other members of Congress, including those on the authorizing committees, understood that a policy unveiled for the first time in the Consolidated

experiencing long-term reductions in income because of a local economic deterioration or other reason, housing agencies would receive no adjustments in their share of voucher funding to compensate for increased subsidy costs. As a result, agencies could be forced to cut vouchers just as needs for housing assistance are growing in their communities.

Alternatively, if an agency's leasing rate falls over time — because of poor management, low local vacancy rates, etc. — the agency's share of voucher funding would remain the same under the House-proposed formula. In this case, scarce voucher resources would likely be wasted, while other agencies received too little funding to support all of their vouchers.

In contrast, under the Senate-proposed formula, funding would be redistributed year-to-year to agencies that have at least maintained their leasing rates or have experienced declining tenant incomes. In general, because the voucher renewal formula proposed by the Senate would base each agency's share of total appropriations on actual leasing and voucher cost data during a 12-month period that would roll forward every year, the formula would automatically adjust for year-to-year cost changes due to fluctuations in tenant incomes or leasing rates. It would do so while maintaining the overall fiscal discipline of a budget-based system.[31]

Agency Performance and Incentives

The voucher funding policy proposed in the House bill would guarantee each housing agency the same share of renewal funding (adjusted for inflation) over coming years, *regardless* of the agency's performance in managing costs or improving leasing rates. The House funding policy would therefore separate voucher funding from agency performance, and provide no incentives for agencies to reduce costs, maintain or increase their leasing success rates, or otherwise improve their management of the program.

The Senate funding policy would link each housing agency's share of voucher funding to its recent average leasing rates and voucher costs, which puts in place a foundation for measuring agency performance and creating incentives to improve performance. Agencies should be encouraged to lease up the maximum number of their authorized vouchers, within the overall funding level set by Congress. One way to do this would be to distribute voucher administration funding on a per-unit-leased basis, where each agency's share of the funding that was provided for administrative fees would be based on its share of total leased vouchers. This is the policy that was in effect in the voucher program through 2003, and it played a powerful role in encouraging agencies to take the steps necessary to increase voucher utilization. Under the new budget-based approach, returning to paying administrative fees based on the number of units leased also would encourage agencies to keep a lid on per-unit costs, so that they could use resulting savings to lease as many units as possible. Such a system of administrative rewards would be consistent with the Senate-proposed

---

Appropriations Act for Fiscal Year 2005, that by its terms affected funding only for a single year, was intended to make a profound, permanent change in the funding structure of the nation's largest low-income housing program.

[31] It is important to keep in mind that the adjustments referred to here are adjustments in <u>relative</u> shares of voucher funding, not adjustments in overall voucher funding. In other words, the question here is one of the efficiency of the distribution of whatever level of voucher funding Congress decides to appropriate, not how much overall funding is being distributed.

renewal formula that continues to base funding on units leased, but would be very much at odds with the purely "dollar-based" House approach.

In summary, the voucher funding policy proposed in the Senate bill would distribute funding more efficiently, with less "waste," would make it easier for HUD and Congress to monitor the performance of agencies (e.g., to know how many vouchers are in use), and would facilitate the creation of incentives to improve the performance of housing agencies in managing the program.

Additional Improvements in Renewal Funding Policy Are Needed

The Senate bill takes the most important step toward an improved budget-based funding policy by requiring each housing agency's annual budget to be based on the most recent 12 months of data available on voucher leasing rates and costs. Three further improvements are needed, however, to ensure that agencies can keep their commitments to owners and families participating in the program.

- Funds need to be available *during the funding year* to pay additional costs that occur as a result of the **portability** feature of the voucher program.

- Agencies need access to some **reserves** to meet unanticipated costs over which they have no control under current program requirements.

- In special cases, **adjustments** should be allowed in the determination of an agency's annual budget to support vouchers that were not fully in use in the period on which annual funding is based, such as vouchers that have already been contractually committed to be "project-based" at developments that are underway, "tenant protection" vouchers issued in 2004 that would not otherwise be fully funded, and "litigation" vouchers that communities have been required to issue as part of a settlement or court order to remedy housing discrimination.

A Budget-based Funding Policy Should Not Undermine Portability – the Statutory Requirement that Vouchers Can Be Used Throughout the Country

The flexibility to move with a voucher from one community to another has been a central feature of the voucher program for nearly 20 years. The ability to move with a voucher to a geographic area served by a local housing agency different than the one that originally issued the voucher is called "portability." Congress amended the U.S. Housing Act in 1987, under President Reagan, to add the portability requirement to the tenant-based Section 8 program. Without portability rights, the administrative boundaries of the more than 2,400 agencies that administer the voucher program would effectively constrain families' residential choices, often within narrow confines. Voucher holders would be unable to move to be near family members or to improve access to job opportunities, health care or better schools (or to leave high-poverty, high-crime areas). The vital role that housing vouchers often play in overcoming segregated residential patterns would be severely weakened.

The "budget-based" funding policies that began in 2004 have unintentionally undermined this key attribute of the program. With funding based on costs in a prior period, agencies – particularly small ones – may have to reduce the number of families served or adopt other cost-cutting measures to meet the additional costs they would incur if voucher holders choose to "port out" to a locality where rental costs are somewhat higher. As a result, many agencies around the country have imposed restrictions on where families may move, despite the fact that such policies may violate the U.S. Housing Act and civil rights laws. It is important that the voucher funding policy adopted through the appropriations process not undermine the central goal of choice.

The report accompanying the House bill acknowledges that the misfit between a budget-based funding policy and portability is "troubling." Both the House and Senate bills direct HUD to make funding adjustments for agencies that have incurred significant increases in costs due to portability after the snapshot period, using a portion of the $45 million each bill sets aside for adjustments for agencies with higher leasing rates in their 2004 fiscal year than in the snapshot period. A special adjustment would be unnecessary if funding were based on data from the most recent 12 months, as the Senate bill would require, because cost increases would be reflected in the recent data. Most importantly, however, a retrospective adjustment for additional costs that *already have been incurred* is not an effective mechanism to address this problem. Only agencies that have already allowed families to move to higher cost areas will be eligible for an adjustment. Under either bill, families served by agencies that have denied requests for portability moves since July 2004 would likely continue to be restricted to their original communities.

To prevent a budget-based funding policy adopted in appropriations acts, without consideration by the authorizing committees of Congress, from undermining the statutory right to portability, agencies must have access to additional funds if needed to meet additional costs due to portability moves in 2006. Such funds could be provided either by HUD (through a central fund such as requested in the Administration's budget[32]), or through agency reserves, as discussed below. Only a modest amount of funds is required for this purpose. The need for additional funds could be sharply reduced in the future if HUD develops proposals to minimize the cost of portability as the House committee directs.[33]

Agencies Need a Modest Reserve to Meet Unforeseen and Uncontrollable Costs

To manage the program effectively, housing agencies must have access to some reserve funds to have the flexibility they need to meet commitments to owners in the face of unanticipated costs that may arise. Voucher subsidies may change quickly for reasons that agencies cannot control. For example, if a member of a family served by the program loses a job, the family is eligible for an increase in the subsidy paid on its behalf. Depending on the size of the program and whether savings from other families balance out such a cost increase, an agency could need funds beyond its initial budget to meet its obligations to owners. At the least, the one-week reserve level established by the 2005 appropriations act (cut from the one-month level) should be maintained.

Ideally, the 2006 appropriations act should include sufficient funds to restore agency reserves to the one-week (approximately 2 percent) level, so that agencies that have had to drain their reserves to offset shortfalls under recent funding policies could start 2006 on solid financial footing. The

---

32 HUD requested that $45 million within the tenant-based rental assistance account be allocated for a central fund to allow HUD to meet "unforeseen exigencies." Neither bill includes a central fund.

33 See House Report 109-153, p. 84. The Appropriations Committee directs HUD to develop and submit, prior to submission of the 2007 budget, proposals to minimize the cost of portability to public housing agencies.

agencies that have depleted their reserves below the one-week level are those that were most adversely affected by the snapshot funding policies of the last two years. Enabling them to have a small reserve would serve the same goal as the adjustment for higher fiscal year 2004 leasing that the bills include. We estimate such a restoration would cost $140 million if half of all agencies running voucher programs need reserves restored.

It is possible that Congress may be able to restore at least part of the depleted reserves without appropriating additional funds. This could occur if Congress adopts the funding policy in the Senate bill and the cost of the 12-month renewal formula is less than we have estimated.[34] At the least, the appropriations bill should allow HUD to use any renewal funds not required to fund the renewal formula to restore agency reserves to the one-week level, and should protect reserve funds from recapture by HUD below the one-week level.[35] Another option is to allow HUD to recapture, during 2006, funds that agencies will not be able to use to support authorized vouchers, and to use those funds to restore agency reserves to the one-week level. Depending on the amount of recaptured funds available, priorities could be established for receipt of funds, such as for agencies that have incurred additional costs due to portability moves.

HUD Should Have More Flexibility to Adjust The Number Of Units Needing Funding

Like the budget-based funding policy in the 2005 appropriations act, both bills direct HUD to adjust the funding due agencies under their formulas for the first-time renewal in 2006 of "tenant-protection" or HOPE VI vouchers. Experience in 2005 indicates that this provision is overly narrow, and could deprive agencies of funds they need to renew these vouchers and still meet other existing commitments. Without increasing the funding required, HUD could be given the authority to make three additional types of adjustments.[36]

- **Commitments to "project-base" vouchers** — State and local housing agencies are allowed to "project-base" up to 20 percent of their tenant-based vouchers — that is, to assign rental assistance to specific units. The ability to project-base some vouchers is important to certain types of initiatives, such as developing supportive housing for the homeless or neighborhood revitalization. HUD usually requires agencies that wish to project-base vouchers to set aside the vouchers they plan to commit to a project until the project is ready for occupancy, in order to ensure the vouchers are available when needed. Under a budget-based funding policy, such reserved vouchers will not be funded if they were not in use in the period on which funding is based. In the past year, some agencies have been forced by the budget-based funding policies to break contractual commitments to owners and developers to project-base vouchers. Not

[34] Our finding that a 0.2 percent proration would be required under the Senate bill, even at the House renewal funding level, is based on estimates of leasing and costs after January 2005, and of the average AAF, that may turn out to be too high. If costs in 2005 are lower than we estimate, and particularly if the 12-month period includes more than the four months in 2005 that we assumed, total renewal costs under the Senate bill could be less than we estimate.

[35] In a notice issued in February 2005, HUD stated that "Starting in calendar year 2005, the Department will no longer exercise its option to establish and maintain an Annual Contributions Contract (ACC) reserve account for the voucher program…." PIH 2005-9, February 25, 2005.

[36] We do not have the information necessary to estimate the costs of the three recommended adjustments. Nationally, we expect the cost to be relatively small, but to individual agencies, the impact of allowing the adjustments could be substantial. If the appropriation is not sufficient to meet the full cost of the renewal formula, including the adjustments, each agency's funding would be prorated.

only has this undermined private-sector confidence in the program, but it has led to the loss of valuable housing opportunities for the lowest-income people, including the loss of planned supportive housing developments for chronically homeless individuals in several states. To remedy this problem, Congress should authorize HUD to adjust funding for housing agencies that committed vouchers to affordable housing projects, reducing the number of vouchers in use during the base period.

- **Renewal of tenant protection vouchers that were funded for less than 12 months on initial renewal** — HUD awards tenant protection vouchers when they are needed to prevent displacement or enable families to be relocated from public housing that is being demolished, which can be at any point in the year. Funding is usually awarded for a full 12-month period. The first renewal funding that an agency receives for such vouchers is designed to carry the vouchers through the end of the calendar year in which the funding first expires, allowing the vouchers to be renewed on an annual basis thereafter. A narrow construction of the bills' language – as HUD used in 2005 – will prevent many agencies from receiving full renewal funding for tenant protection vouchers.

  For example, in 2005, HUD determined that the McLean County (IL) Housing Authority was not eligible for an adjustment for funding for tenant protection vouchers that were first awarded in late 2003 but were not fully in use in May – July 2004. HUD concluded that the language of the 2005 appropriations bill, which is identical in this respect to the language in the 2006 House and Senate bills, barred it from adjusting the agency's 2005 renewal funding, because HUD had given the agency a two-month renewal contract in late 2004 to extend funding for the vouchers through the end of the calendar year. To prevent the termination of assistance for more than 60 families, HUD allowed the agency to draw all its reserve funds. If funding is again based on vouchers in use in May – July 2004, as the House bill would require, McLean and other agencies in a similar position would be without any source of funding to support such vouchers. This result appears to be contrary to Congress' intent.

  Congress could prevent this unintended and extremely harmful result in 2006 by deleting the restriction on adjustments to the "first-time" renewal of tenant protection vouchers.[37] To prevent the recurrence of this problem in future years, Congress should consider directing HUD to award sufficient funds initially to carry tenant protection funding through the end of the next calendar year.

- **Litigation vouchers** — Another unintended consequence of the "first-time" renewal language in the 2005 appropriations act, combined with a rigid budget-based voucher renewal policy, was to deny funding to Baltimore (and possibly other cities) that they were counting on to fulfill outstanding court orders or settlement agreements in fair housing cases. There are two ways to resolve this problem in 2006: allow HUD to make adjustments to the basic renewal formula for such vouchers, or provide a special allocation of funds in the tenant protection account for this purpose. The Senate bill takes the latter approach, and allows $12 million of the $192 million it

[37] In 2006, there also may be a need to adjust funding for the cost of new tenant protection vouchers issued in *2004* — and not just in 2005 — that are not fully reflected in the renewal formula. As described in the Technical Appendix, our estimates assume that HUD *will* make such adjustments if the House bill is adopted. It is not clear, however, that HUD would conclude it has the authority to do so under the current language of the House bill. Similar but less costly adjustments also could be needed for some agencies with tenant protection vouchers under the Senate's policy of basing renewal funding on the most recent 12 months of data.

proposes to make available in 2006 for new tenant protection vouchers to be used "to cover the costs of judgments and settlement agreements." The Senate bill's approach has the added benefit of not depriving other agencies of funds to meet needs in their communities. The House bill has no provision to address this concern.

Conclusion

The housing voucher program is widely viewed as one of the most effective tools for helping low-income families afford housing. The bipartisan, Congressionally-chartered Millennial Housing Commission strongly endorsed the program in its 2002 report, describing it as "flexible, cost-effective, and successful in its mission." Similarly, a 2003 report by the Office of Management and Budget on the performance of HUD programs stated that the voucher program demonstrates "improved efficiencies and cost effectiveness in achieving program goals each year" and that independent evaluations "indicate that the program is effective and achieving results."

The voucher program's effectiveness depends heavily on adequate, reliable funding. If landlords do not believe that the federal government will fund all housing vouchers, they are likely to be less willing to rent apartments to voucher holders. Unreliable funding also creates needless disruption in the lives of the low-income households — primarily working families, senior citizens, and people with disabilities — who rely on vouchers to help them pay their rent each month, and makes it difficult for state and local housing agencies to plan and manage their voucher programs effectively.

At the same time, the experience of the past three years has demonstrated that a stable, equitable, and efficient voucher funding policy — as well as adequate funding levels — is essential to the program and to the well-being of the low-income families that rely on it. Program efficiency is of heightened importance when federal resources are scarce, as they are likely to be in 2006.

If Congress is to repair the damage done to the voucher program in 2004 and 2005 — and our analysis shows it could do so while remaining within the 2006 budget proposed by the Administration — it must improve the 2006 voucher renewal formula, by building on the solid recommendations of the Senate Appropriations Committee.