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PRESIDENT'S BUDGET WOULD STRENGTHEN HOUSING VOUCHER PROGRAM

Yet Need for Rental Assistance Will Continue to Far Exceed Capacity of Federal Programs

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Executive Summary

In a budget that would freeze overall funding for non-security discretionary (i.e., non-entitlement) programs, the Administration has made the renewal of "Section 8" Housing Choice vouchers a priority. The President's budget requests $17.1 billion to renew vouchers in 2011, an increase of $875 million above the 2010 funding level. This amount is likely to be just enough to renew all vouchers in use this year, according to the Center's preliminary estimates. In contrast, freezing voucher renewal funding at its 2010 level would cause approximately 100,000 low-income families to lose housing assistance.

The added funds are needed primarily for two reasons. First, approximately 50,000 new vouchers that Congress has funded in recent years for homeless veterans and other groups will be renewed for the first time in 2011. Second, because of continued high rates of unemployment and weak wage growth, the gap between tenant incomes and housing costs is likely to widen this year and next in spite of the general weakness in the housing market. This pushes up voucher costs, which cover the difference between 30 percent of tenant incomes and the rental costs of modest apartments.

Even with the proposed increase, actual spending (i.e., outlays) for Section 8 rental assistance would remain stable as a share of the HUD budget. In 2011, they would make up about 50 percent of HUD discretionary spending, slightly less than in 2010 and below the 1998-2010 average.

The Administration's budget would also set aside $85 million for 10,000 new vouchers for individuals and families who are homeless or at risk of homelessness. In addition, the budget proposes improvements in voucher funding policy — modeled on those in the pending Section 8 Voucher Reform Act (SEVRA) — that would encourage the state and local housing agencies that administer the voucher program to use available funds more efficiently to serve more families.

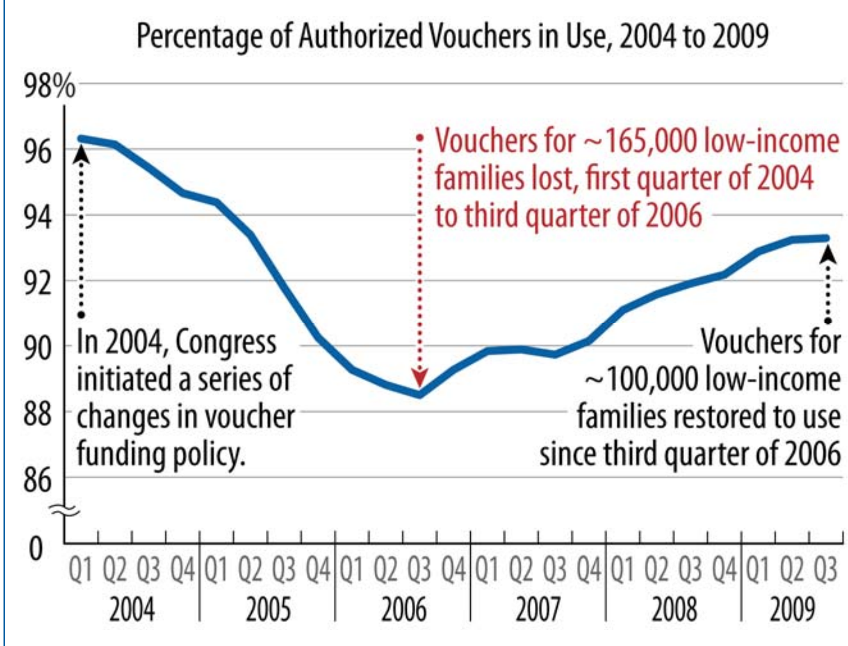
While the Administration's budget would strengthen the voucher program and modestly increase the number of families receiving assistance, housing affordability problems are likely to continue to grow among low-income renters. From 2000 to 2008, the number of low-income renters paying more than half of their income for housing increased by 2.3 million, or 38 percent, according to Census data. Over the same period, the number of families served by the three largest federal rental assistance programs increased by 300,000, or 7.5 percent.

President's Budget Sufficient to Renew All Vouchers in Use

Nearly 2.1 million low-income families use Housing Choice vouchers to rent modest housing in the private market. On average, these families have annual incomes of $13,100, well below the poverty line. About half of the families include someone who is elderly or has a disability; children are also present in about half of the families.[1] Housing vouchers play a critical role in lifting these families out of poverty (or reducing the depth of their poverty) and helping them to secure stable housing.[2] Because of funding limitations, however, only about one in four families eligible for vouchers receives any form of federal rental assistance.

FIGURE 1:

Vouchers for 100,000 Families Have Been Restored to Use Since 2006



Source: HUD Voucher Management System and Resident Characteristics Reports.

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Recently, Congress has made considerable progress in restoring stability to the voucher program after several difficult years. From the first quarter of 2004 to the third quarter of 2006, housing vouchers for about 165,000 low-income families were cut due to funding shortfalls. Since 2007, Congress has provided more adequate renewal funding and improved the formula used to distribute renewal funding among housing agencies. As a result, about 100,000 vouchers have been restored (see Figure 1).

The President's 2011 budget would continue to

[1] HUD, *Picture of Subsidized Households, 2008*. For more information on the voucher program, see the Center's "Introduction to the Housing Voucher Program," http://www.cbpp.org/files/5-15-09hous.pdf.

[2] See Arloc Sherman, "Safety Net Effective at Fighting Poverty, But Has Weakened for the Very Poorest," Center on Budget and Policy Priorities, July 6, 2009, http://www.cbpp.org/files/7-6-09pov.pdf; and Jill Khadduri, "Housing Vouchers Are Critical for Ending Family Homelessness," Homelessness Research Institute, January 2008.

strengthen the program by requesting $17.1 billion to renew vouchers in 2011 — $875 million more than in 2010 and probably just enough to fully renew all vouchers in use this year, according to the Center's preliminary estimates.[3] The Administration has made preserving rental assistance for vulnerable families a priority in a budget request that would freeze funding for non-security discretionary programs overall.[4] This decision is justified by the fact that freezing voucher renewal funding at the 2010 level would eliminate assistance for more than 100,000 low-income families, placing many at risk of losing their homes and reversing all of the progress since 2006 in restoring lost vouchers.

Increase Needed to Renew New Vouchers, Cover Gap Between Incomes and Housing Costs

Given the weakness in the rental housing market — the Consumer Price Index for residential rents has remained roughly unchanged since May 2009, and rental vacancy rates remain close to historic highs — why is an additional $875 million needed next year to renew all vouchers now in use?[5] In general, voucher renewal costs are determined by: (a) the number of vouchers to be renewed, (b) the cost of housing (including rent and basic utilities) used by voucher holders, and (c) the incomes of voucher holders. In spite of the weak housing market, each of these factors is likely to contribute to increased voucher renewal costs in 2011:

- *The number of vouchers requiring renewal funding will grow.* Following a long-term policy set by Congress, HUD is awarding first-year funding for approximately 25,000 new "tenant protection" vouchers in 2010 to replace federally assisted housing (such as public housing) that is no longer available due to demolition or other events. In addition, over the past three years Congress has provided initial-year funding for more than 50,000 new "incremental" vouchers for specific purposes, such as helping veterans find affordable housing. More than half of these incremental vouchers, and nearly all of the tenant protection vouchers issued in 2010, are likely to require renewal funding for the first time in 2011. This accounts for nearly half of the renewal funding increase.

- *Voucher housing costs may rise despite a weak overall market.* The weakness in the rental housing market appears to be concentrated at the high end of the market; for instance, there is evidence that the recent increase in vacancy rates primarily reflects growth in the supply of higher-priced units (e.g., through the conversion of some condominiums to rental units).[6] Thus, the rents

[3] These funding figures exclude amounts proposed to be transferred to the Transformation Initiative, which would fund upgrades to HUD IT systems, the development of more effective program evaluation tools and research, and technical assistance. The Center's renewal funding estimate for 2011 is based on voucher usage and cost data as of September 30, 2009, and assumes that each agency's per-voucher costs will increase in 2010 at a rate equal to its Annual Adjustment Factor (AAF). The estimate takes into account new tenant protection vouchers issued in 2010 and the continued lease-up of incremental vouchers issued in recent years, but assumes no increase in the voucher utilization rate.

[4] The prioritization of rental assistance is also evident in the budget request for Section 8 *project-based* rental assistance, as well as in the Transforming Rental Assistance Initiative, the Administration's major proposal to help preserve public and private assisted housing. For a discussion of this proposal, see Will Fischer, "Obama Budget Includes Major Plan to Preserve Needed Affordable Housing," Center on Budget and Policy Priorities, March 16, 2010, http://www.cbpp.org/files/3-16-10hous.pdf.

[5] The index for household fuels and utilities is currently somewhat below the level of a year ago — but utilities make up only about 15 percent of total housing costs.

[6] For a discussion of recent evidence, see Rob Collinson and Ben Winter, "U.S. Rental Housing Characteristics: Supply, Vacancy, and Affordability," Office of Policy Development and Research at HUD, 2010.

paid by families using vouchers — which are concentrated at the modest end of the market — could continue to rise in 2010 in spite of the overall trend.

In addition, the HUD formula used to determine voucher renewal funding for state and local housing agencies incorporates regional inflation factors (the Annual Adjustment Factors, or AAFs) to account for changes in rents and utility costs. These factors will average around 1.3 percent for 2011, according to our estimates, although the actual factors will be lower if residential rents remain flat through the first half of 2010.[7]

- *Lagging household incomes likely to increase voucher costs.* In general, voucher holders contribute roughly 30 percent of their income for housing costs; the voucher covers the gap between this contribution and the cost of a modest apartment. So when voucher holders' incomes fail to keep pace with housing costs, the cost of vouchers increases.

  About half of the households using vouchers include seniors or people with disabilities who rely on benefit programs such as Social Security or Supplemental Security Income (SSI). The annual cost-of-living adjustment for these programs will be zero in 2010 and is also expected to be zero (or close to zero) in 2011. As a result, the voucher program will absorb 100 percent of any increases in housing costs for fixed-income households.

  Moreover, a number of housing agencies reported significant increases in voucher costs in 2009 due to job losses among the families they serve. Indeed, the most recent voucher program data suggest that average increases in voucher subsidy costs during 2009 significantly outpaced changes in the CPI for residential rents and utilities.[8] A likely explanation is that tenant incomes have lagged significantly behind changes in rental housing costs, widening the gap that the voucher subsidy must fill.[9] If the job market remains weak in 2010, tenants' income losses could continue to put upward pressure on voucher costs.

Other factors will also add to voucher renewal costs in 2011. For instance, the 2010 appropriation for vouchers funded only 99.5 percent of renewal costs, according to HUD, leaving an unfunded renewal gap of about $80 million. Fortunately, most agencies will be able to draw on funding reserves to fill this gap and avoid cuts in voucher assistance. As agency reserves are at historically low levels, however, it is important that Congress fill this gap in 2011 by providing enough funding to cover 100 percent of renewal costs.

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[7] Our estimates are derived using a simple model based on recent changes in the Consumer Price Index for residential rents and housing fuels and utilities. The model is similar to the method used by HUD to determine AAFs, except that our model relies on national rather than local price data.

[8] Over the 12 months ending in September 2009, the CPI for residential rents increased by 1.6 percent, the CPI for household fuels and utilities declined by 7.4 percent, and a weighted combination of the two increased by 0.3 percent. Over the same period, the average cost of a housing voucher increased by about 5 percent.

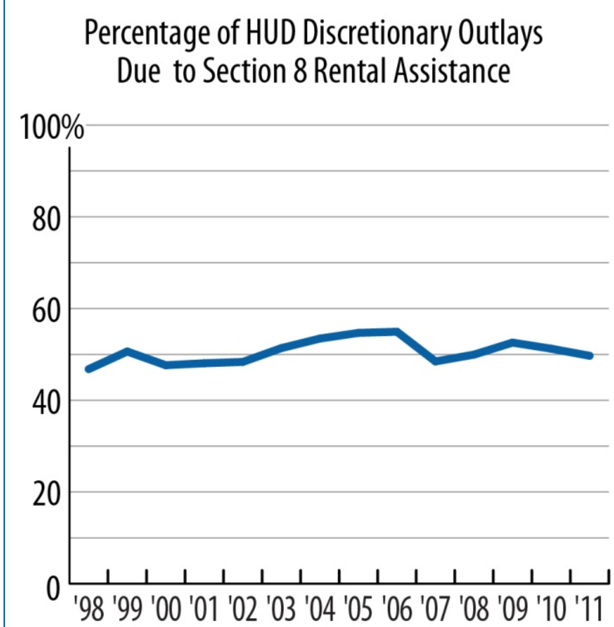
[9] Another possible factor is that voucher costs are affected by changes in HUD fair market rents (FMRs) and housing agency payment standards, both of which tend to lag behind changes in market conditions. While FMRs and payment standards will eventually catch up with the market, this suggests that the CPI is not a reliable standard by which to gauge near-term changes in voucher costs.

Vouchers Would Remain Stable as Share of Overall HUD Spending

Some members of Congress have expressed concerns that costs in the Section 8 rental assistance programs are "unsustainable" and are crowding out other HUD programs. In fact, Section 8 expenditures have been remarkably stable as a share of total HUD spending for well over a decade, as shown in Figure 2.[10]

FIGURE 2:

Section 8 Has Remained Stable As a Share of the HUD Budget



Source: OMB public budget database and other OMB budget documents. Figures for HUD include discretionary outlays only, and exclude amounts for FHA and GNMA to eliminate distortions due to changes in offsetting receipts.

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Concerns about Section 8 costs are often based on a review of annual "budget authority" figures rather than actual expenditures (i.e., "outlays"). Annual budget authority, which refers to the amount of new funding that Congress appropriates for a program for a given year, has in fact grown substantially for the Section 8 programs since the mid-1990s. But budget authority is not a reliable indicator of program costs. Year-to-year changes in budget authority often reflect factors that have little to do with actual program spending, such as one-time rescissions of budget authority from prior years, shifts in the timing of funding (such as shifting funding from one fiscal year to the next through the use of advance appropriations), and changes in funding policies.

Indeed, much of the growth in Section 8 budget authority since the mid-1990s has been the result of two changes in the way that Congress funds these programs, rather than increases in program costs or the level of assistance:

- *Long-term contracts have been replaced by annual renewal funding.* Most Section 8 rental assistance — including both tenant-based and project-based assistance — was originally funded in the 1970s and 1980s under multiyear contracts spanning several decades, with Congress providing up front all of the budget authority needed to support the contracts. When these long-term Section 8 contracts — most of which had received no new budget authority for many years — began to expire in the mid-1990s, Congress chose to provide renewal funding on an annual, rather than multiyear, basis. As a result, the amount of new budget authority required to support the existing Section 8 units each year has grown at a substantial clip, as an increasing number of long-term contracts have been replaced by new contracts funded on an annual basis.

- *Rescissions have declined sharply.* Each year from 2001 to 2008, Congress rescinded an average of

[10] Figure 2 shows combined data for the Section 8 project-based and tenant-based rental assistance programs, rather than data for the voucher (i.e., tenant-based) program alone. The programs were funded out of a single account as recently as 2006, which makes it difficult to separate expenditures for the two programs for earlier years.

$1.7 billion in unspent balances of Section 8 budget authority and used these funds, rather than new budget authority, to finance a portion of Section 8 costs.[11] In contrast, Congress rescinded only $750 million in 2009 and will not rescind any Section 8 funds in 2010 (or in 2011, under the President's budget request). Put another way, Congress had to increase budget authority for Section 8 by roughly $1.7 billion in 2010, compared to the average annual funding from 2001 to 2008, simply to replace the portion of funding that had been provided through rescissions — and will have to sustain this increase in budget authority in future years.

Outlays provide a more accurate picture of actual program costs and their impact on federal budget surpluses or deficits. Expenditures for Section 8 units are recorded each year as they occur, regardless of whether the unit is under a long-term or one-year contract or whether the budget authority used was offset by a rescission. Since 1998, Section 8 expenditures have remained fairly stable as a share of all HUD discretionary spending, fluctuating between 47 and 55 percent.[12] Under the President's 2011 budget, they would make up about 50 percent of HUD spending, slightly below the 2010 level and less than the average share from 1998 to 2010.

Policy Changes Would Enable Agencies to Help More Families With Available Funds

In addition to providing sufficient funding to renew all vouchers now in use, the Administration's budget recommends policy changes that would make voucher funding more reliable and encourage agencies to assist more low-income families with the funds available. These changes include:

- *A calendar-year base for the renewal formula.* The Administration proposes basing agencies' renewal funding for calendar year 2011 on their voucher leasing and costs during *calendar year* 2010, rather than federal fiscal year 2010 (which ends in September 2010). Aligning the funding year with the renewal formula's base year would simplify the formula, making it easier for agencies to manage their program budgets. Furthermore, because the calendar year provides a more recent and accurate snapshot of an agency's voucher costs, funding would more closely match agency renewal needs, reducing the risk of shortfalls and cutbacks.

- *A balanced policy on funding reserves.* To reduce the risk of disrupting assistance to low-income families, it is prudent for agencies to maintain modest funding reserves as a hedge against unanticipated costs, such as surges in market rents or job losses among tenants. The budget would allow agencies to maintain reserves equal to at least 6 percent of their 2011 renewal funding eligibility.[13] (HUD could set the threshold higher than 6 percent.) In addition, for

[11] The rescissions ranged from $1.2 billion in 2003 to $2.8 billion in 2004. Most of these unspent balances were budget authority allocated to the original long-term Section 8 project-based rental assistance contracts that turned out not to be needed (a risk of providing up front the budget authority needed to cover contracts for periods of 20 to 40 years). As the number of long-term funding contracts has dwindled, the pool of funds available for rescission has dried up.

[12] OMB Public Budget Database and other OMB budget documents. Note that amounts for FHA and GNMA were excluded from the HUD totals to eliminate fluctuations due to annual changes in receipts.

[13] The threshold would be set prior to any action by HUD to pro-rate renewal funds. Proration of renewal funding occurs when the total amount of renewal funding available is higher or lower than the total amount of renewal funding for which housing agencies are eligible. Congress has set a new and different reserve policy every year over the past four years; while the individual policies have been reasonable, the annual changes in policy have created unnecessary uncertainty about funding and weakened the positive incentives of the policies.

agencies with reserve balances exceeding the minimum threshold, the budget would allow HUD to offset their 2011 renewal allocations by an equivalent amount.

These policies strike an appropriate balance between enabling agencies to protect themselves and the families they serve against financial risks and encouraging them to use available funds to serve the maximum number of families. Also, in the event of a shortfall in renewal funding, the offset mechanism would enable HUD to tap "excess" reserves at some agencies to prevent terminations of assistance by other agencies with fewer reserves.

- *Elimination of the authorized voucher cap.* Each agency is authorized to administer a specific number of vouchers; in recent annual appropriations acts, Congress has prohibited agencies from using voucher funds to serve more than their authorized number of families. The President's budget would change this policy, allowing agencies to use reserve funds to assist additional families.

- *Reallocation of funding (e.g., to serve more families).* The budget would permit HUD to reallocate "for purposes otherwise authorized by law" any renewal funding available after agencies receive all of the renewal funding for which they are eligible. HUD could, for example, make additional funding available to high-performing agencies to issue vouchers to families on waiting lists, thereby helping more families in need.

Taken together, these changes would make program funding more reliable for housing agencies, while encouraging agencies to use funds efficiently to serve the maximum number of families. Congress would have to authorize these proposed changes, either in appropriations legislation or in authorizing legislation such as the Section 8 Voucher Reform Act (SEVRA). The Administration's proposals are very similar to the funding policy provisions of SEVRA, and enacting them as part of SEVRA would lend added stability and predictability to program funding by placing the rules in the permanent authorizing statute.

Affordability Problems Likely to Continue to Grow Despite Budget Improvements

In addition to fully funding voucher renewals and proposing policy changes that would enable the program to serve more families with available funds, the budget request provides $85 million for approximately 10,000 new housing vouchers for individuals and families who are homeless or at risk of homelessness. This additional rental assistance would help meet an important need.

Nevertheless, severe housing affordability problems among low-income renters will continue to far exceed the capacity of federal rental assistance programs to respond. From 2000 to 2008, the number of low-income families paying more than half of their income for rent and utilities increased by 2.3 million (or 38 percent), while the number of low-income families assisted by the three largest federal rental assistance programs grew by 300,000 (7.5 percent).[14] While it is encouraging that the Administration's budget places a priority on strengthening the voucher program, much more needs to be done to enable more low-income families to secure affordable rental housing.

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[14] Data sources are American Community Survey, 2000 and 2008, housing agency data reported to HUD's Voucher Management System, and HUD's *Performance and Accountability Reports*. The number of low-income families assisted includes all units funded under the public housing and Section 8 project-based rental assistance programs (including some that are vacant at any given point in time) and all vouchers leased under the Housing Choice voucher program.