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SENATE COMMITTEE BILL MAY AVERT CUTS TO HOUSING VOUCHERS DESPITE INADEQUATE APPROPRIATION

By Barbara Sard and Will Fischer

Summary

On September 4, 2003, the Senate Appropriations Committee approved S. 1584, the appropriations bill that funds the Department of Housing and Urban Development (HUD) and certain other agencies in fiscal year 2004. The House of Representatives approved its version of a HUD appropriations bill in July.

The House bill would lead to the loss of approximately 60,000 housing vouchers next year because of inadequate funding for the "Section 8" voucher program. The Senate bill, in contrast, has the potential to avoid the loss of any vouchers, although the manner in which it seeks to achieve this goal leaves some risk that funding will turn out to be inadequate. The Senate bill also contains several provisions that should improve the effectiveness of the voucher program.

- **The Senate bill seeks to prevent cuts in housing voucher assistance by requiring HUD to use available unspent funds from prior years as needed to provide continued funding for existing vouchers.** Like the House bill and the Administration's budget request, the Senate Appropriations Committee bill (hereafter referred to as the Senate bill) would not provide sufficient *direct* appropriations to meet the funding needs of the voucher program. Unlike the House bill or the Administration's budget request, however, the Senate bill would require HUD to draw on prior-year appropriations and other available funds as needed to pay for authorized vouchers that are in use. Recent Administration budget documents appear to indicate that sufficient funds are available from such sources to meet the funding needs of the voucher program. The Senate bill therefore has the potential to avert any shortfall in housing voucher funding.

- **Nevertheless, the Senate approach carries some risk that funding will not be adequate.** The effectiveness of the Senate approach rests on the assumption that sufficient prior-year funds will be available in fiscal year 2004 to fund all authorized housing vouchers that can be used. Some risk exists that Congress may divert these unused prior-year funds — whose quantity and source the Administration has never specified — to other purposes before they can be used to fund housing vouchers. If this occurred, the number of families receiving housing assistance would be reduced. Furthermore, even the possibility that sufficient funds may not be available could deter some landlords from participating in the voucher program.

- **If prior-year funds are not available, the Senate bill would cause the loss of more vouchers than the House bill.** The Senate bill provides $200 million less than the House bill in direct funding to renew vouchers. If no prior-year funds were available to supplement the direct appropriation, approximately 92,000 to 135,000 vouchers in use at the start of fiscal year 2004 would be left unfunded under the Senate bill. By comparison, the House bill would leave unfunded 63,000 to 108,000 vouchers in use if no prior-year funds were available.

- **To ensure funding for all authorized vouchers that can be put to use, the House-Senate conference committee should rescind the needed prior-year funds and reappropriate them for the voucher program.** The conference committee should obtain information from the Administration regarding the source and quantity of available prior-year funds. The committee should then rescind and reappropriate the amount of these funds anticipated to be needed for the voucher program, while retaining the Senate bill's explicit commitment to fund all authorized vouchers that housing agencies are able to use. These steps should ensure that sufficient funds are available in fiscal year 2004 to renew all authorized vouchers that can be used.

  These steps also would increase the likelihood that the voucher program will be adequately funded in subsequent years. If the needed prior-year funds are made available in fiscal year 2004 without being reappropriated — that it, if the approach called for in the Senate bill is followed — any such funds used for the voucher program in fiscal year 2004 will not show in the 2004 appropriation level. That would be problematic because the 2004 appropriation level is likely to have a significant influence on the appropriation level for 2005, particularly in light of the Administration's commitment to keeping overall domestic discretionary appropriation increases below a fixed percentage of the previous year's appropriation level.

- **The Senate bill provides adequate funds for administrative fees.** Unlike the House bill and the Administration's budget request, the Senate bill provides sufficient funds to cover administrative fee payments to state and local housing agencies. It also would require HUD to maintain the current formula used to determine the amount of fees that each agency receives. Without adequate administrative fees, housing agencies will not be able to lease all of their vouchers or to help families find housing in better neighborhoods closer to jobs.

- **The Senate bill gives housing agencies greater flexibility to temporarily "overlease" vouchers in order to put more authorized vouchers to use.** Because not all families are able to find housing where they can use their vouchers, well-run housing agencies overissue vouchers in the same manner in which airlines overissue tickets. If more families than expected are able to use their vouchers, such agencies must be able to cover the costs of the extra vouchers for a period of time. The Senate bill, unlike the House bill, allows an agency to use renewal funds to lease more vouchers on a temporary basis than it is authorized to administer. To ensure that this added flexibility is not abused, the bill requires an agency that has overleased vouchers to reduce promptly the number of vouchers in use to the authorized level.

- **The Senate bill provides more funding than the House bill for the Family Self-Sufficiency (FSS) program.** The Senate bill provides the full $72 million requested by the Administration for FSS, a program that provides incentives and counseling to encourage housing assistance recipients to become employed and increase savings. The House bill provides $48 million for this program, the same level as was provided last year with no adjustment for inflation.

- **The Senate bill appears likely to fund a small number of new vouchers for people with disabilities.** The bill instructs HUD to use $36 million to award new (or "incremental") vouchers to people with disabilities if HUD has funds available for this purpose. Because the directive applies to prior-year funds as well as new appropriations, it is likely that sufficient funds would be available. The Administration's budget, which requested $36 million for incremental vouchers, estimated that this amount would fund 5,500 new vouchers. By contrast, the House bill makes no provision for incremental vouchers.

Senate Bill Would Require HUD to Use All Available Funds to Support Authorized Housing Vouchers if Needed

As discussed in greater detail below, the Senate bill — like the House bill and the Administration's request — provides insufficient *direct* appropriations to fund all of the housing vouchers likely to be in use in fiscal year 2004. A provision in the Senate bill, however, requires HUD to supplement these direct appropriations, as needed, with available funds from prior years so that housing agencies may use as many of their authorized vouchers as they are able. This provision makes clear that housing agencies have the legal right to issue these vouchers to families and individuals on their waiting lists.

This Senate provision has great significance because it applies not only to the funds directly appropriated by Congress for the voucher program but also to any previously appropriated funds that can legally be used to support vouchers.[1] The Mid-Session Review released in July 2003 by the Office of Management and Budget indicates that HUD has sufficient funds to meet the needs of the voucher program. (Data in the Mid-Session Review suggest HUD will have sufficient funds for this purpose even if the average cost of a voucher equals or modestly exceeds the Congressional Budget Office's estimate of that cost. The CBO estimate significantly exceeds the estimate of the average cost per voucher that HUD has provided and

[1] The Senate bill states: "Provided, that subject to the following proviso, the Secretary shall use amounts in such [central] fund, as necessary, for contract amendments to maintain the total number of unit months under lease (up to the authorized level) including turnover and reissuance of authorized vouchers, and for contract amendments resulting from a significant increase in per-unit cost, *or otherwise provide funds so that public housing agencies may lease units up to their authorized unit level."* S. 1584, 24:22 – 25:6 (emphasis added).

hence that the House and Senate Appropriations Committees used in developing their bills.[2]

The Administration has provided no information on the source or quantity of the available prior year funds. It is likely that the funds consist largely of funds that were appropriated for the voucher program or the separate Section 8 "project-based" housing assistance program in previous years but have not been needed until now, primarily for one of two reasons:

- The project-based Section 8 program was historically funded through long-term (often 20-year) contracts for a fixed number of housing subsidies. Because the amount of funding required to support these subsidies over several decades could not be estimated with accuracy at the beginning of these long multi-year periods, such contracts often contain too much or too little funding. In cases where contracts contain too much funding, the excess is left unused until HUD "recaptures" it and uses it for other purposes within the Section 8 program or Congress rescinds it.

- In addition, until fiscal year 2003, Congress provided enough funding for the voucher program to cover all authorized vouchers, whether or not these vouchers were in use. Each year some authorized vouchers are not used, generally because some families are not able to find housing where they can use their vouchers. As a result, some of the funds Congress appropriated for the voucher program were not used. Such unused funds are recaptured by HUD and either used to offset costs in the Section 8 program or rescinded by Congress.

The practices that led to such excess appropriations have been discontinued, but some funds are available at HUD as a result of the use of these practices in past years. Some long-term contracts have not yet expired. Also, HUD has begun only recently to recapture unspent voucher funds from fiscal year 2002, the last year in which Congress followed the old approach of funding vouchers whether or not they were in use.

The Administration's budget request and the House and Senate bills all make use of some

[2] OMB's Mid-Session Review estimates that in fiscal year 2004, expenditures under Section 8 — which is made up of the voucher program and a project-based housing assistance program with several components — will total $22.2 billion. OMB's Mid-Session documents do not contain a breakdown of the costs of the various components of the Section 8 program. Fortunately, CBO has provided greater detail about its budget estimate for the Section 8 program, and this information, in combination with data from Administration budget documents, makes it possible to ascertain OMB's projection of the cost of the program's individual components. CBO estimates that expenditures for the *project-based* Section 8 program, including administrative costs, will total about $7.4 billion in fiscal year 2004. If OMB's estimate for project-based subsidies is the same as CBO's estimate, then it appears that OMB's estimate for the Section 8 program includes approximately $14.8 billion in expenditures for vouchers. (The $22.2 billion in outlays for the program as a whole minus $7.4 billion for project-based subsidies equals $14.8 billion for vouchers.) Approximately $400 million of this $14.4 billion in expenditures apparently would be spent on vouchers under multi-year contracts that are not up for renewal in 2004 or for other purposes other than voucher renewals, leaving about $14.4 billion for voucher renewals. Because OMB's estimate includes only expenditures that can be supported by legally available funds and the President's budget requests far less in direct appropriations for the voucher program than OMB projects will be expended, this estimate indicates that OMB believes sufficient funds are available to the voucher program from prior-year appropriations or other sources.

prior-year funds to support the voucher program. The Administration designated $1.072 billion in funds from prior years for this purpose. Both the House and Senate bills rescinded this same amount and reappropriated it for use in the voucher program.[3]

The Senate bill differs from the House bill and the Administration's request, however, in its treatment of available prior-year funds *beyond* the $1.072 billion. Under the House bill and the Administration's request, HUD could use such funds to support renewal of vouchers, *but it would be under no obligation to do so.* HUD could simply reduce the size of the voucher program to the level that could be supported with directly appropriated funds. Moreover, without the provision included in the Senate bill, it is not clear that housing agencies would have a legal right to use more authorized vouchers than the limited number of vouchers that could be supported with directly appropriated funds.[4]

For these reasons, there is a strong possibility that under the House bill and the Administration's request, HUD would not use available funds from prior years to fund vouchers in fiscal year 2004. If that occurred, only the inadequate amount of direct appropriations would be available to fund the voucher program and the number of families receiving voucher assistance would be reduced.

Congress Could Fund the Voucher Program in a Sounder and More Reliable Manner by Reappropriating Prior-year Funds

The Senate bill demonstrates the Senate Appropriations Committee's firm intention to provide sufficient funds to meet the needs of the voucher program. It maintains the federal government's commitment to funding as many authorized vouchers as housing agencies are able to use to serve needy families, despite the fact that the Appropriations Committee received out-of-date information on program funding needs from HUD and faced a tight spending cap under this year's budget resolution. If the language in the Senate bill is retained in conference, it may avert the large, if unintended, cuts in voucher assistance that could occur under the House bill or the Administration's request.

[3] The Administration's budget proposed a rescission of $300 million from Section 8 funds to be reappropriated to help meet the expenses of renewing project-based Section 8 subsidies. The House and Senate bills increased the rescission of Section 8 funds to $1.372 billion rather than relying on $1.072 billion of carry-over funds as the Administration had proposed. Throughout this analysis, these rescinded and reappropriated funds are counted toward the amount of "direct" appropriations provided under each bill.

[4] Under both bills and the Administration's request, each housing agency also would have access to funds in its "program reserve." In recent years, Congress has required HUD to provide each state and local housing agency at the beginning of the agency's fiscal year with a program reserve that contains funding equal to one month of the agency's voucher costs. It is not clear to what extent program reserves have been depleted during fiscal year 2003, however, or whether housing agencies would be willing to use these reserves (which are intended to enable them to pay the initial costs of putting additional authorized vouchers to use and to respond to cost increases that have not been anticipated by HUD, such as those that can result from rapid rent increases in local housing markets) to cover ongoing program costs. See discussion in Barbara Sard and Will Fischer, "House Funding Level Would Lead to More Than 60,000 Fewer Families Receiving Housing Voucher Assistance," revised August 29, 2003, page 10, available on the internet at http://www.cbpp.org/8-13-03hous.htm.

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Nonetheless, the approach taken in the Senate bill is not a desirable way to fund a major federal program on which two million low-income families rely for their basic shelter. The Senate bill only requires HUD to use whatever prior-year funding is available to address any funding shortfall; it would not prevent Congress from diverting these funds to other purposes. Because the Senate bill does not estimate the voucher program's funding needs and HUD has given no public indication of the amount of unspent funds available, Congress could rescind some unspent prior-year funds during the fiscal year and reappropriate them for another function without realizing that these funds would become necessary for voucher renewals. In this way, Congress could unwittingly cut housing assistance for low-income families.

In addition, the voucher program could be harmed by uncertainty over whether the funding gap would be closed successfully. The program's effective functioning depends in part on the confidence of housing agencies, housing owners, and program participants that sufficient funding will be available to cover the costs of all vouchers. If they are uncertain that funding will be adequate, housing agencies may be less likely to issue authorized vouchers, landlords may be less likely to accept voucher holders as tenants, and families may be less likely to invest the time and effort needed to find an apartment where they can use a voucher. In addition, developers are likely to be less willing to agree to multi-year contracts to accept voucher subsidies, and some lenders with whom developers are dealing may discount vouchers as a source of rental payments.

The Senate's use of a low direct appropriation also increases the likelihood that the program will not be adequately funded in future years. The funding level in fiscal year 2004 is likely to have a significant influence on the budgeting process in fiscal year 2005. This is particularly likely in a fiscal environment in which the Administration has committed itself to keeping overall domestic discretionary funding increases below a fixed percentage of funding for discretionary programs in the previous year. By relying heavily on funds other than current-year appropriations, the Senate bill artificially deflates the voucher program's current-year appropriation below the amount needed to cover program needs. This approach could increase the chances of an inadequate appropriation in fiscal year 2005, since simply continuing to fund the same number of vouchers could entail a large percentage increase in new appropriations in fiscal year 2005.

The conference committee that reconciles the House and Senate appropriations bills could address these drawbacks of the Senate approach by:

- seeking more information from the Administration regarding the availability of prior-year funds;
- rescinding the prior-year funds that are estimated to be available and needed to support voucher renewals in fiscal year 2004 and explicitly reappropriating these funds for the voucher program; and
- retaining the language in the Senate bill that makes clear that housing agencies have the legal right to issue all of their authorized vouchers.

By taking these steps, the conference committee would achieve the Senate's goal of ensuring that funding is provided for all authorized vouchers that can be used, but would do so in a more transparent and reliable manner.

Rescinding and reappropriating the needed funds would follow the same prudent approach that the House and the Senate Appropriations Committees both took with regard to the $1.072 billion in carryover funds that the Administration's budget designated to be used to support the housing voucher program in fiscal year 2004. Both committees chose to rescind these funds and add them to the direct appropriation for the voucher program, rather than (as the Administration had recommended) simply assuming that the funds would remain available.

New Appropriation in Senate Bill Is $200 Million Less than in House Bill

While the Senate bill is likely to make a higher total amount of funding available for voucher renewals than the House bill (because of the Senate bill's requirement that HUD use available prior-year funds if needed), the Senate bill provides smaller *direct* appropriations for voucher renewals than the House bill does. As a result, if prior-year funds are not available to supplement the direct appropriations, the Senate bill would result in deeper cuts in vouchers than the House bill, despite the Senate Committee's clear intent to fund all authorized vouchers that can be used.

The Senate bill would provide $13.2 billion in direct appropriations for the renewal of housing vouchers.[5] This is $200 million less than the House appropriated.

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[5] The Senate bill provides a total appropriation of $13.607 billion for the voucher program, the same level of funding that the Administration requested. Of this $13.607 billion, the Senate bill would make $13.183 billion available for renewal of existing vouchers. This amount includes three components: $11.380 billion for a basic appropriation for initial voucher renewals, $461 million for a central fund that acts as a reserve if additional renewal funds are needed, and $1.339 billion for fees paid to state and local housing agencies for administration of the vouchers that are renewed. The total of $13.183 billion provided by the Senate is $136 million more than the $13.047 billion that the Administration's budget request indicated was needed for these three components. The Senate bill set aside the same amount for the basic renewal appropriation as the Administration's request, $12 million less for renewals through the central fund, and $147 million more for administrative fees.

On a more technical note, the Senate bill sets aside $252 million to fund new "tenant protection" vouchers for families that lose subsidies under other housing programs, but permits up to 15 percent of this amount to be used instead for renewals of existing vouchers. Since there is no evidence that the $252 million will not all be needed to support tenant protection vouchers, however, we have not included any of these funds in the amount available for voucher renewals. (The $252 million the Senate bill provides for tenant protection vouchers is the same as the amount requested for this purpose in the Administration's budget; the House bill appropriates approximately $226 million for this purpose.) We also assume that the committee expects $4.72 billion of the overall amount the Senate bill provides for the Section 8 program to be used for renewal of project-based subsidies and $100 million of the funds set aside for voucher renewals to be used to replenish PHA reserves. Both of these figures are the same as those listed by the Administration in its budget documents. For more detail on the Administration's budget request for housing vouchers, see Barbara Sard and Will Fischer, "President's Budget Requests Insufficient Funding for Housing Vouchers in 2004," April 24, 2003, available on the internet at http://www.centeronbudget.org/3-27-03hous.pdf and "New HUD Data Show Families Will Likely Lose Housing Vouchers If Congress Approves President's Budget Request," July 21, 2003, available on the internet at http://www.centeronbudget.org/7-11-03hous.htm.

- Much of the difference is the result of the Senate committee's determination that the "Working Capital Fund," an account used to fund information technology systems at HUD, needed most of the funding the Administration requested for it, and that no funds from the Working Capital Fund should be diverted for voucher renewals.[6] In contrast, the House bill (by amendment on the House floor) shifted $150 million from the Working Capital Fund into the appropriation for voucher renewals.

- The remaining $50 million difference between the two bills results from the Senate Appropriations Committee's provision of higher funding for two other items within the voucher account. The Senate provided $26 million more than the House bill for "tenant protection" vouchers for families that lose housing assistance under other federal housing programs and $24 million more for the Family Self-Sufficiency program. In both of these cases, the higher funding levels provided by the Senate are the same as those the Administration has requested.

Reliance on Outdated Data Could Leave Unfunded 92,000 — 135,000 Vouchers in Use if Prior-year Funds Are Not Available

The annual funding needs of the voucher program depend on two factors: the average cost per voucher and the proportion of vouchers that are in use (sometimes referred to as the utilization rate). These factors cannot be predicted with precision because they depend on local economic and housing market conditions and on the decisions and practices of individual housing agencies. As a result, appropriators need access to timely data on voucher costs and utilization if they are to provide adequate appropriations for the voucher program.

The Senate Appropriations Committee relied on the cost and utilization estimates provided in HUD's budget request. The Committee expressed concern, however, that these estimates were outdated and unreliable and raised the possibility that the funding level the Senate bill contains could prove insufficient to cover the needs of the voucher program.

The data that HUD has used to estimate the voucher program's funding needs are drawn from the budget statements that housing agencies submit after the end of their fiscal years. These data are *not* the most recent cost and utilization data available to HUD. Fiscal year-end statements undergo a lengthy auditing process. As a result, they do not become available for a considerable period of time after the end of the fiscal year they cover. HUD's fiscal year 2004 budget, for example, is based primarily on voucher utilization and costs in federal fiscal year 2001.[7]

In April 2003, HUD required housing agencies that administer the voucher program to report data on voucher costs and utilization for the six-month period from August 2002 to

[6] The Senate bill reduced funding for HUD's Working Capital Fund $36 million below the Administration's request, and used the "savings" to meet funding shortfalls in HUD accounts other than housing vouchers.

[7] See Barbara Sard and Will Fischer, "President's Budget Requests Insufficient Funding for Housing Vouchers in 2004," Appendix B.

January 2003. HUD uses these data to determine the amount of funding to be distributed from the Treasury to housing agencies to administer their voucher programs. HUD has declined, however, to use these more recent data to revise its estimate of the budget needs of the voucher program in fiscal year 2004, and has instead continued to rely solely on data from housing agencies' year-end statements

An analysis of the more current data that HUD collected from housing agencies in April indicates that the average cost of a voucher in fiscal year 2004 will be approximately $6,871.[8] By comparison, the Administration's budget for the voucher program, submitted in February 2003, assumed an estimated per-voucher cost in 2004 of $6,468. The Senate Appropriations Committee used this $6,468 estimate in setting the voucher funding level. The House Appropriations Committee assumed a per-voucher cost of $6,575 when setting the voucher funding level in its bill; the House Committee appears to have had access to HUD per-voucher cost estimates that were developed after the budget was submitted in February 2003 but that still relied on data primarily from periods preceding the period that the April HUD data cover.[9]

Based on the analysis of the April HUD data, the level of direct appropriations that the Senate bill provides would fall approximately $630 million short of the amount needed to support the vouchers likely to be in use when fiscal year 2004 begins in October 2003. If additional funds are not available from prior-year appropriations to cover this shortfall, 92,000 vouchers expected to be in use serving families at the start of fiscal year 2004 would be left unfunded. This is about 50 percent more than the 63,000 vouchers in use that a similar analysis shows would be left unfunded under the House-passed bill.

The finding that the level of direct appropriations in the Senate bill would, by itself, be inadequate to meet the voucher program's needs is supported by the Congressional Budget

[8] HUD compiled data from 2,449 of the approximately 2,550 local and state agencies that have voucher contracts with HUD. These agencies administer 1,942,000 of the approximately 2,066,000 vouchers awarded to local and state agencies as of January 2003 (including vouchers funded under multi-year contracts). An additional 94,955 vouchers are administered by 16 agencies that receive voucher funding under different rules, as part of the Moving to Work (MTW) demonstration. Using other data sources, we have been able to include these MTW vouchers in this analysis. For the approximately 29,000 authorized vouchers for which we have no data – only 1.4 percent of the total number of authorized vouchers – we applied the overall utilization and cost trends in the HUD data. For a description of our methodology, see "Estimating The Shortfall In Requested Voucher Funding For Fiscal Year 2004," Center on Budget and Policy Priorities, July 21, 2003, available on the internet at <http://www.centeronbudget.org/7-22-03hous.htm>.

[9] Based on this increased estimate of per voucher costs, the House Appropriations Committee bill would have allocated approximately $200 million more for initial voucher renewals than the Administration requested. (The Senate bill included the amount the Administration requested.) Unlike the Senate, however, the House committee set aside approximately the same amount for administrative fees as the Administration requested ($150 million less than the Senate bill provides), resulting in a total appropriation for voucher renewals only $50 million above the Senate level. An additional $150 million was added by amendment on the House floor. See Barbara Sard and Will Fischer, "House Funding Level Would Lead to More Than 60,000 Fewer Families Receiving Housing Voucher Assistance."

Table 1
Fiscal Year 2004 Voucher Renewal Funding
(Figures Assume that No Prior Year Funds Are Available for Use Under Senate Bill)

<table>
<tr><th colspan="2"></th><th>Direct Appropriations for Voucher Renewals</th><th>Number of Renewal Vouchers Funded</th><th>Number of Renewal Vouchers Projected Not to Be in Use in October 2003[10]</th><th>Number of Vouchers in Use in October 2003 Not Funded[11]</th><th>Percent of Authorized Vouchers Funded</th><th>Shortfall if FY 2004 Utilization Is at its Expected Level in October 2003</th></tr>
<tr><td rowspan="2">House final bill</td><td>Using CBPP Cost Estimate*</td><td rowspan="2">$13.38 billion</td><td>1,947,000</td><td rowspan="2">95,000</td><td>63,000</td><td>92.4%</td><td>$433 million</td></tr>
<tr><td>Using CBO Cost Estimate**</td><td>1,903,102</td><td>108,000</td><td>90.4%</td><td>$925 million</td></tr>
<tr><td rowspan="2">Senate committee bill</td><td>Using CBPP Cost Estimate*</td><td rowspan="2">$13.18 billion</td><td>1,918,644</td><td rowspan="2">95,000</td><td>92,000</td><td>91.1%</td><td>$632 million</td></tr>
<tr><td>Using CBO Cost Estimate**</td><td>1,875,783</td><td>135,000</td><td>89.1%</td><td>$949 million</td></tr>
</table>

* Using cost estimate based on April HUD data ($6,871 per voucher).
** CBO estimated the per voucher cost in FY 2004 at $7,028.

Office's new budget estimates, issued August 26. The CBO estimates project an average per-voucher cost in fiscal year 2004 of $7,028. This is higher than the $6,871 that our analysis of the April HUD data suggested and even farther above the out-of-date estimates in the Administration's budget.[12] If the CBO estimate proves correct, the direct appropriation in the Senate bill would leave 135,000 vouchers unfunded. (See Table 1.)

The direct appropriations in the Senate bill also would be insufficient to support the 95,000 authorized vouchers that are not likely to be in use at the start of fiscal year 2004 but that could be used (at least in part) during the year to serve families on voucher waiting lists if recent increases continue in the proportion of authorized vouchers that are put to use. Putting even half of these vouchers to use would require an additional $326 million. (This is on top of the approximately $630 million referred to above that would be needed to fund vouchers likely to be

[10] We use HUD's estimate that funding for 2,106,233 authorized vouchers expires in fiscal year 2004.

[11] This column relies on the estimate derived from the April HUD data that 2,011,000 vouchers will be in use in October 2003 and require renewal funding. See "Estimating The Shortfall In Requested Voucher Funding For Fiscal Year 2004," Center on Budget and Policy Priorities, July 21, 2003, available on the internet at <http://www.centeronbudget.org/7-22-03hous.htm>.

[12] See Barbara Sard and Will Fischer, "New CBO Estimate Confirms Shortfall in Housing Voucher Funding," August 29, 2003, available on the internet at < http://www.centeronbudget.org/8-29-03hous.htm>.

in use at the start of the year.) The Senate bill would require HUD to use prior-year appropriations, if available, to enable housing agencies to put these additional authorized vouchers to use.

Other Provisions of Senate Bill Would Improve the Voucher Program

The Senate bill contains several other significant provisions that represent improvements over the House bill.

Administrative Fees

The Senate bill provides a larger appropriation than the House bill for the fees that housing agencies receive to administer the voucher program. In addition, the Senate provides HUD greater flexibility to shift funds among the administrative fees appropriation, the basic appropriation for voucher renewals, and a central fund that acts as a reserve for housing agencies that need additional renewal funds. As a result, under the Senate bill, the administrative-fee funding appears to be adequate to cover housing agencies' costs.

Under the House bill, by contrast, there would be substantial risk that administrative-fee funding would be inadequate. That would limit agencies' ability to lease vouchers and to help families locate housing in better neighborhoods closer to jobs.

The Senate bill also would retain the current administrative-fee formula, which is consistent with the authorizing statute. That formula gives housing agencies incentives to administer the program efficiently and to use all authorized vouchers, since agencies only receive fees for vouchers that are in use. The formula also compensates agencies that incur additional costs due to serving hard-to-house families, people with disabilities, or large geographic areas.

In contrast, the House bill would override the current administrative-fee formula and grant HUD the authority to determine the amount of fees provided to each housing agency. It may make sense for the Congressional authorizing committees that have jurisdiction over housing to reconsider the current formula, but such reconsideration should be done carefully and with input from relevant stakeholders.

Temporary Overleasing

For a housing agency to use all (or nearly all) of its authorized vouchers, it must "overissue" vouchers — that is, issue more vouchers than it is authorized to administer. This is because some voucher holders may fail to find apartments for which they can use their vouchers within the allotted time or may decide for other reasons not to use their vouchers. If, for example, 80 percent of the families issued vouchers actually use them, an agency must issue five new vouchers for every four vouchers that it expects will become available through turnover. Otherwise, this agency will be unable to use more than 80 percent of its available vouchers on a consistent basis.

A housing agency cannot, however, predict with precision what proportion of vouchers issued will actually be used. Moreover, the agency must issue vouchers several months in advance of the date it expects them to be used, and it is impossible to anticipate exactly how many current participants will leave the program that far into the future. If a greater-than-anticipated share of voucher holders use their vouchers successfully, or if a smaller-than-anticipated number of vouchers become available through turnover, there will be a period of time during which more vouchers will be leased than the agency is authorized to administer. An agency must have access to funding that will enable it to maintain its commitments to families when such "overleasing" temporarily occurs.

Both the fiscal year 2003 omnibus appropriations act and the House bill prohibit agencies from using directly appropriated voucher funds to support overleasing.[13] Agencies could use reserves funded with appropriations from 2002 or earlier years to support overleasing, but over time these funds will be exhausted, and agencies would no longer have a reserve that can be used for this purpose.

The Senate bill, by contrast, would give housing agencies access to the resources they need if they overlease vouchers temporarily, while also preventing agencies from using overleasing to increase the size of their voucher programs. The bill permits funds from the basic appropriation for voucher renewals (though not from the central fund) to be used to support vouchers in excess of an agency's authorized number "to the extent that the use of these funds is part of a strategy for a public housing agency to attain its authorized level of units under contract." Agencies that overlease would be *prohibited* from issuing vouchers to new families until enough families had left the program to bring the agency's number of vouchers in use down to the authorized level. In addition, the Committee Report recognizes the important role that overleasing plays in achieving full voucher utilization.[14]

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[13] HUD had initially interpreted the 2003 appropriations act to prohibit using funds made available by that act for units above the authorized level in any single month. HUD staff have since clarified that overleasing should be determined based on the 12 months of an agency's fiscal year, but this clarification has not been issued formally.

[14] The Committee report also would require agencies that have overleased during their fiscal year to reduce the number of vouchers in use to the authorized level within the first 60 days of the subsequent fiscal year. (It is not clear whether agencies that do not have a sufficient number of families leaving the program to reduce the number of vouchers in use sufficiently in this time period could draw on their program reserves to pay owners. If this option is not available, such agencies might be forced to terminate voucher assistance for some families. Under HUD's current policies, reserves used to support overleased vouchers are not reimbursable by HUD.)

Another provision in the Senate bill, however, could unduly impede temporary overleasing. The bill would prohibit HUD from paying the salaries of HUD employees who are responsible for providing funds to state and local housing agencies for overleasing. This provision appears to be intended to deter abuses of overleasing. Presumably, this provision would not apply to situations where HUD provides additional funding to an agency that has engaged in overleasing as part of a strategy to use all of its vouchers, which is explicitly permitted in the voucher section of the bill. Clarification or deletion of this provision is important to ensure that the voucher funding provision accomplishes its goal.

The Family Self-Sufficiency Program

The Senate bill, unlike the House bill, provides new funding that the Administration has requested for the Family Self-Sufficiency (FSS) program, which encourages families with housing assistance to become employed and increase their savings. The Administration's budget requested an additional $24 million for FSS coordinators, compared with the funding level for fiscal year 2003. The House bill rejected this request, maintaining funding at $48 million, last year's level without an inflation adjustment. The Senate bill would provide the full $72 million that the Administration has sought to enable housing agencies to expand the number of families enrolled in the FSS program. HUD has identified FSS as its "principal asset-building tool" and "one of the Department's most important tools for helping assisted families increase earned income."[15]

Incremental Vouchers

The Senate bill is likely to fund a small number of new, or "incremental," vouchers for people with disabilities. While it does not specifically set aside additional funding for this purpose, the Senate bill requires HUD to award up to $36 million for new vouchers for persons with disabilities if HUD has funds available that can be used for this purpose after voucher renewal funding needs are met. In its budget, the Administration requested that this same amount be used for new vouchers for the disabled and estimated that this funding would support 5,500 new vouchers. The House bill did not set aside any funds for this purpose.

As is the case with renewals of existing vouchers, the funds that would be available to HUD under the Senate bill to fund incremental vouchers include not only direct appropriations but also any available funds from previous years. Since Administration budget documents suggest that a large amount of unspent prior-year funds is available, it is likely that HUD would be able to issue the new vouchers the Senate bill authorizes.

Conclusion

Compared with the Administration's request and the House bill, the Senate bill represents a significant step forward for the voucher program and the roughly two million low-income families it serves. If the Senate bill's provisions are enacted, it is likely that no reductions in voucher assistance will be required, and some significant improvements in the program will be made.

Nevertheless, the Senate provisions can be improved. The House-Senate conference committee could provide greater certainty that program needs will be met by rescinding and reappropriating the prior-year funds available to HUD that will be needed to fund voucher renewals in 2004, while retaining the Senate bill's explicit commitment to allowing housing agencies to use all of the authorized vouchers they have been allotted.

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[15] HUD fiscal year 2004 budget justifications, page A-19.