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Sequestration Could Cut Housing Vouchers for as Many As 185,000 Low-Income Families by the End of 2014

Families Using Vouchers May Also Face Rising Rents, Fewer Housing Options

By Douglas Rice

Because of the sequestration cuts instituted on March 1 of this year, state and local housing agencies are facing substantial shortfalls in funding to renew the Housing Choice Vouchers that more than 2.1 million low-income households use to rent modest private-market housing at an affordable cost. If Congress does not cancel sequestration as part of an agreement to fund the government beyond January 2014, agencies will continue to face shortfalls, and the resulting hardships for low-income families will worsen considerably in the year ahead.

Many of the 2,300 state and local housing agencies that administer housing vouchers are reducing the number of families that receive assistance, by no longer reissuing vouchers when current families leave the program. We estimate that 40,000 to 65,000 fewer low-income families will be using housing vouchers by December 2013, compared to a year earlier. Moreover, these cuts will deepen considerably in 2014 if sequestration continues and voucher program funding remains essentially flat. Under that scenario, we estimate that between 125,000 and 185,000 low-income families will lose assistance by the end of 2014 (again, compared to December 2012). (See Appendix A for state-by-state estimates of the voucher cuts.[1])

This unprecedented reduction in federal rental assistance primarily affects low-income seniors, people with disabilities, and working families with children who are currently on waiting lists for assistance.[2] These households typically have incomes below the poverty line and struggle to pay for housing costs that consume well over half of the household budget, making it more difficult to pay for other essentials and placing them at risk of falling behind on the rent. Most have been waiting months or years for rental assistance, as only 1 in 4 eligible households receives any type of federal

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[1] The data and methodology underlying these estimates is explained in Appendix B. The estimate range reflects uncertainties about how aggressively housing agencies will spend funding reserves to make up for shortfalls, how successfully agencies can reduce their program budgets by means other than cutting the number of families they serve, and other factors.

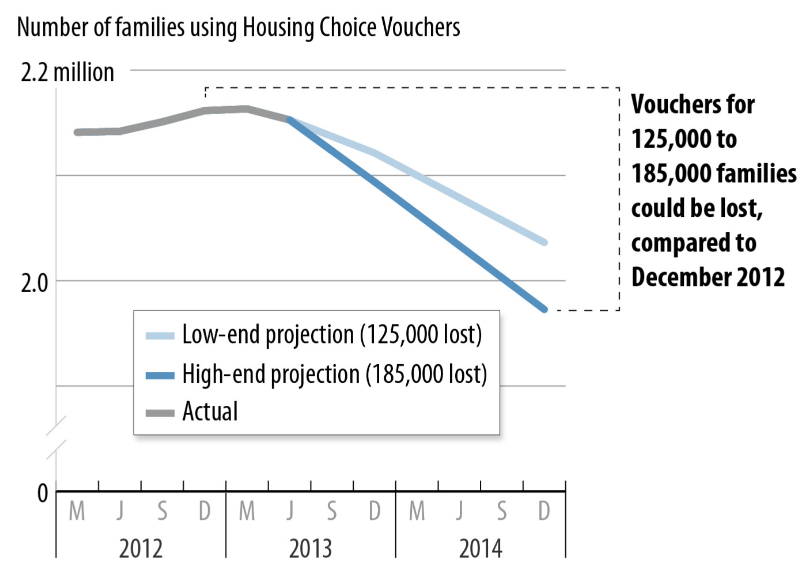
[2] We assume here that the composition of households on waiting lists is similar to that of the households currently using vouchers. For more information on the voucher program, see "Policy Basics: The Housing Choice Voucher Program," http://www.cbpp.org/cms/index.cfm?fa=view&id=279.

rental assistance.[3] Some are already homeless and living in shelters or living temporarily in other families' homes.

Housing agencies are cutting the number of families they assist because there are few alternatives that enable them to absorb budget cuts quickly. Many agencies are implementing other cost-saving measures that will phase in over time but will worsen hardships for many low-income families still using vouchers. For example, some agencies are reducing their "payment standards," which determine the maximum amount of rental assistance that housing vouchers can provide. Payment standard reductions shift more of the rental costs to low-income households, who either must pay more to remain in their current housing or move to lower cost, lower quality housing, sometimes in distressed neighborhoods. The impact of such measures on low-income families will grow markedly in 2014 if sequestration remains in place.

Figure 1

Sequestration Could Cut Housing Vouchers for as Many as 185,000 Families by the End of 2014



Source: Actual data through June 2013 from HUD's Voucher Management System. CBPP projections from July 2013 to December 2014 from HUD data.

To reverse the Housing Choice Voucher cuts that housing agencies have already made and prevent even deeper, more harmful reductions next year, Congress will need to provide $17.7 billion for voucher renewals (and at least $1.69 billion to cover the costs of program administration) in 2014. While Congress could increase voucher funding in the final funding law for fiscal year 2014 even if it does not shrink the overall size of the sequestration budget cuts, canceling sequestration will probably be necessary to meet the goal of fully restoring the availability of housing vouchers to pre-sequestration levels. Over the next several months, Congress and the Administration will seek to negotiate a final budget agreement for fiscal year 2014, including potential changes to sequestration. A primary goal of these negotiations should be to cancel sequestration for non-defense discretionary (NDD) programs such as the Housing Choice Voucher program, or if that goal proves politically unfeasible, to ease the depth of the sequestration cuts in NDD to the greatest degree possible.

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[3] Barbara Sard and Will Fischer, "Renters' Tax Credit Would Promote Equity and Advance Balanced Housing Policy," Center on Budget and Policy Priorities, August 21, 2013, http://www.cbpp.org/cms/index.cfm?fa=view&id=3802.

Housing Agencies Are Using Temporary Resources to Avoid Terminating Vouchers for Low-Income Families

Sequestration reduced Housing Choice Voucher program funding by $938 million in 2013, including an $854 million cut in funding for rental assistance payments. As a result, state and local housing agencies received 6 percent less funding than they needed to renew all of the housing vouchers that families were using prior to sequestration. This marked only the third time in the program's nearly 40-year history that Congress has failed to provide agencies with sufficient, or nearly sufficient, funding to renew all vouchers. The 2013 shortfall is the deepest on record.[4]

Two factors have temporarily softened sequestration's impact on low-income families who are using housing vouchers. First, most housing agencies had program reserves (unspent assistance funds from prior years) at the beginning of 2013 that they have used this year to maintain assistance to families already using vouchers. While these efforts are proving critical in protecting low-income families from losing assistance and risking eviction, they can provide only temporary relief. We estimate that approximately 600 housing agencies will exhaust their reserves by the end of 2013, and some 400 additional agencies — more than 40 percent of all housing agencies, in total — will exhaust their reserves by mid-2014 if they continue to assist the same number of families as they did prior to sequestration, but at post-sequestration funding levels.[5]

Second, in the 2013 appropriations law, Congress authorized the Department of Housing and Urban Development (HUD) to distribute up to $103 million in voucher renewal funds to housing agencies that otherwise would terminate voucher assistance for some families as a result of funding shortfalls. HUD has been aggressive in identifying and working with housing agencies that are at risk of exhausting available assistance funds before year's end. To date, HUD has awarded two rounds of funding to prevent terminations of assistance, including $61 million to 215 housing agencies in the first round, and it is expected to announce a third round of awards soon. According to our estimates, HUD will likely have to distribute most, if not all, of the remaining funds in order to prevent terminations of assistance as additional housing agencies become at risk of exhausting their assistance funds this year, even if they have instituted actions to reduce program budgets (more on this below).

Sequestration's Cuts Will Deny Vouchers to Tens of Thousands of Families in 2013 and 2014

By drawing on program reserves and special allocations of termination prevention funds, housing agencies have kept many low-income families from losing the assistance on which they currently rely to rent housing at an affordable cost. Despite these emergency measures, funding shortfalls are forcing housing agencies across the country to cut assistance for tens of thousands of low-income families, including those who are homeless or experiencing other severe hardships. The impact of

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[4] Douglas Rice, "Sequestration Could Deny Rental Assistance to 140,000 Low-Income Families," Center on Budget and Policy Priorities, April 2, 2013, http://www.cbpp.org/cms/index.cfm?fa=view&id=3945.

[5] These estimates do not take into account allocations of "termination prevention" funds that agencies may have received from HUD out of the $103 million that Congress made available. They also don't reflect the effect of actions various agencies have taken to reduce program budgets in response to sequestration. Both of these factors are discussed below.

these measures will worsen considerably in 2014 if Congress fails to eliminate, or substantially ease sequestration and provide more adequate funding for housing vouchers.

First, many, and perhaps even most, housing agencies are reducing the number of families they assist by no longer reissuing housing vouchers to families on the waiting list when current families leave the program. Indeed, housing agencies *must* certify to HUD that they are *not* offering vouchers to waiting-list families to be eligible for termination prevention funds. (Such agencies must also rescind any vouchers that they have already issued but the receiving families are not yet using because they are still searching for an available rental unit.) In addition, many housing agencies that are ineligible for termination prevention funds (for example, because they have large program reserves) are cutting families via attrition out of fear that they will exhaust their reserves sometime next year if sequestration continues.

As noted above, 1,000 housing agencies would likely exhaust their reserves by mid-2014 if they continued to assist families at pre-sequestration levels and funding remains flat in 2014. (As we explain below, agencies' voucher renewal funding likely will remain roughly flat in 2014 if Congress and the Administration fail to modify sequestration.) Once agencies have exhausted their reserves, their only options are politically difficult and generate substantial hardship for low-income families using vouchers. Most agencies would prefer to reduce the number of families they serve through attrition now rather than risk having to terminate assistance or impose sharp rent increases on families using vouchers.

Overall, we estimate that housing agencies will be assisting between 40,000 and 65,000 fewer families by the end of 2013, compared to the number they assisted in December 2012. By the end of 2014, we expect that housing agencies will assist a total of 125,000 to 185,000 fewer low-income families if sequestration remains in place.[6] (See Figure 1, above, and Appendix A for state-by-state estimates of cuts in the number of families using housing vouchers in 2014.)

Within these ranges, how deep the reductions turn out to be will depend on how aggressively housing agencies spend reserves to fill shortfalls, how much they can reduce program budgets by means other than cutting the number of families served (see below), and other factors. The lower bounds of our estimates assume, for example, that housing agencies will spend every available dollar, including all of their program reserves, to avoid reducing the number of families assisted. Unless they can't avoid it, however, few agencies are likely to be so aggressive, in view of the uncertainties surrounding program funding in 2014 and later years, because any miscalculation of future funding or renewal costs could leave them in the position of having to terminate assistance for low-income families currently using vouchers. The experience of sequestration cuts in 2013 demonstrates that it is reasonable for housing agencies to aim to maintain modest program reserves to minimize the risk of having to make harsh cuts on short notice due to unforeseen changes in funding or program costs.

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[6] These figures are program-wide and take into account the fact that housing agencies will issue roughly 20,000 new "tenant protection" vouchers over the next year to replace public and private assisted housing that has been demolished or otherwise removed from federal rental assistance programs. The overall losses of federal rental assistance would therefore be sometime deeper than the figures cited here indicate.

Families Using Vouchers May Also Pay Higher Rents Due to Sequestration

Many housing agencies also are implementing policy changes to reduce the amount of assistance they provide to families using vouchers.[7] Some of these strategies affect low-income families only modestly. For instance, housing agencies can re-examine whether rents for voucher units are reasonable and possibly reduce the rents that landlords can charge.[8] Landlords, rather than assisted tenants, must absorb the difference in this case (although, if housing agencies pursue such reductions too aggressively, owners may refuse to rent units to tenants using vouchers).

More common — because the potential budget savings tend to be greater — are policy changes that increase housing cost burdens and other hardships for the low-income families using vouchers. Some housing agencies have announced, for example, that they are reducing their "payment standards," which determine the maximum subsidy amount that housing vouchers provide to fill the gap between the tenant contribution and actual housing costs.[9]

These cuts shift housing costs to low-income households, who either must pay more to remain in their current housing or move to less expensive, lower-quality housing (if they can find it), often in more distressed neighborhoods. Payment standard reductions can result in sharp rent increases for assisted households and create hardships for families with meager resources. The Boston Housing Authority, for example, recently announced a 10 percentage point reduction in its payment standards, which will increase monthly housing costs by as much as $144 for a typical three-person family. Payment standard reductions can also undermine basic goals of the voucher program to promote housing stability and housing choice for low-income families.

Because payment standard reductions can sharply raise housing costs for assisted households, agencies must phase them in over a one- to two-year period for currently assisted households who remain in their units. HUD may waive the phase-in requirement for individual agencies, but it is likely to do so only in situations where agencies are otherwise at risk of having to terminate assistance due to funding shortfalls. (HUD has not yet granted any such waivers this year.) The phase-in requirement means that the impact on low-income families of payment standard reductions already adopted this year will grow markedly in 2014 if sequestration remains in place.

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[7] The National Housing Law Project has produced a useful guide on steps that housing agencies can take to address budget shortfalls; see http://www.cbpp.org/files/Possible-PHA-Strategies-to-Respond-to-Funding-Shortfall-4-22-13-cb3.pdf.

[8] Federal law requires that rents for units where vouchers are used be "reasonable," but leaves it largely to state and local housing agencies to determine the criteria by which this standard is applied.

[9] Assisted households typically contribute 30 percent of their income for rent and utilities. The Housing Choice Voucher subsidy, which is paid directly to private landlords by state and local housing agencies, fills the gap between this contribution and actual costs for a unit of the appropriate size for the family, up to reasonable limits set by HUD and the local housing agency. The "payment standard" is the cap on subsidies. Housing agencies may set the payment standard within 10 percent of the HUD-determined "Fair Market Rent" for the metropolitan area or county, and higher or lower with HUD approval.

HUD Will Need $17.7 Billion for Voucher Renewals in 2014 to Fully Restore Vouchers

To reverse the sequestration cuts in the number of low-income families using housing vouchers, we estimate that HUD will need $17.7 billion for Housing Choice Voucher renewals in 2014. This amount would enable agencies that were forced to reduce assistance in 2013 to restore the number of low-income families they assist to pre-sequestration levels. (It would also fully renew housing vouchers for the minority of agencies that were able to fully sustain program participation in 2013 through the spending of reserves.)[10] This amount is $100 million above the level provided in the Senate Transportation-HUD (T-HUD) funding bill for fiscal year 2014, but well below the Obama Administration's request of $18.0 billion.

In addition, efforts to restore Housing Choice Vouchers in 2014 are more likely to succeed if Congress provides more adequate funding for program administration. Following sequestration in 2013, housing agencies received only 69 percent of the administrative funds for which they were eligible. This marked a sharp reduction from the 2012 level, and was the third year in a row that administrative funding was severely inadequate. As a result, many housing agencies have reduced staff that perform essential tasks such as verifying tenant incomes and the accuracy of subsidy amounts, and inspecting housing units to ensure that they meet federal housing quality standards.

Unless housing agencies receive more adequate administrative funding in 2013, they will find it difficult to reissue housing vouchers to prospective tenants on the waiting list, and to do the work necessary for households to rent units using vouchers, in a timely manner. As a result, there could be significant delays in restoring voucher assistance to needy families on waiting lists. We recommend that Congress meet the President's request of $1.69 billion for administrative expenses, which the Administration estimated would cover 82 percent of the administrative funding for which agencies are eligible in 2014. This amount was included in the Senate bill.

What Do the Budget Negotiations Mean for Housing Choice Voucher Funding in 2014?

Federal programs are currently operating under the funding terms set by the "continuing resolution" (CR) to which Congress and the Administration agreed on October 17. Under the CR, most programs, including all low-income housing programs administered by HUD, will continue to be funded at the post-sequestration 2013 level until January 15, 2014. Congress will attempt to negotiate by December 13 a final budget, including potential changes to sequestration, for fiscal year 2014, and then to enact final funding bills by January 15, 2014, when the current CR expires.

Under the Budget Control Act, sequestration limits total funding for non-defense discretionary (NDD) programs to $469 billion in fiscal year 2014. That limit is very close to the $468 billion in funding provided under the current CR for fiscal year 2014, which continued funding at the 2013

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[10] This assumes that Congress devises a fair and efficient formula to distribute the funds in 2014. For most agencies, renewal funding eligibility is typically based on voucher usage and costs in the prior year, adjusted for inflation and other factors. While this is generally a good policy, it would unfairly disadvantage those agencies that had few reserves in 2013 and were forced to make deep cuts in assistance, relative to agencies that entered the year with robust funding reserves due to assisting fewer families in prior years than they could have. To distribute funding fairly, Congress may want to consider basing eligibility on the *higher* of voucher usage and costs in 2012 and 2013, adjusted for inflation.

post-sequestration level.[11] In other words, unless Congress changes the Budget Control Act, total NDD funding will remain essentially flat in 2014, compared with 2013. However, Congress retains the ability to increase or decrease funding for particular programs, so long as the total does not exceed the cap.

If Congress and the Administration fail to reach an agreement to cancel or modify sequestration for 2014, Congress will likely approve a full-year CR that funds most programs at the post-sequestration 2013 levels. Under this scenario, the risk that overall funding in 2014 for Housing Choice Vouchers (and other low-income housing programs) will be cut *below* the 2013 level is low, and it's possible Congress could adjust funding for a small number of programs (considered "anomalies"), particularly in cases where level funding would result in significant harm (as it would, for example, in the Housing Choice Voucher program). But total funding for non-defense discretionary programs would remain limited to the caps set under sequestration, leaving Congress little room to increase funding to prevent further cuts in the number of families receiving assistance from the Housing Choice Voucher program.

If Congress and the Administration agree to cancel or modify sequestration for 2014, Congress is likely to increase funding over the 2013 post-sequestration levels for some low-income housing programs and might be able to produce a Transportation-HUD funding bill. Congress would probably produce a full T-HUD bill, however, only if the total amount of additional NDD funding (above the sequestration level) is substantial and Congress reaches agreement soon enough to enable the Appropriations Committees to negotiate a full 2014 omnibus appropriations bill by early January. An agreement to cancel or modify sequestration — which should be a primary goal of the negotiations — would therefore significantly improve the chances of securing additional funding for housing vouchers in 2014.

[11] Joel Friedman et al., "Clearing Up Misunderstandings: Sequestration Would Not Be Tougher on Defense Than Non-Defense Programs in 2014," Center on Budget and Policy Priorities, September 18, 2013, http://www.cbpp.org/cms/index.cfm?fa=view&id=4019.

Appendix A: Estimated Sequestration Cuts in the Number of Families Using Housing Vouchers, by State

Table 1

Sequestration Could Cut Housing Vouchers for as Many as 185,000 Families by the End of 2014

State	Number of families assisted, December 2012	The estimated number of housing vouchers cut by the end of 2014 due to sequestration is…	
		…at least	*…as many as*
Total	2,161,468	125,000	185,000
Alabama	29,977	1,962	3,377
Alaska	4,440	0	564
Arizona	20,780	1,021	2,183
Arkansas	20,986	2,434	2,850
California	308,461	18,584	22,294
Colorado	30,161	1,385	3,546
Connecticut	34,143	144	979
Delaware	4,399	0	59
District of Columbia	10,159	42	42
Florida	94,689	2,947	6,901
Georgia	52,193	2,765	3,465
Hawaii	9,305	327	763
Idaho	6,629	209	465
Illinois	79,684	1,833	3,258
Indiana	35,532	2,599	4,150
Iowa	21,026	1,759	3,415
Kansas	11,814	1,053	1,273
Kentucky	31,294	2,174	4,054
Louisiana	46,324	1,432	1,926
Maine	11,934	586	1,248
Maryland	42,891	2,425	2,843
Massachusetts	76,524	2,104	3,315
Michigan	51,636	1,362	4,234
Minnesota	31,184	2,514	3,157
Mississippi	22,434	677	1,726
Missouri	39,536	3,515	5,517
Montana	5,547	342	814
Nebraska	11,507	1,178	1,604
Nevada	14,284	512	512
New Hampshire	9,299	568	911
New Jersey	64,311	3,267	4,272
New Mexico	11,998	1,141	1,499
New York	224,568	18,039	19,161
North Carolina	55,138	3,644	5,208
North Dakota	6,566	510	709

Table 1 cont'd			
Sequestration Could Cut Housing Vouchers for as Many as 185,000 Families by the End of 2014			
		Estimated number of housing vouchers cut by the end of 2014 due to sequestration is…	
State	**Number of families assisted, December 2012**	***…at least***	***…as many as***
Ohio	91,649	5,060	10,233
Oklahoma	23,415	1,723	4,276
Oregon	32,570	2,440	2,997
Pennsylvania	74,929	4,959	7,005
Rhode Island	9,164	516	583
South Carolina	24,833	2,233	3,112
South Dakota	5,526	466	736
Tennessee	34,397	0	3,063
Texas	147,909	13,031	17,408
Utah	10,545	996	1,187
Vermont	6,029	322	696
Virginia	43,997	3,362	4,153
Washington	49,394	251	2,860
West Virginia	13,550	1,141	2,003
Wisconsin	26,688	1,363	2,031
Wyoming	2,355	62	118

Note: Totals are rounded and include estimates for U.S. territories. For further information about voucher usage, see http://www.cbpp.org/cms/index.cfm?fa=view&id=3586 . For sources and methodology, see the Appendix.

Appendix B: Sources and Methodology

Estimate of the Number of Housing Agencies at Risk of Exhausting Funding Reserves in 2013 or 2014

We estimate that, if housing agencies continued to provide housing voucher assistance at pre-sequestration levels while receiving post-sequestration renewal funding, some 600 agencies would exhaust their funding reserves by the end of 2013, and an additional 400 agencies would exhaust reserves by June 2014. These estimates provide a baseline analysis of agencies' financial state under sequestration.

To make these estimates, we calculated the total funds available to each agency, estimated total housing assistance payments by each agency, and then subtracted the latter from the former. To calculate total funds available to each agency, we used housing assistance payment (HAP) funding reserve data as of December 2012, as well as the 2013 voucher renewal funding awards received by every agency. HUD has made these data available at http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/hcv/psd.

To estimate housing agency spending in 2013 and 2014, we began with agency-reported HAP spending data through June 2013, which is also available at the link above. For each agency, we projected HAP spending to the end of June 2014 by applying the annual spending rate from March 2012 to March 2013 to each subsequent month. Agencies with declining rates for the year ending March 2013 were kept flat at their June 2013 rate.

Having projected each agency's HAP through June 2014, we calculated reserve balances as of December 2013 and June 2014 by subtracting the total HAP through each end date from total funds available. (For the June 2014 calculation, we assumed that each agency would receive an additional six months of renewal funding at the 2013 level; that is, we added to each agency's available funds an amount equal to one-half its 2013 renewal award.)

Estimate of the Reduction in the Number of Families Assisted at the End of 2013

To estimate the number of families assisted at the end of 2013, we assumed that renewal funding remained flat and projected agencies' spending from July 2013 to June 2014 under two different assumptions about agency behavior. In the first scenario — which generated our "low-end" estimates — we assumed that agencies would spend reserves aggressively to sustain voucher usage at pre-sequestration levels and would reduce the number of families assisted only if spending projections indicated that their reserves would fall below zero by June 2014.

To model this, we began with the baseline spending projections for each agency, as described in the previous section, and recalculated each agency's reserve balance as of the end of June 2014, taking into account the first round of set-aside awards, as well as renewal allocations and reserves as of December 2012. For any agency showing a negative reserve balance at the end of June 2014 under this calculation, we assumed the agency would seek to reduce its monthly HAP by not reissuing turnover vouchers to new families from July to December 2013. For such agencies, we assumed that monthly HAP from July to December 2013 would fall at a rate equivalent to the agency's monthly voucher turnover rate. As a proxy for the monthly turnover rate, we used HUD administrative data on the agency's exit rate in 2010.

For the second scenario — our "high-end" estimate — we assumed that agencies would spend reserves less aggressively to sustain the number of families assisted — or, put another way, that agencies would reduce the number of families served more aggressively to reduce spending and sustain program reserves. To model this, we proceeded in the same manner as the first scenario, except that we assumed that agencies would not reissue turnover vouchers from July to December 2013 if the baseline projection indicated that their reserves would fall to a level below 8.3 percent of their 2013 renewal funding eligibility (rather than below zero, as in the first scenario) by the end of June 2014.

To calculate the number of families assisted by each agency as of December 2013 under each scenario, we divided each agency's projected HAP for December 2013 by an estimated annual per-voucher cost (PUC) for each agency in 2013. The PUC for 2013 is the average per-unit cost for the 12 months in 2013, which we calculated by projecting from HUD Voucher Management System (VMS) data for the March 2012 to March 2013 period.

To calculate the reduction in the number of families assisted, we calculated the difference between our estimates for December 2013 under each scenario and the number of families assisted as of December 2012, according to the VMS. Using this method, we estimate that housing agencies will be assisting between 40,000 and 65,000 fewer families by the end of 2013, relative to December 2012.

Estimate of the Reduction in the Number of Families Assisted at the End of 2014

To calculate low- and high-end estimates of the reduction in the number of families assisted by the end of 2014, we used basically the same methodology as for 2013, with two modifications. First, we projected a new HAP baseline for each agency in 2014. To do this, we used the December 2013 HAP projected for each agency under the low-end scenario described above as a starting point. We then projected HAP for each month in 2014 for each agency using the same trend rate from March 2012 to March 2013.

Second, we calculated a 2014 renewal funding award for each agency, assuming that total HCV renewal funding remained flat at the 2013 level, as it would under a continuing resolution. For Moving-to-Work (MTW) agencies, 2014 renewal funding eligibility was calculated as the agency's pre-proration 2013 eligibility, adjusted for inflation. For all other agencies, 2014 renewal eligibility was calculated as total 2013 HAP (under the low-end scenario described above), adjusted for inflation. To adjust for inflation, we used HUD's HCV renewal inflation factors for 2013. We then estimated a 2014 proration factor by dividing the 2013 renewal funding amount (less the $103 million set aside) by total agency renewal funding eligibility. By applying the calculated proration factor to each agency's estimated 2014 renewal funding eligibility, we estimated prorated funding awards for each agency. These amounts were combined with estimated agency reserves at the end of 2013 (under the "low-end" scenario) to calculate total funds available at each agency in 2014.

Next, we modeled agency behavior in much the same way as above, under two scenarios. First, we calculated reserves at each agency at the end of December 2014, by subtracting projected baseline HAP in 2014 from the total available funds at each agency. Second, we modeled agency behavior under the two different assumptions described above, and projected 2014 HAP in a similar manner. In the first, we assumed that agency HAP would fall from January to December 2014 if reserves were below zero at the end of December 2014 under the baseline projection. In the second, a reduction in HAP was triggered wherever reserves fell below the 8.3 percent level by December 2014 under the baseline projection. As above, we assumed in such cases that HAP would fall at a rate equivalent to the agency's turnover rate.

The number of families assisted at the end of 2014 — and the reduction in the number of assisted families relative to December 2012 — was estimated in a manner similar to that above. To estimate a PUC for 2014, we inflated our estimates of the 2013 PUCs for each agency by its 2013 renewal inflation factor.

We estimate that housing agencies will be assisting between 125,000 and 185,000 fewer families by the end of 2014, relative to December 2012. Note that these estimates, as well as those for 2013, assume that housing agencies will address program funding shortfalls solely by reducing the number of families they serve. However, as noted in the paper, many agencies are taking other steps to shrink their program budgets, such as reducing payment standards. While such steps are likely to have a minimal effect in most locales in 2013, the potential to shrink budgets by means other than cutting families from the program will grow in 2014, particularly in the second half of the year.

Estimate of the Amount of HCV Renewal Funding Required in 2014

We estimate that housing agencies will need $17.7 billion in HCV renewal funding to restore voucher usage to pre-sequestration levels in 2014. Our basic methodology for calculating agency renewal funding eligibility, which is consistent with the 2013 appropriations law, is described above. However, we modified the methodology because of concerns that it would result in underfunding of agencies that were forced by sequestration (and low program reserves) to sharply reduce the number of families served in 2013. (These are the agencies that will be shedding between 40,000 and 65,000 families by the end of 2013, according to our estimates.)

To remedy this problem we calculated renewal eligibility as the higher of eligibility, as determined using the method described above (that is, using projected 2013 spending as a basis for non-MTW agencies), and 2012 renewal eligibility (prior to proration), adjusted for inflation. We also adjusted total renewal funding eligibility to take into account the need to renew funding for the roughly 20,000 to 30,000 new tenant protection and Veterans Affairs Supportive Housing vouchers that are being issued and leased this year.