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An Overview of the Section 8 Housing Program

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Summary

The Section 8 low-income housing program is really two programs: the voucher program and the project-based Section 8 program. Vouchers are portable subsidies that low-income families can use to lower their rents in the private market. Vouchers are administered at the local level by quasi-governmental public housing authorities (PHAs). Project-based Section 8 is a form of rental subsidy that is attached to a unit of privately owned housing. Low-income families who move into the housing pay a reduced rent, based on their incomes.

The Section 8 program began in 1974, primarily as a project-based rental assistance program. However, by the mid-1980s, project-based assistance came under criticism for seeming too costly and concentrating poor families in high-poverty areas. Congress stopped providing new project-based Section 8 contracts in 1983. In their place, Congress created vouchers as a new form of assistance. Today, vouchers — numbering over 2 million — are the primary form of assistance provided under Section 8, although over 1 million units still receive project-based assistance under their original contracts or renewals of those contracts.

Congressional interest in the Section 8 program has increased in recent years, particularly as the program costs have rapidly grown. In order to understand why costs are rising so quickly, it is important to first understand how the program works and its history. This report presents a brief overview of that history and introduces the reader to the program. For an expanded discussion of costs and funding in the Section 8 voucher program, see CRS Report RL31930, *Section 8 Housing Choice Vouchers: Funding and Related Issues*. This report will be updated as warranted.

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An Overview of the Section 8 Housing Program

Introduction

The rental assistance programs authorized under Section 8 of the United States Housing Act of 1937 (42 U.S.C. § 1437f) have become the largest component of the Department of Housing and Urban Development's (HUD) budget, with appropriations of more than $20 billion in FY2005. The rising cost of providing rental assistance is due, in varying degrees, to expansions in the program, the cost of renewing expiring long-term contracts, and rising costs in housing markets across the country. Many Members of Congress have shown concern about the escalating costs of Section 8 and have expressed interest in methods to reduce those costs. The following statement was taken from the FY2004 Consolidated Appropriations Conference Report (H.Rept. 108-401):

> The conferees are concerned about the spiraling increase in the cost of providing assistance under the voucher program. The conferees are aware that the national average cost per voucher has increased at a rate of more than double the average increase in the private rental market in each of the last two years, including a 10% increase in 2002 and an additional estimated 9% increase in 2003. At the same time, the rental housing market has softened.

In order to understand why the program has become so expensive, it is first important to understand the mechanics of the program and its history. This paper will provide an overview of the Section 8 program and its history. For an expanded discussion of funding and related current issues, see CRS Report RL31930, *Section 8 Housing Choice Vouchers: Funding and Related Issues*.

Background Information[1]

From 1937 until 1965, public housing and the subsidized mortgage insurance programs of the Federal Housing Administration (FHA) were the country's main forms of federal housing assistance. As problems with the public housing and other bricks and mortar federal housing construction programs (such as Section 235 and Section 236 of the National Housing Act) arose — particularly their high cost — interest grew in alternative forms of housing assistance. In 1965, a new approach was adopted (P.L. 89-117). The Section 23 program assisted low-income families

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[1] This section is derived from earlier research by CRS Analyst Susan Vanhorenbeck.

residing in leased housing by permitting a public housing authority (PHA)[2] to lease existing housing units in the private market and sublease them to low-income and very low-income families[3] at below-market rents. However, the Section 23 program did not ameliorate the growing problems with HUD's housing construction programs and interest remained in developing and testing new approaches. The Experimental Housing Allowance Program is one example of such and alternative approach.

The Experimental Housing Allowance Program

The Experimental Housing Allowance Program (EHAP) began with a mandate to HUD from Congress in 1970 to test the impacts and feasibility of providing low-income families with allowances to assist them in obtaining existing, decent rental housing of their choice (P.L. 91-152). Congress was interested specifically in finding the answers to several key questions:

- How many families would make use of allowance payments?
- What kind of housing would they choose and in what neighborhoods?
- How would housing markets respond to the increased demand for housing?
- At what cost could a housing allowance program be administered?

In order to answer these questions, HUD contracted for the conduct of three experiments: the *Demand Experiment* to test how families would respond to a housing allowance, the *Supply Experiment*, to test how markets would respond to subsidies and the *Administrative Agency Experiment*, to test the administrative capacity and funds required to administer a housing allowance program. The first reports came out in 1973, and a final report was issued in 1980. The EHAP's key findings are listed below:

- In order to ensure housing quality, subsidies have to be tied to housing standards; however, stricter housing standards limit participation. Participation is also linked to subsidy amount; as the subsidy increases, so does participation.
- Mobility and location of residence are mainly governed by ties to relatives, neighbors, and friends and are not affected by housing allowance payments.
- A housing allowance program has virtually no effect on the price of housing and does not stimulate new construction or major rehabilitation. However, it does help preserve the existing housing stock by stimulating repairs.
- A housing allowance program can be effectively administered at the local level.

The early findings of EHAP helped to set the tone for the debate that created the Section 8 program.

(Raymond Struyk, "Policy Questions and Experimental Responses," in *Housing Vouchers for the Poor: Lessons from a National Experiment*, edited by Raymond Struyk and Marc Bendick Jr. [Washington: Urban Institute Press, 1981].)

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[2] PHAs are state or local quasi-governmental bodies that administer public housing and Section 8 vouchers.

[3] HUD uses a relative measure of income for determining benefits and eligibility for Section 8. "Low-income families" have adjusted gross incomes at or below 80% of the local area median income; "very low-income" families have adjusted gross incomes at or below 50% of the local area median income; and "extremely low-income" families have adjusted gross incomes at or below 30% of the local area median income

Due to criticisms about cost, profiteering, and slumlord practices in federal housing programs, President Nixon declared a moratorium on all existing federal housing programs, including Section 23, in 1973. During the moratorium, HUD revised the Section 23 program and sought to make it the main assisted housing program of the federal government. However, at the same time, Congress was considering several options for restructuring subsidized housing programs. After all the debates and discussions that typically precede the passage of authorizing legislation were completed, Congress voted in favor of a new leased housing approach, and the Section 8 program was created.

Early Section 8

The Section 8 program is named for Section 8 of the United States Housing Act of 1937. The original program, established by the Housing and Community Development Act of 1974 (P.L. 93-383), consisted of three parts: new construction, substantial rehabilitation, and existing housing certificates. The 1974 Act and the creation of Section 8 effectively ended the Nixon moratorium. In 1978, the moderate rehabilitation component of the program was added, but it has not been funded since 1989. In 1983, the new construction and substantial rehabilitation portions of the program were repealed, and a new component — Section 8 vouchers — was added. In 1998, existing housing certificates were merged with and converted to vouchers.

New Construction and Substantial Rehabilitation. Under the new construction and substantial rehabilitation components of the early Section 8 program, HUD entered into long-term (20- or 40-year) contracts with private for-profit, non-profit, or public organizations that were willing to construct new units or rehabilitate older ones to house low- and very low-income tenants. Under those contracts, HUD agreed to make assistance payments toward each unit for the duration of the contract. Those assistance payments were subsidies that allowed tenants residing in the units to pay 25% (later raised to 30%) of their adjusted income as rent. The program was responsible for the construction and rehabilitation of a large number of units. Over 1.2 million units of housing with Section 8 contracts that originated under the new construction and substantial rehabilitation program still receive payments today.

By the early 1980s, because of the rising costs of rent and construction, the amount of budget authority needed for the Section 8 rental assistance program had been steadily increasing while the number of units produced in a year had been decreasing. At the same time, studies emerged showing that providing subsidies for use in newly constructed or substantially rehabilitated housing was more expensive than the cost of providing subsidies in existing units of housing. Also, because contracts were written for such long terms, appropriators had to provide large amounts of budget authority each time they funded a new contract (see below for an illustration of the implication of long-term contracts). As the budget deficit grew, many Members of Congress became concerned with the high costs associated with Section 8 new construction and substantial rehabilitation, and these segments of the Section 8 program were repealed in the Housing and Urban-Rural Recovery Act of 1983 (P.L. 93-181).

What Do Long Term Contracts Mean for Congress?

The following example illustrates how Congress appropriates funds for long-term contracts, compared to one-year contracts.

In 2003, a housing subsidy cost an average of $6,000 per year. If Congress wanted to fund 10 new Section 8 subsidies in 2003, the cost of doing so would depend on the length of the contract Congress decided to fund:

If the contract was a **40-year** contract, as was the case in the beginning of the Section 8 program, then Congress must appropriate:

10 vouchers x $6,000 x 40 years = **$2.4 million**.*

If the contract was a **one-year** contract, as is the case with Section 8 contracts today, then Congress must appropriate:

10 vouchers x $6,000 x 1 year = **$60,000**.

Thus, it would have cost Congress less in 2003 to provide one year contracts than it would have to provide multiyear contracts. The trade-off is the cost in subsequent years. For example, assume that Congress intends to maintain those 10 subsidies in 2004. If Congress funded those subsidies under 40-year contracts in 2003, then the subsidies would not require funding again until 2043, meaning they would cost Congress nothing in 2004; however, if Congress funded those subsidies under one-year contracts in 2003, then the subsidies would require another year's worth of funds in 2004.

* Note, this example does not include an estimate for inflation. When funding multiyear contracts, Congress generally includes an estimate of inflation and adds it to the total cost.

Moderate Rehabilitation. The Housing and Community Development Amendments of 1978 (P.L. 95-557) added the moderate rehabilitation component to the Section 8 program, which expanded Section 8 rental assistance to projects that were in need of repairs costing at least $1,000 per unit to make the housing decent, safe, and sanitary. Over the next 10 years, however, this component of the program was fraught with allegations of abuse; the process of awarding contracts was considered unfair and politicized. Calls for reform of the moderate rehabilitation program led to its suspension. It has not been funded since 1989.

Existing Housing Certificates. The existing housing certificate component of the Section 8 program was created in the beginning of the Section 8 program and continued until 1998. Under the existing housing certificate program, PHAs and HUD would enter into an Annual Contributions Contract (ACC) for the number of units that would be available to receive assistance. Contracts were originally written for five years and were renewable, at HUD's discretion, for up to 15 years. In the contract, HUD agreed to pay the difference between the tenant's rental payment and the contract rent of a unit. The contract rent was generally limited to the HUD-set Fair Market Rent (FMR) for the area.

What is Fair Market Rent (FMR)?

> FMRs are gross rent estimates that include both shelter rent paid by the tenant to the landlord and the cost of tenant-paid utilities, except telephones. HUD sets FMRs either at the 40^{th} percentile rent or at the 50^{th} percentile rent for each metropolitan or non-metropolitan statistical area in the nation, as well as for each state. For most areas, the FMR is set at the 40^{th} percentile rent paid by recent movers, which means that 40% of all standard quality rental housing units rented within the past 18 months have rents at or below the FMR. For some high cost areas, the FMR is set at the 50^{th} percentile rent or the median rent, so that 50% of standard units fall at or below the FMR. In some low-cost communities, the FMR is raised to the statewide FMR, if it is higher.

After entering into a contract with HUD, PHAs would advertise the availability of certificates for low-income tenants. The existing housing certificate program was primarily tenant-based, meaning that the assistance was given to the tenant. Families selected to receive assistance were given certificates as proof of eligibility for the program; with their certificates, families could look for suitable housing. Housing was considered suitable if it rented for the FMR or less and met Housing Quality Standards (HQS).[4] Once the household found a unit, they signed a lease and agreed to pay 30% of their adjusted income for rent. The remainder of the rent was paid by HUD to the landlord on behalf of the tenant. If a family vacated a unit in violation of the lease, HUD had to make rental payments to the landlord for the remainder of the month in which the family vacated, and pay 80% of the contract rent for an additional month. If the family left the unit at the end of their lease, they could take their certificate with them and use it for their next home. HUD also paid the PHA an administrative fee for managing the program. The amount of this administrative fee was set by Congress in appropriations legislation each year.

Project-Based Existing Housing Certificates. PHAs were permitted to use up to 15% of their Section 8 certificates for project-based housing. In project-based Section 8 existing housing, the subsidy was attached to the unit and not to the tenant. This meant that when a tenant vacated a unit, another eligible tenant would be able to occupy it, and HUD would subsidize the rent as long as a contract was in effect between the PHA and the owner.

In 1998, the Quality Housing and Work Opportunity Reconciliation Act (QHWRA) (P.L. 105-276) merged the Section 8 existing housing certificate program with the voucher program (see below) and converted all certificates to vouchers, effectively ending the Section 8 existing housing certificate program.

The Voucher Program. The largest component of today's Section 8 program, the voucher program, was first authorized by the Housing and Urban-Rural Recovery Act of 1983 (P.L. 93-181). It was originally a demonstration program, but was made permanent in 1988.

Like the Section 8 existing housing certificate program, the voucher program is administered by PHAs and is tenant-based, with a project-based component.

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[4] Housing Quality Standards (HQS) are minimum standards set by HUD that set acceptable conditions for interior living space, building exterior, heating and plumbing systems, and general health and safety.

However, under the voucher program, families can pay more of their incomes toward rent and lease apartments with rents higher than FMR.

Today's Section 8 Program

Today's Section 8 program is really two programs, which, combined, is serving almost 3.5 million households.

Project-Based Section 8. The first program under Section 8 can be characterized as project-based Section 8 rental assistance. This program includes units created under the new construction, substantial rehabilitation, and moderate rehabilitation components of the earlier Section 8 program that are still under contract with HUD. Although no new construction, substantial rehabilitation, or moderate rehabilitation contracts have been created for a number of years, about 1.3 million of these units are still funded under multiyear contracts that have not yet expired or multiyear contracts that had expired and are renewed annually.

Families that live in project-based Section 8 rental assistance units pay 30% of their incomes toward rent. In order to be eligible, families must be low-income; however, at least 40% of all units must be available for very low-income families. If a family leaves the unit, the owner will continue to receive payments as long as he or she can move another eligible family into the unit.

Owners of properties with project-based Section 8 rental assistance receive a subsidy from HUD, called a Housing Assistance Payment (HAP). HAP payments are equal to the difference between the tenant's payments (30% of income) and a contract rent, which is agreed to between HUD and the landlord. Contract rents are meant to be comparable to rents in the local market, and are adjusted annually by an automatic Annual Adjustment Factor (AAF). The AAF is derived from data on residential housing costs in particular market areas. Project-based Section 8 contracts are managed by contract administrators. In many cases, regional HUD offices act as contract administrators, although HUD often contracts the function out to state agencies, PHAs, or private agencies.

In 2000, about 60% of the households that lived in project-based Section 8 units were elderly households, about 15% were disabled households, and about 21% were non-elderly, non-disabled households with children. Of the non-elderly, non-disabled households (including the approximately 5% who did not have children), about half received income solely from work, about 16% received income solely from welfare, about 10% combined work and welfare, and about 20% reported no income or income from other sources (such as child support). The average earnings of the non-elderly, non-disabled households were a little over $11,000 per year.[5]

Housing Choice Vouchers. When QHWRA merged the voucher and certificate programs in 1998, it renamed the voucher component of the Section 8

[5] CRS calculation of data in Jeffrey M. Lubell, Mark Shroder, Barry Steffen, "Work Participation and Length of Stay in HUD-Assisted Housing," *Cityscape*, vol. 6, no. 2 (2003).

program the Housing Choice Voucher program. The government currently funds over 2 million Section 8 Housing Choice Vouchers.

Vouchers are tenant-based in nature, meaning that the subsidy is tied to the family, rather than to a unit of housing. In order to be eligible, a family must be very low-income, although 75% of all vouchers must be given to extremely low-income families. Families who receive vouchers can use them to subsidize their rents in private market apartments. Families with vouchers pay between 30% and 40% of their incomes toward rent. HUD, through local PHAs, pays a subsidy amount to landlords who rent to voucher tenants to help make up the difference between the tenant payment and the rent for the unit. (See below for an example.) A voucher-assisted household may rent a unit where the rent is higher than the FMR, but the amount must be approved by HUD as "reasonable" based on comparable rents in the area. After one year, a family can choose to move, even outside of the jurisdiction of their PHA, and retain their voucher assistance.

Project-Based Vouchers. Vouchers, like Section 8 existing housing certificates, can be project-based. In order to project-base vouchers, a landlord must sign a contract with a PHA agreeing to set-aside up to 25% of the units in a development for low-income families. Each of those set-aside units will receive voucher assistance as long as a family that is eligible for a voucher lives there. Families that live in a project-based voucher unit pay 30% of their adjusted household income toward rent and HUD pays the difference between 30% of household income and a reasonable rent agreed to by both the landlord and HUD. PHAs can choose to project-base up to 20% of their vouchers.

How is a Voucher Subsidy Calculated?

First, a PHA sets a payment standard. A payment standard is a maximum subsidy level that is equal to anywhere between 90% and 110% of Fair Market Rent (FMR). Then, a PHA calculates a maximum Housing Assistance Payment (HAP). A HAP is the amount that the PHA will pay the landlord and it is equal to the greater of the rent for an apartment or the payment standard, minus 30% of a family's income. The family can then go out to the rental market and find an apartment. In order to be approved that apartment cannot rent for more than the maximum HAP plus 40% of a family's income. If the rent for the unit is less than the HAP plus 30% of a household's income, the household must still pay 30% of their income toward rent, but the HAP will be reduced.

For example, consider a family who earns $900 per month and lives in a community with an FMR of $800 per month for the appropriate size apartment. If their PHA has a payment standard of 110% of FMR, then the maximum HAP a family can receive is $610 per month [($800 * 110%) - ($900 * 30%)]. The family can therefore shop for an apartment with a rent of up to $970 per month [$610 + ($900 * 40%)].

If the family finds an apartment for $970 per month, the PHA will pay the maximum HAP ($610) and the family will pay 40% of their income per month ($360).

If the family finds an apartment for less than the payment standard, say $750 per month, the family will pay 30% of their income toward rent, and the PHA will pay the difference between the rent and 30% of the family's income. In this case, the family will pay $270 [$900 * 30%] and the PHA will pay $480 [$750 - (900 * 30%)].

The voucher program also has several special programs or uses. These include Welfare-to-Work vouchers, family unification vouchers, and vouchers used for homeownership. Fifty-thousand Welfare-to-Work vouchers were authorized in 1999.[6] Specifically, these vouchers are intended for families whose housing needs interfere with their ability to obtain or retain employment. They were designed to be paired with services such as job training, child care, and other work supports. Family unification vouchers are given to families for whom the lack of adequate housing is a primary factor in the separation, or threat of imminent separation, of children from their families or in the prevention of reunifying the children with their families. According to the Child Welfare League of America, at the end of 2001, there were over 42,000 authorized family unification vouchers. While there are no "homeownership vouchers," since 2000 certain families have been eligible to use their vouchers to help pay for the monthly costs associated with homeownership. Eligible families must work full-time or be elderly or disabled, be first-time homebuyers, and agree to complete first-time home buyer counseling. According to data provided to CRS from HUD, by June 2003 PHAs estimated that 1,395 families would close on homes using vouchers.

In 2000, about 17% of households with vouchers were elderly households, about 22% were disabled households, and about 53% were non-elderly, non-disabled households with children. Of the non-elderly, non-disabled households (including the approximately 8% that did not have children), about half received their income solely from work, about 20% received their income solely from welfare, about 6% combined work and welfare, and about 22% reported no income or income from other sources (such as child support). The average earnings of the non-elderly, non-disabled households were a little over $12,000 per year.[7]

Conclusion

The Section 8 program is the largest direct housing assistance program for low-income families. With a FY2005 budget of over $20 billion, it reflects a major commitment of federal resources. That commitment has led to some successes. More than 3 million families are able to obtain safe and decent housing through the program, at a cost to the family that is considered affordable. However, these successes come at a high cost to the federal government. Given current budget deficit levels, Congress has begun to reevaluate whether the cost of the Section 8 program is worth its benefits. Proposals to reform the program abound and whether the current Section 8 program is maintained largely in its current form, changed substantially, or eliminated altogether are questions currently facing Congress.

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[6] Vouchers are "authorized" when Congress provides funding for them in an appropriations bill. While Congress currently funds vouchers in one-year increments — which is why new vouchers are called incrementals — they have always been added to the number of vouchers that require renewal when calculating the cost of the program for the next year.

[7] CRS calculation of data in Jeffrey M. Lubell, Mark Shroder, Barry Steffen, "Work Participation and Length of Stay in HUD-Assisted Housing," *Cityscape*, vol. 6, no. 2 (2003).