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APPENDIX
METHOD OF CALCULATING RENEWAL FUNDING ESTIMATES FOR THE SECTION 8 PROGRAMS

This appendix describes the sources and methods used to estimate the 2008 renewal funding requirements for Section 8 vouchers and Section 8 Project-Based Rental Assistance (PBRA) that appear in the body of this paper.

Section 8 Voucher Program

Our estimates rely primarily on two sets of HUD data. The first set is from HUD's Voucher Management System (VMS). The VMS contains data on the number of leased vouchers and subsidy payments made to owners; agencies submit these data to HUD on a quarterly basis. At the time we conducted this analysis, we had access to VMS data covering the period from August 2002 through September 2006.[1] The second set of data is HUD's Resident Characteristics Report (RCR) database, downloaded periodically through January 2007, which contains information on the number of authorized vouchers at each agency.

To estimate the amount of Section 8 voucher renewal funding required in 2008, we proceeded generally as follows. Using VMS data for January through September 2006, we calculated average voucher leasing and costs for each housing agency for the calendar year 2006. Using these averages, along with assumptions about how they would change from 2006 to 2007, we estimated average voucher leasing and costs for each housing agency in calendar year 2007. Applying additional assumptions about likely changes in per-voucher costs in 2008, we then estimated the amount of funding that would be required to renew in 2008 all vouchers in use in 2007. Each of these steps is described in detail below.

[1] VMS data for some agencies were missing in one or more quarters. In these cases, we projected costs and utilization using data submitted by the agency for an earlier quarter and assumed that the agency's subsequent costs and utilization grew at the average rate reported for the same quarter at agencies with complete data. In a small number of cases, agencies reported extremely high or low per-unit costs or utilization rates, indicating that the data were likely to be erroneous. In these cases, we adjusted the data either in the same manner as for agencies with missing data or based on information on an agency's voucher program that we obtained from the agency. We made special calculations for agencies in Louisiana and Mississippi that were severely impacted by the 2005 Gulf Coast hurricanes.

Voucher Leasing and Costs in 2006

The VMS data to which we had access includes monthly voucher leasing (UML) and housing assistance payment (HAP) data for each housing agency through September 2006. For each agency, we assumed that its average monthly UML and HAP for calendar year 2006 was equal to its average for the nine-month period ending September 2006 (the most recent data we had).

If an agency's average monthly UML was higher than its total number of authorized vouchers (as of January 2007, according to HUD's Resident Characteristics Report database), then the agency's monthly average UML was capped at the total number of authorized vouchers and a corresponding adjustment was made for average monthly HAP. Using the resulting average monthly UML and HAP figures, we also calculated average monthly and annual per-voucher costs (PUCs) for each agency.

Voucher Leasing and Costs in 2007

For 2007, Congress appropriated $15.92 billion for Section 8 vouchers, including $14.436 billion for voucher renewals. Of the renewal amount, $100 million was set aside for adjustments to agencies' renewal funding allotments for specific purposes (see below).

Congress also approved a new voucher funding formula for 2007. Under this formula, the determination of each housing agency's funding allocation has the following components:

1) Each agency's funding base is its average leasing and costs during the most recent 12-month period. (HUD has indicated it will interpret this language to mean calendar year 2006.) We estimated 2007 base funding amounts for each agency using our calculation of 2006 average leasing and costs as described above.

2) A regional Annual Adjustment Factor (AAF), as determined by HUD, is applied to each agency's base. HUD has published 2007 AAFs for each region on its website, and we used these factors to adjust the 2007 funding base for each agency.

3) Agencies receive adjustments for costs associated with the first-time renewal of new tenant protection vouchers issued in the previous year and for commitments of project-based vouchers that have not yet been leased as of the end of calendar year 2006. To estimate the number of tenant protection vouchers received by each agency in 2006, we compared its total number of authorized vouchers in January 2007 and January 2006, as reported in the RCR database. We assumed that the per-voucher cost of renewing tenant protection vouchers in 2007 would be equal to the agency's average per-voucher cost in 2006, adjusted by the 2007 AAF. As data for commitments of project-based vouchers for 2007 were not available to us, we were unable to make funding adjustments for these vouchers.

4) Housing agencies with special funding agreements under the Moving-to-Work Demonstration (MTW) Program are funded in accord with their MTW agreements, rather than by applying the previous steps. We allocated funding to each MTW agency in accord with its special agreement.

5) The 2007 appropriations law also sets aside $100 million to be distributed to agencies to defray voucher portability costs and to assist agencies who would receive significantly less funding

under the recent-cost formula than under the 2006 formula. As we had no data on which to base the distribution of this funding, we excluded this $100 million from our 2007 analysis (i.e., we assumed that only $14.336 billion in renewal funding was allocated via the formula).

6) Congress required HUD to distribute all of the renewal funding except for the $100 million set aside for special adjustments under this formula. Using the data and assumptions described above, we estimated that each agency would receive 104 percent of its spending on the voucher program in 2006, adjusted by the 2007 AAF. For Gulf Coast (and a small number of other) agencies, we assumed that agencies would receive adjusted funding levels based on the voucher formula modifications included in the 2007 supplemental appropriations act signed into law on May 25, 2007.

Using the method just described, we estimated a 2007 renewal funding allocation for each housing agency. In addition, we were able to estimate for each agency the amount of unspent funding carried over from 2005 and 2006 (i.e., each agency's "undesignated fund balance"), based on previous funding award notices and VMS data for those years.

We then estimated each agency's total housing assistance payments (HAP) to owners for 2007. To do this, we assumed the following about each agency's leasing and per-voucher costs.

First, we assumed that each agency's actual per-voucher costs would increase from 2006 to 2007 at the rate of the Annual Adjustment Factor (AAF) it received under the 2007 formula.

Second, we assumed that agencies would increase their average monthly leasing (UML) by 4 percent by the end of 2007 — or 2 percent on average for the year — in comparison to average leasing for 2006. (Because Congress continued the prohibition on agencies leasing more than their authorized number of vouchers, we capped the estimated leasing increase an agencies' authorized voucher limit.) We believe this assumption concerning increased leasing is justified by consideration of the following factors. As explained in the paper, the use of a recent-cost voucher funding formula provides agencies with a strong incentive to increase the number of families they assist. By approving a significant increase in voucher funding in 2007, moreover, Congress provided agencies with the means to respond to this incentive. (In addition, many agencies have substantial funding reserves on which to draw to increase voucher leasing.) At the same time, however, HUD still (as of mid-May) has not notified agencies of their actual voucher funding allocations for 2007, which likely has caused some agencies to proceed cautiously in expanding their programs. Accordingly, we expect that agency efforts to lease up additional vouchers will be delayed somewhat, although it is likely that some better-informed agencies – including many of the larger agencies – have already begun these efforts.

It is therefore reasonable to assume that agencies will increase leasing by 4 percent *by the end of 2007*. (As noted in the paper, this would mean that housing agencies will have restored roughly half of the 150,000 vouchers lost since early 2004.) In determining renewal funding needs for 2008, moreover, it is best to assume the full 4 percent increase in leasing, even though this represents the endpoint for the year, rather than an annual average. This is because if Congress were to base renewal funding on the annual average in 2007, then housing agencies that had increased their leasing in the second half of the year could face shortfalls in renewal funding in 2008, and might be forced to reduce the number of families they assist in 2008 (depending on how much, if any, unspent prior year funds they have retained).

Under the leasing and per-voucher cost assumptions outlined above, we then calculated total annual housing assistance payments (HAP) made by each agency in 2007. If an agency's estimated total 2007 HAP exceeded its total 2007 renewal funding allocation plus its total carryover funding from 2005 and 2006, then its total 2007 HAP was adjusted downward so as not to exceed the maximum amount of funds available.

For two categories of agencies, we estimated their total 2007 HAP differently. For agencies with special funding agreements under the Moving to Work program, their total 2007 HAP was set to equal their 2007 funding allocation, prior to the proration. For Gulf Coast agencies affected by the voucher formula modifications included in the 2007 supplemental appropriations law enacted on May 25, 2007, their total 2007 HAP was set to equal the 2007 funding allocation they received under the supplemental law, i.e., equal to their 2006 funding allocation adjusted by the 2007 AAF.

Voucher Renewal Funding Estimate for 2008

The estimate for voucher renewal funding required in 2008 was based on the following steps:

1) A 2008 funding base was calculated for each agency; this was equal to its total 2007 HAP, estimated as described above. (In effect, we assumed that the recent-cost renewal funding formula would be repeated in 2008.)

2) An estimated AAF for 2008 was applied to the funding base. Since HUD's AAFs for 2008 will not be released until later in the year, we estimated a national average AAF, using HUD's stated methodology (which relies on Consumer Price Index data for residential rents and utilities, as well as additional data from the Consumer Expenditure Survey). The result was an AAF adjustment of 4.3 percent for 2008, which was applied to each agency's estimated 2007 HAP.

3) For agencies participating in MTW, we estimated their renewal funding needs for 2007 in accord with their MTW agreements.

4) Following the method outlined in the previous three steps, we arrived at a first-order estimated voucher renewal funding requirement of $14.64 billion.

5) Separately, we then estimated the amount of funding that would be required for the first-time renewal in 2008 of tenant protection vouchers issued in 2007.[2] To do this, we assumed that: (i) the amount of funding provided by Congress in 2007 for newly-issued tenant protection

[2] A recent change in Administration policy regarding the funding of tenant protection vouchers effectively increases renewal funding costs (while also reducing the annual costs for issuing new tenant protection vouchers). Since 2005, the Administration's stated policy has been to provide initial funding for new tenant protection vouchers only through the remaining months of the calendar year in which they are issued rather than for a full 12 months. Accordingly, when tenant protection vouchers are renewed for the first time in the subsequent year, every one must be funded for an entire 12-month period. In effect, this policy shifts costs from the account for new tenant protection vouchers to the account for voucher renewals. However, the evidence provided in HUD budget documents and federal notices has been inconsistent, and it remains unclear whether HUD is following this policy in practice. Nevertheless, our estimate of renewal funding needs in 2008 assumes that HUD is following its stated policy. If, in fact, HUD is not following this new policy, then voucher renewal funding needs in 2008 will be lower than we have estimated (and funding needs for new tenant protection vouchers will be higher than the amount requested in the Administration's budget.

vouchers correctly anticipated the actual funding required, and (ii) the new tenant protection vouchers issued in 2007 would lease up at a uniform rate throughout the year, e.g., that half would be leased by June 30, three quarters by September 30, etc. In other words, we assumed that the average new tenant protection voucher issued in 2007 would be leased for six months, and that the appropriated amount of funding was exactly sufficient to cover these costs. Under these assumptions and HUD's stated policy for funding new tenant protection vouchers (as explained in footnote 30), we inferred that the amount of funding required for first-time renewal of these vouchers in 2008 would be twice their cost in 2007 (i.e., twice the amount appropriated in 2007), plus a cost adjustment for inflation in 2008 (achieved by applying the estimated national average AAF). Using this method, we estimated that the total cost of first-time renewals of tenant protection vouchers issued in 2007 would be approximately $310 million in 2008.

6) Finally, we assumed that in 2008 Congress would again provide an additional $100 million for funding adjustments for portability costs, etc.

The total estimated cost of renewing Section 8 vouchers in 2008 is therefore $15.05 billion.

Section 8 Project-Based Rental Assistance

To estimate renewal funding requirements for Section 8 Project-Based Rental Assistance (PBRA) in 2008, we used information provided by HUD as part of the budget for fiscal year 2008 and the most recent (through March 2007) monthly spending data for Section 8 PBRA available in the Monthly Treasury Statements (MTS) posted by the Department of the Treasury.

Our general method was the following. Using the MTS data and information available in the HUD budget, we calculated an estimated per-unit cost for Section 8 PBRA in 2007. Then, using the estimated per-unit cost and additional information in the HUD budget (such as the number of Section 8 PBRA units that will require renewal funding in 2008), we calculated the cost of renewal funding for Section 8 PBRA in 2008.

Per-Unit Cost of Section 8 Project-Based Rental Assistance in 2007

According to the Monthly Treasury Statements for October 2006 through March 2007, i.e., for the first six months of fiscal year 2007, total outlays for Section 8 PBRA averaged $710 million per month. Projecting this spending rate over the entire fiscal year, we estimate total outlays of $8.52 billion for Section 8 PBRA in fiscal year 2007.

Total outlays include spending for contract renewals, contract amendments, contract administrators, and the HUD working capital fund. HUD budget documents allowed us to estimate the spending amounts devoted to contract administrators and the working capital fund to be approximately $275 million in fiscal year 2007. Subtracting this amount from the total, we concluded that $8.245 billion will be spent on contract renewals and amendments in FY 2007.

HUD's *Performance and Accountability Report, Fiscal Year 2006* shows 1,287,529 total Section 8 PBRA units funded in 2006. A recent report issued by the Government Accountability Office revealed that

Section 8 contracts governing about 13,000 units terminate every year, as owners exit the program. Accordingly, we assumed that contracts governing 13,000 units would terminate in FY 2007, including 3,250 units by December 31, 2006, the mid-point of the first half of the fiscal year. In other words, an average of 1,284,279 PBRA were covered by outlays in the first half of FY 2007. Dividing the total outlays of $8.245 billion by this number of units, we arrived at an average annual per-unit cost for PBRA of $6,420 in FY 2007.

Estimated Renewal Funding Requirements for Section 8 Project-Based Rental Assistance in 2008

HUD's budget justifications for FY 2008 indicate that 1,021,352 units with PBRA will require renewal funding in FY 2008, an increase of about 16,500 units compared to 2007. (The other approximately 260,000 units are under long-term contracts for which budget authority was committed decades ago.) We assumed that this figure already accounts for expected terminations of contracts governing some units. If this assumption is incorrect, then our estimate of renewal funding needed will be about $100 million higher than may actually be the case).

For the following reasons, we choose to assume that average per-unit costs for PBRA renewals in 2008 would be equal to our estimate of the average cost for *all* PBRA units in 2007, including those under long-term contracts. PBRA payments are governed by contracts that include annual adjustments, in most cases in accord with an Operating Cost Adjustment Factor (OCAF), which is intended to account for inflation in operating costs. (For FY 2007, the national average OCAF is 4.3 percent.) However, the potential effect of the OCAF on our estimate of renewal costs is complicated by other factors.

For example, our estimated per-unit cost for PBRA in 2007 is an average for all PBRA units, i.e., for units still governed by long-term contracts as well as those funded through annual appropriations. On average, the per-unit costs of units governed by long-term contracts are likely to be significantly higher than those funded through annual appropriations (as evidenced by the fact that the contract rents for many units governed by long-term contracts are marked down to market at the expiration of the original contract). Therefore, as a basis for estimating the per-unit renewal cost of units funded through annual appropriations (which is our concern, since it is these units that will require renewal funding in 2008), any per-unit cost estimate we could make would be likely to be somewhat high.

Because we have no way of quantifying the interplay between the OCAF and other factors, we chose simply to assume that average per-unit costs for PBRA renewals in 2008 would be equal to our estimate for all PBRA units in 2007. As a result, our estimate of renewal funding required for PBRA in 2008 is approximate, and could be too low (by as much $200 to $300 million), or even somewhat too high.

Therefore, assuming a per-unit cost of $6,420 for 1,021,352 PBRA units requiring renewal funding in 2008, we estimate that $6.56 billion will be required in FY 2008 to fund PBRA renewals and contract amendments. Given the uncertainty of some of our assumptions, we decided it would be reasonable to express this estimate as a range of $6.26 billion to $6.86 billion. This is about $700 million to $1.3 billion more than the amount requested in the Administration's FY 2008 budget request.

However, the Administration’s budget assumes that $300 million in recaptured Section 8 funds will be available to supplement new budget authority provided by Congress. In addition, we analyzed HUD budget documents to estimate the amount of carryover funding that would be available to meet funding needs in 2008 (carryover funding is funding appropriated in previous years that has not yet been obligated by HUD), based on a separate analysis of funding needs in 2007. We concluded that HUD would have over $100 million available in carryover funding in 2008. Taken together, HUD will have $400M in additional funding available — above the level provided by the FY2008 appropriations act — to meet PBRA renewal funding needs in 2008

Taking into account the above assumptions concerned recaptured and carryover funds available in FY 2008, the gap between our estimate of PBRA funding required for renewals and contract amendments in 2008 and the Administration’s budget request declines to a range of $300 to $900 million.