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Section 8 Housing Choice Voucher Program: Funding and Related Issues

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Maggie McCarty
Analyst in Social Legislation
Domestic Social Policy Division

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Summary

The largest federal program designed to provide affordable housing to low-income families is the Section 8 Housing Choice Voucher program, which serves over 2 million households. Section 8 vouchers are tenant-based subsidies that low-income families use in the private market to lower their rental costs to 30% of their incomes. The modern program began in the early 1980s and has grown to replace public housing as the primary tool for subsidizing the housing costs of low-income families. Its creation and much of its history are characterized by support from both ends of the political spectrum — for its use of the private market, on the one hand, and for its deep subsidies for the poorest families, on the other.

Over the past several years, the program has come under fire for its rising cost. From 2001 to 2005, the cost of the program has increased by over 34%, although the number of people served has remained roughly the same. These cost increases can be attributed to a number of factors, not the least of which is the structure of the benefit. The value of a voucher is calculated as roughly the difference between rents in a community and 30% of participating households' incomes. In recent years, rents have been rising faster than incomes, which, along with federal policy changes designed to expand household choice and deconcentrate poverty, has driven up the cost of a voucher and therefore the cost of the program. In FY2005, the overall Section 8 program, at more than $20 billion, accounted for over half of the entire budget of the Department of Housing and Urban Development (HUD). The voucher component alone constituted more than a third of HUD's budget. In order to provide that funding level while remaining within discretionary budget caps, congressional appropriators enacted funding cuts to almost all other HUD housing programs.

To address the rising cost of the program, the Bush Administration proposed to enact a major reform of the Section 8 voucher program in both sessions of the 108th Congress, and an Administration-backed reform proposal has been introduced in the 109th Congress. The State and Local Housing Flexibility Act of 2005 was introduced in the Senate on April 13, 2005 (S. 771) and in the House on April 28, 2005 (H.R. 1999). The first title of the bill would replace the current Section 8 voucher program with a broader-purpose grant program, called the Flexible Voucher Program. It would eliminate most of the current program rules, devolve additional authority to the local level, and increase administrative ease for local public housing authorities (PHAs).

This report, which will be updated, provides an introduction to the Section 8 voucher program, its funding, and current issues and proposals.

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Most Recent Developments

Congressional Action on FY2006 Appropriations. On July 21, 2005, the Senate Appropriations Committee reported its version of H.R. 3058, the FY2006 HUD appropriations bill which was approved by the full House of Representatives on June 30, 2005. The House and Senate versions differ in the way that they would distribute Section 8 voucher funding and the total amount they provide for the voucher program. For a discussion of the House and Senate bills, see *Developments in the 109th Congress* at the end of this report and CRS Report RL32869, *The Department of Housing and Urban Development (HUD): FY2006 Budget*.

Reform Legislation Introduced. The State and Local Housing Flexibility Act of 2005 was introduced by Senator Allard as S. 771 on April 13, 2005, and by Representative Gary Miller as H.R. 1999 on April 28, 2005. Title I of the Act would replace the current Section 8 voucher program with a new broader-purpose grant program called the Flexible Voucher Program. For a discussion of the proposal, see *Developments in the 109th Congress* at the end of this report.

FY2006 Budget Submitted. On February 7, 2005, President Bush submitted his FY2006 budget proposal to Congress. It included a request for $15.9 billion for tenant-based rental assistance (Section 8 vouchers), a $1 billion increase over FY2005. It would continue and expand the practice of budget-based funding for PHAs (which is explained in this report), and it indicates that the President will pursue reform of the voucher program in the 109th Congress. For more details on the President's FY2006 budget request for Section 8 vouchers, see *Developments in the 109th Congress* at the end of this report.

Introduction

The federal government operates a number of programs designed to assist low-income families with housing costs. The Public Housing program provides publicly owned and federally subsidized housing to low-income families. The HOME Investment Partnerships program provides money to states and local communities to fund the development and rehabilitation of low-cost housing. The Low-Income Housing Tax Credit program provides tax credits to states, which allocate them to developers building lower-cost housing targeted at low-income families.

This report focuses on the largest direct housing assistance program targeting low-income families: the Housing Choice Voucher (HCV) program, also referred to as the Section 8 voucher program. Section 8 of the U.S. Housing Act of 1937, as amended, actually governs two programs, the Section 8 voucher program and the Section 8 project-based rental assistance program. These two programs were previously funded under a joint account, called the Housing Certificate Fund; however, the FY2005 appropriations law split the Housing Certificate Fund into two accounts. The tenant-based rental assistance account now funds the voucher program, and the project-based rental assistance account now funds project-based Section 8 rental assistance.

The Housing Choice Voucher (HCV) program provides subsidies to low-income families to help with their housing costs.[1] Through the program, eligible families can receive subsidies, called vouchers, that they can use to reduce their rent in housing units owned by *private landlords.* The voucher program is different from the Public Housing program, which allows eligible families to move into low-rent housing units owned by *public agencies*. The Section 8 voucher program is administered federally, by the Department of Housing and Urban Development (HUD), but it is managed locally, by quasi-governmental public housing authorities (PHAs).[2]

The Housing Choice Voucher program is the largest program in the federal budget that subsidizes the housing costs of low-income households. For FY2005, over $20 billion was provided for all of Section 8, almost $15 billion of which was for the voucher program. Section 8 accounts for over half of the total HUD budget; vouchers alone account for more than a third of HUD's budget. The voucher program serves over 2 million low-income households.

The government has created housing assistance programs for a number of reasons. Many studies have shown that a large percentage of poor people spend more than half of their income for housing, which can inhibit their ability to meet other basic needs and/or put them at a greater risk of homelessness. Studies have also shown that a lack of low-cost housing can serve as a barrier to employment for families transitioning from welfare to self-sufficiency;[3] housing instability can jeopardize employment stability. Additionally, housing cost, availability, and quality all play an important role in the health of a community. Many studies have shown that unhealthy communities — those plagued by crime, drugs, and concentrations of very poor people — are dangerous for families, especially children.

There are some indications that these problems may be getting worse for low-income renters. According to Harvard University's Joint Center for Housing Studies, contract rent increases outpaced renter income gains for households across the board

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[1] Housing costs that account for no more than 30% of a low-income family's adjusted income are considered "affordable" under most HUD assisted housing programs. For example, most HUD low-income housing programs require participants to pay 30% of their adjusted income toward rent.

[2] For more about the legal structure of PHAs, see 42 U.S.C. § 1437a (b)(6).

[3] For a synthesis of studies on Housing and Welfare, see Barbara Sard and Margy Waller, *Housing Strategies to Strengthen Welfare Policy and Support Working Families*, Center on Urban and Metropolitan Policy, Brookings Institution, and Center on Budget and Policy Priorities, Research Brief, Apr. 2002.

in 2003. During the most recent recession, the real median income of renters fell by 1.8%, while rental costs continued to grow beyond the rate of inflation. Since the homeownership boom began in 1993, only slightly more rental units have been developed than have been demolished; although 1.8 million units were constructed from 1993-2003, they represent a net gain of only 100,000 units. Despite this modest increase in units, the pressure on the low-cost rental market has not subsided. The new apartments that have been built are substantially more expensive on average than the ones being lost. While vacancy rates overall are relatively high, Harvard estimates a shortfall in affordable and available units of about 5.2 million units.[4]

Despite the generally agreed-upon goal of safe, decent, and affordable housing for all families, debate persists as to the appropriate role of the government in its provision. While the voucher program has in the past enjoyed wide popularity as the most effective and efficient tool in meeting the nation's affordable housing needs, concerns — primarily about its cost but also about how well it works — have been increasing. Reform proposals were introduced in both sessions of the 108th Congress and, although none were enacted, Congress included changes designed to curb the cost of the voucher program in the FY2003, FY2004, and FY2005 appropriations laws. It is likely that Congress will continue to debate reforms to the Section 8 voucher program in the 109th Congress and reform bills have been introduced in both the House and the Senate (H.R. 1999/S. 771).

This paper focuses specifically on the voucher program's funding and related issues, beginning with a brief overview of how the voucher program works. For background on Section 8 in general, including project-based Section 8, see CRS Report RL32284, *An Overview of the Section 8 Housing Program*.

Section 8 Voucher Program Basics

How the Voucher Program Works. Eligible families can receive one of two types of vouchers: tenant-based vouchers and project-based vouchers.[5] Families receiving tenant-based vouchers are responsible for finding housing units owned by landlords that accept vouchers. Families receiving project-based vouchers move into units that PHAs already have under contract with private landlords. Families receiving tenant-based vouchers pay between 30% and 40% of their incomes for housing;[6] families receiving project-based vouchers pay 30% of their incomes for housing.

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[4] *The State of the Nation's Housing, 2003* and *The State of the Nation's Housing, 2005*, from Harvard University's Joint Center for Housing Studies, at [http://www.jchs.harvard.edu].

[5] Note that project-based vouchers are different from project-based Section 8 rental assistance. Project-based vouchers are an allowable use of vouchers; project-based Section 8 rental assistance is a program of subsidized housing units *not* included in the voucher program.

[6] Families must pay 30% of their incomes toward rent, but cannot be *required* to pay more than 30%. They can *choose* to pay up to 40% in the first year of their lease and can choose to pay more than 40% in subsequent lease renewals.

The majority of vouchers are tenant-based. By law, only 20% of a PHA's vouchers can be project-based and only 25% of units in a building can have project-based vouchers attached to them. These caps on project-based vouchers are intended to prevent PHAs from concentrating very low-income families in one area or building. The deconcentration of high-poverty areas has increasingly become a goal in federal housing programs; even traditional public housing is moving to a mixed-income model through programs such as HOPE VI.[7]

In order to be eligible for a voucher, a family must have a very low income. Very low-income families are defined by HUD as families whose adjusted gross incomes[8] are less than 50% of the local area median income. Area median income (AMI) is calculated by HUD for every jurisdiction in the country. Although *very* low-income families are *eligible* for vouchers, *extremely* low-income families are *targeted* for vouchers. Three-quarters of all vouchers must, by law, be given to extremely low-income families. Extremely low-income families are defined by HUD as families whose incomes are less than 30% of AMI. To illustrate the regional variation in these definitions of low-income and their relationship to federal definitions of poverty, **Table 1** compares HUD's income definitions to the Department of Health and Human Service's (HHS) poverty guidelines for several geographic areas. Note that HHS poverty guidelines are uniform in all parts of the country (except for Alaska and Hawaii, not shown in the table below).

Table 1. Income Thresholds for a Three-Person Family in Selected Areas in 2005

	HUD very low-income limits	HUD extremely low-income limits	HHS poverty guidelines
Jefferson County, MS	$16,450	$9,850	$16,090
Missoula, MT	24,050	14,450	16,090
New York, NY	28,250	16,950	16,090
San Francisco, CA	50,900	30,550	16,090

Source: Department of Housing and Urban Development 2005 Income Limits and Department of Health and Human Services 2005 Poverty Guidelines.

Families wishing to receive Section 8 voucher assistance must apply to their local PHAs for an available voucher. PHAs are quasi-governmental bodies that manage the HCV program. Their functions include setting local program policies, including subsidy levels, screening families for eligibility, maintaining waiting lists,

[7] The HOPE VI program provides grants to PHAs to revitalize distressed public housing through demolition and construction of new, mixed-income housing units. For more information on the HOPE VI program, see CRS Report RL32236, *HOPE VI: Background, Funding, and Issues*, by Maggie McCarty.

[8] Mandatory income deductions include: $480 for each dependent, $400 for each elderly or disabled family, reasonable child care costs, disability assistance expenses, and medical expenses for the elderly and disabled.

helping families find units, and signing contracts with and making payments to landlords. PHAs also own and manage Public Housing, although not all PHAs manage both programs.

Once an eligible family receives an available voucher, different steps are taken and different rent calculations are made depending on whether the voucher is tenant-based or project-based. If the family receives a project-based voucher, then the family signs a contract with HUD and a contract with the landlord and moves into the unit. Once in the unit, the family pays 30% of its income towards rent and the PHA pays the landlord the rest. The amount paid by the PHA, called the Housing Assistance Payment (HAP), cannot exceed 110% of the fair market rent (FMR).[9]

If the family receives a tenant-based voucher, then the family must find an eligible unit. In order to be eligible, a unit must meet minimum housing quality standards (HQS) and cost less than 40% of the family's income[10] plus the HAP paid by the PHA. The HAP paid by the PHA for tenant-based vouchers, like the HAP paid for project-based vouchers, is capped; however, with tenant-based vouchers, PHAs have the flexibility to set their caps anywhere between 90% and 110% of FMR (up to 120% FMR with prior HUD approval). The cap set by the PHA is called the payment standard. Once a family finds an eligible unit, the family signs a contract with HUD, and both HUD and the family sign contracts with the landlord. The PHA will pay the HAP (the payment standard minus 30% of the family's income), and the family will pay the difference between the HAP and the rent (which must total between 30 and 40% of the family's income).

Once a family is using a voucher, the family can retain the voucher as long as the PHA has adequate funding for it and the family complies with PHA and program requirements. If a family with a tenant-based voucher wants to move, the tenant-based voucher can move with the family; a family with a project-based voucher can convert to a tenant-based voucher after one year and then move, as long as a tenant-based voucher is available. Once the family moves to a new area, the two PHAs (the PHA that originally issued the voucher and the PHA that administers vouchers in the new area) negotiate regarding who will continue to administer the voucher.[11]

The voucher program does not contain any mandatory time limits. Families exit the program in one of three ways: their own choice, non-compliance with program

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[9] FMRs are determined annually by HUD and are calculated as the 40th percentile rental cost for a given jurisdiction.

[10] This 40% cap on a tenant's contribution is in effect only for the first year. After the first year, if rent increases and the family wishes to continue to live in the unit, then the family can choose to contribute more than 40% of its income toward rent.

[11] The feature of a voucher that permits a family to move from one jurisdiction to another while retaining their assistance is referred to as portability. The administration of portability has proven to be complicated for PHAs. In some cases, the originating PHA is billed for the cost of the family's voucher by the receiving PHA; in other cases, the receiving PHA transitions the new family onto one if its vouchers and the original voucher reverts to the originating PHA. PHA advocacy groups have called for HUD to make regulatory reforms to ease the administration of portability.

rules (including non-payment of rent), or if they no longer qualify for a subsidy. Families no longer qualify for a subsidy when their incomes, which must be recertified annually, have risen to the point that 30% of that income is equal to rent. At that point the HAP payment will be zero and the family will no longer receive any subsidy.

Voucher Supply and Demand. Eligible families are not guaranteed vouchers. The Section 8 voucher program is not an entitlement program, and the number of vouchers administered in the program is determined by how much money Congress provides in the appropriations process. In FY2005, over 2 million vouchers were available for families. **Table 2** shows the number of vouchers eligible for funding over the most recent seven years.

Table 2. Section 8 Vouchers Eligible for Payment,[a] FY1999-FY2005

	1999	2000	2001	2002	2003	2004 (est.)	2005 (est.)
Vouchers eligible for payment	1,681,774	1,837,428	1,966,171	1,997,733	2,095,327	2,136,808	2,142,455

Source: Data for 1999-2002 are taken from HUD FY2002 Performance and Accountability Report, pp. 1-15; data for 2003 and 2004 are taken from HUD FY2005 Congressional Budget Justification, p. T-1; data for 2005 are calculated by CRS based on HUD schedules of voucher expirations.

a. HUD reports the number of vouchers eligible for payment each year. However, all vouchers eligible for payment may not be used in a year.

There are far fewer vouchers than eligible families. According to HUD analysis of American Housing Survey data, over 5 million households had worst-case housing needs in 2001. HUD defines families as having worst-case housing needs if they are unassisted renters with very low incomes (50% of area median income or below) and they pay 50% or more of their incomes toward rent and/or live in severely substandard housing. Not surprisingly, the poorest families have the greatest needs. Of those more than 5 million households with worst-case housing needs, 75% had extremely low incomes (30% of area median income or below).

A family's need for a voucher can be perceived in one of two ways: the family's income is too low, or housing prices in a community are too high, for a family to avoid paying an excessive percentage of its income toward housing costs. Either way, there were only 42 available units for every 100 extremely low-income renters in the United States with rent that would have required 30% or less of an extremely low-income family's income in 2001. This means, theoretically, that only about two out of every five extremely low-income renters in the U.S. could find housing that was "affordable." This ratio had remained steady since the 1999 American Housing Survey. The odds are better for households as their incomes rise. For families earning up to 50% of area median income in 2001, there were about 76 units available and affordable for every 100 families. However, this availability shows a decline from 1999, when there were 78 affordable and available units for every 100 very low-income families.[12]

As a result of the large number of families who could be eligible for a voucher relative to the small number of vouchers available, most PHAs maintain waiting lists. In some jurisdictions, these lists are many years long and in others, the lists are closed. In the case of project-based vouchers, PHAs allow landlords to keep separate waiting lists for their buildings, which can also be long.

Table 3 displays the characteristics of families who used vouchers in 2000 (the most recent version of this analysis available). As illustrated below, over one-third of all voucher households were elderly or disabled. Of those who were not elderly and not disabled, over half were employed and about a quarter were receiving income from TANF (or state funded general assistance). The median length of stay in the voucher program was just over three years for all households, with the elderly staying in the program the longest and families with children moving out of the program the fastest.

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[12] Data cited in the previous two paragraphs are taken from HUD analysis of 2001 American Housing Survey data as presented in the report *Trends in Worst Case Needs for Housing, 1978-1999: A Report to Congress on Worst Case Housing Needs, plus Update on Worst Case Needs in 2001*, Office of Policy Development and Research, Department of Housing and Urban Development, Dec. 2003.

Table 3. Characteristics of Voucher Recipients, 2000

Household type	Percent of all voucher recipients
Elderly Head of Household (HH)	17%
Disabled HH	22%
All non-elderly, non-disabled HH	61%
Non-elderly, non-disabled HH, with children	53%

Source of income	Percent of non-elderly, non-disabled voucher recipients
Income from work	57%
No welfare	50%
Plus welfare	6%
Income from welfare but not work	21%
Income from other sources[a]	22%
Zero income	6%

Household type	Average earnings
Non-elderly, non-disabled HH	$12,074
With no welfare	$12,506
With some welfare	$8,580

Household type	Median length of stay in voucher program (in years)
Elderly HH	5.3
Disabled HH	3.0
Non-elderly, non-disabled HH (with children)	2.6
Non-elderly, non-disabled HH (without children)	3.8

Source: CRS reproduction of data found in Jeffrey M. Lubell, Mark Shroder, Barry Steffen, "Work Participation and Length of Stay in HUD-Assisted Housing," *Cityscape*, vol. 6, no. 2 (2003); authors used HUD 2000 data.

Note: "HH" stands for "Head of Household." A family is defined as elderly or disabled based on whether the head of the household is elderly or disabled, not on whether any member of the household is elderly or disabled.

a. This category includes income sources such as child support and/or gifts as well as reports of zero income.

Special-Purpose Vouchers. The voucher program also has several special programs or uses. These include family unification vouchers and vouchers used for homeownership. 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 preventing the reunification of the children with their families. According to the Child Welfare League of America, HUD has awarded 33,497 family unification vouchers to PHAs since the inception of the program.[13]

While there are no specifically authorized "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 homebuyer counseling. PHAs can decide whether to run a homeownership program and an increasing number of PHAs are choosing to do so. According to HUD's FY2004 Performance and Accountability Report, a total of 2,052 homeowners were assisted with vouchers in FY2004.

Demonstrations. Two large-scale demonstrations are currently underway in the Section 8 voucher program. The Moving to Opportunity Fair Housing Demonstration (MTO) was authorized in 1992 (P.L. 102-550, P.L. 102-139). MTO combines housing counseling and services with tenant-based vouchers to help very low-income families with children move to areas with low concentrations of poverty. The experimental demonstration was designed to test the premise that changes in an individual's neighborhood environment can change his or her life chances. Since participating families were selected between 1994 and 1998, the full results of the 10-year demonstration are not yet available. However, HUD has published several interim evaluations of the short- and mid-term impacts of MTO. They have found some improvements in housing quality, neighborhood conditions, safety and child and adult health for families that moved to lower-poverty areas. Mixed effects were found on youth delinquency and risky behavior. Small positive impacts were found on child education, but no impacts have yet been seen on employment, earnings, or receipt of public assistance.[14]

The Moving to Work Demonstration, authorized in 1996 (P.L. 104-134), was created to give HUD and PHAs the flexibility to design and test various approaches

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[13] HUD awarded 33,497 FUP vouchers from 1992 to 2001. Each award included five years of funding per voucher and the voucher's use was restricted to FUP-eligible families for those five years. At the end of those five years, PHAs were eligible to convert those FUP vouchers to regular vouchers. While the five-year use restrictions have expired for all FUP vouchers, according to surveys conducted by the Child Welfare League of America, the vast majority of PHAs have continued to use their original FUP vouchers for FUP-eligible families and some have even chosen to use some regular-purpose vouchers for FUP families. As a result of these two factors, it is unclear how many families are receiving FUP vouchers at this time.

[14] *Moving to Opportunity Fair Housing Demonstration Program Interim Impacts Evaluation, US Department of Housing and Urban Development*, Prepared by Larry Orr, et al., Abt Associates; and Lisa Sanbonmatsu, et al., National Bureau of Economic Research, Sept. 2003.

for providing and administering housing assistance. The demonstration directed HUD to select up to 30 PHAs to participate. The goals were to reduce federal costs, provide work incentives to families, and expand housing choice. MTW allows participating PHAs greater flexibility in determining how to use federal Section 8 voucher and Public Housing funds by allowing them to blend funding sources and experiment with rent rules, with the constraint that they had to continue to serve approximately the same number of households. It also permits them to seek exemption from most Public Housing and Housing Choice Voucher program rules. An evaluation for MTW published in January 2004 reported:

> The local flexibility and independence permitted under MTW appears to allow strong, creative [P]HAs to experiment with innovative solutions to local challenges, and to be more responsive to local conditions and priorities than is often possible where federal program requirements limit the opportunity for variation. But allowing local variation poses risks as well as provides potential benefits. Under MTW, some [P]HAs, for instance, made mistakes that reduced the resources available to address low-income housing needs, and some implemented changes that disadvantaged particular groups of needy households currently served under federal program rules. Moreover, some may object to the likelihood that allowing significant variation across [P]HAs inevitably results in some loss of consistency across communities.[15]

Funding Structure and Recent Changes in Appropriations Law

The funding structure of the Section 8 voucher program differs from many other direct assistance programs for low-income families in that funds flow from the federal government (HUD), through local field offices, directly to local PHAs. Except for when acting as PHAs, states are not involved in administering the voucher program and funds do not flow through them to reach the local level.

The voucher program is not an entitlement program, and its funding is determined through the congressional appropriations process.[16] However, historically, Congress has funded the voucher program in a way similar to an entitlement program — meaning the amount of appropriations was based on an estimate of actual anticipated costs. Every year, Congress provided one year's worth of funding to cover program costs, based on the anticipated cost of vouchers multiplied by the number of vouchers that Congress had previously authorized and that required renewal. Since the size of a voucher is determined on the basis of a statutory formula (the payment standard (or rent) minus a family's contribution (30% of income)), the cost of a voucher is largely predetermined by participating families'

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[15] *Housing Agency Responses to Federal Deregulation: An Assessment of HUD's "Moving to Work" Demonstration*, U.S. Department of Housing and Urban Development, Prepared by Martin D. Abravanel et al., Urban Institute, Jan. 2004.

[16] See CRS Report RL32869, *The Department of Housing and Urban Development (HUD): FY2006 Budget*, by Maggie McCarty, Bruce Foote, and Eugene Boyd, for a detailed discussion of HUD appropriations.

incomes and rents in a community. However, beginning in FY2003 and continuing into FY2004 and FY2005, Congress has changed the way that it funds the voucher program, particularly the way it pays for the renewal of existing vouchers. These changes, which have proved to be controversial, were designed to help curb the cost of the program by shifting from an actual cost-driven model to a more traditional discretionary funding model based on a fixed dollar amount.

In addition to **renewal costs**, Congress has also funded **new vouchers**, **administrative costs**, and the costs of **other initiatives**. These are described in detail below.

Renewal Costs

In order to continue to be available to families, vouchers require renewal when their funding runs out. Recent changes enacted by Congress and implemented by HUD have raised questions about whether the past practice of funding the voucher program based on the expiration of existing contracts will be maintained in the future.

FY2003 Funding Changes. Prior to FY2003, PHAs administering the voucher program were funded based on their average annual per voucher cost from the previous year, adjusted by an inflation factor, multiplied by the number of vouchers that the PHA was authorized to lease.[17] In the case that a PHA's voucher costs had increased faster than the inflation factor established by HUD, HUD maintained a reserve equal to one month of voucher funding on behalf of each PHA.

However, few PHAs were able to lease 100% of their vouchers, so they typically had more money in their budgets than they needed and rarely had to dip into their one-month program reserves, even if their costs went up disproportionately. At the end of the year, HUD and the PHA would reconcile their budgets, and HUD was typically able to recapture unused funds from PHAs' budgets.

In FY2003, Congress changed the way PHAs were funded in an attempt to limit recaptures of unspent funds and provide funding levels that better reflected actual use. Congress directed HUD to use PHAs' average annual per voucher cost from the previous year, increased by the inflation factor, and multiplied by the number of vouchers the PHA could *reasonably be expected to lease in that year*. Specifically, the law stated:

> The Secretary shall renew expiring section 8 tenant-based annual contributions contracts for each public housing agency ... based on the total number of unit months which were under lease as reported on the most recent end-of-year financial statement submitted by the public housing agency to the Department, adjusted by such additional information submitted by the public housing agency to the Secretary which the Secretary determines to be timely and reliable regarding the total number of unit months under lease at the time of renewal of

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[17] PHAs "lease" vouchers when they sign contracts with tenants and landlords under which they agree to provide payments to landlords on behalf of tenants. Each PHA has a fixed number of vouchers it is authorized to "lease."

> the annual contributions contract, and by applying an inflation factor based on local or regional factors to the actual per unit cost as reported on such statement.[18]

HUD implemented this provision so that PHAs' budgets were based on their utilization rates and costs as reported on their end of the year statements, *or more recent data*, if available. Guidance released by HUD stated:

> Renewal calculations under the [Federal Fiscal Year] 2003 Appropriation will be based on the total number of unit months under lease and actual cost data, as reported on the PHA's most recent year-end settlement or as subsequently submitted to HUD by the PHA. Actual costs will be adjusted by applying the [Annual Adjustment Factors]. Expiring voucher funding increments will generally be renewed for terms of three months. The use of the most recent leasing and cost data and the short renewal terms will enable HUD to calculate funding more accurately than previous procedures allowed.[19]

Congress also created a Central Reserve fund to be used by the Secretary to replenish PHA one-month reserves in the event that PHAs had to use their reserves to cover the costs of increased utilization or increased per voucher costs. The language of the law stated in regard to the Central Reserve fund:

> The Secretary may use amounts made available in such fund, as necessary, for contract amendments resulting from a significant increase in the per unit cost of vouchers or an increase in the total number of unit months under lease as compared to the per unit cost or the total number of unit months provided for by the annual contributions contract.[20]

FY2004 Funding Changes. The FY2004 appropriations law continued in the direction of the FY2003 funding bill, directing HUD to fund PHAs based on actual utilization of vouchers rather than on the total number of vouchers they were authorized to lease. Moreover, the conference report that accompanied the FY2004 appropriations law stated that the conferees were concerned about "spiraling" cost increases in the voucher program and that they expected the Secretary to control costs. They stated:

> The conferees are aware that the Secretary has the administrative authority to control the rapidly rising costs of renewing expiring annual contributions contracts (ACC), including the budget based[21] practice of renewing expiring ACCs, and expect the Secretary to utilize these tools.[22]

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[18] P.L. 108-7, Title II, Section (1).

[19] HUD Notice PIH 2003-23, Issued Sept. 22, 2003.

[20] P.L. 108-7, Title II, Section (2).

[21] Budget-basing would provide PHAs with a budget based on a fixed dollar amount, rather than a fixed number of vouchers.

[22] H.Rept. 108-235, Title II.

The FY2004 appropriations language was changed from FY2003 and stated:

> The Secretary shall renew expiring section 8 tenant based annual contributions contracts for each public housing agency ... based on the total number of unit months which were under lease as reported on the most recent end-of-year financial statement submitted by the public housing agency to the Department, or as adjusted by such additional information submitted by the public housing agency to the Secretary as of August 1, 2003 (subject to verification), and by applying an inflation factor based on local or regional factors to the actual per unit cost.[23]

The FY2004 language also varied from the FY2003 language regarding how the Central Reserve fund could be used. In FY2003, the Central Reserve fund could be used to replenish PHA reserves that had been depleted due to either increased utilization rates or increased costs. In FY2004, the language only allowed the Secretary to use Central Reserve funds to replenish reserves depleted because of increased utilization, *not* increased costs:

> Language proposed by the House and Senate is not included to allow the Central Fund to also be used for increased per unit costs as such costs have been reflected in the amount provided for renewals.[24]

HUD issued a notice on April 22, 2004 (PIH 2004-7) implementing the FY2004 appropriations law. According to the notice, PHAs' budgets would be based on their utilization rates from their end-of-the-year statements, or more recent data if available, and costs as reported on their end-of-the-year statements as of August 1, 2003, adjusted by the annual adjustment factor, *but not adjusted by more recent data, even if available.* The notice stated that PHAs could appeal to the Secretary if they could document rental costs that had risen higher than the inflation factor adopted by HUD. On August 31, 2004, HUD granted the appeals requests of 380 out of approximately 400 agencies that applied, but not necessarily to the full level requested, distributing a total of an additional $160 million.[25]

FY2005 Funding Changes. The final FY2005 Consolidated Appropriations Act moved the program further in the direction of budget-based funding. Under the law (P.L. 108-447), the Secretary of HUD was directed to fund PHAs based on their voucher costs and utilization rates as of May-July 2004 plus the HUD published annual adjustment factor (AAF). If an agency's May-July data were not available, HUD was directed to fund PHAs based on February-April 2004 data, or if that data were not available, the agency's most recently submitted year-end financial statement, as of March 31, 2004. If the amount provided in the law was insufficient to fund all PHA budgets under this formula, then the Secretary was directed to prorate agency budgets. According to the conference report (H.Rept. 108-792), PHAs are expected to manage their voucher programs within their budgets for

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[23] P.L. 108-199, Title II, Section (1).

[24] H.Rept. 108-401, Division G, Title II.

[25] The $160 million came from a Central Reserve Fund created in the FY2004 appropriations law to adjust agency budgets to reflect changes in the local rental market.

FY2005, regardless of their actual costs. The report also stated that "HUD shall provide agencies with flexibility to adjust payment standards and portability policies as necessary to manage within their 2005 budgets." Finally, agency reserves were reduced to the one-week level and no Central Reserve was provided to replenish depleted reserves.

HUD published guidance implementing these provisions on December 8, 2004 (HUD Notice PIH 2005-1). Agencies received notification of their preliminary budget levels on December 17, 2004. At that time, PHAs were directed to inform HUD of any data irregularities within 10 days (although the deadline was later extended through the end of December). The appeals were limited to data; agencies were told that they could not appeal the formula used for calculating their budgets. The final calculations, including a final proration factor, were published on January 21, 2005. Agencies were funded generally at 4.03% less than their May-July 2004 actual cost and utilization levels plus the 2005 AAF. This proration factor of just under 96% was implemented because the amount of funding provided by Congress for voucher renewals was not sufficient to fund agencies at 100% of the formula amount.

The full implications of the funding requirements mandated by the FY2005 funding act are still unclear. Not enough funding was distributed to fund all authorized vouchers at their most recent costs. According to CRS analysis of HUD funding data, the median change in PHA renewal budgets from FY2004 to FY2005 was an increase of .17%. This number hides a wide variance; the 5th percentile change was a decrease of 12% and the 95th percentile change was an increase of 14%. According to the conference report:

> PHAs are expected to manage utility costs, decreased tenant contributions and protect the most at-risk families within these budgets.

The sum consequence of these funding changes, beginning with those enacted for FY2003, has been to convert the program from a unit-based *actual* cost program to a unit-based *fixed* cost program. Since the subsidies provided to families are statutorily set (as roughly the difference between rent and 30% of income), PHAs often have only limited control over their costs. In areas where they do have control, such as in setting payment standards, selecting families from the waiting list, and issuing vouchers, PHAs have made some changes. Some have lowered their payment standards from 110% to 100% or less of FMR. Since changes in payment standards only impact future families in the program, some PHAs have reduced rents paid to landlords, some of whom have accepted the cut, others of whom will not renew leases with families. PHAs may be selecting higher-income families from the waiting list (for whom subsidy costs are lower), although they are still constrained by the 75% targeting requirement. Many PHAs have intentionally reduced their utilization rates by not reissuing vouchers when families leave the program. Agencies that have intentionally lowered their utilization rates in order to save money in FY2004 likely encountered problems in FY2005 as their budgets were capped at their costs *and* utilization rates as of the third quarter of FY2004. So, agencies with low utilization rates may not be able to increase them as their budgets were reduced to reflect that utilization rate and there is no Central Reserve fund in FY2005. It is likely that, at least for some PHAs, these changes will result in fewer households receiving vouchers in FY2005 than in previous years, and, if such changes continue, possibly into FY2006.

New Voucher Costs

In past years, HUD has asked Congress to provide funds for new vouchers, in addition to the costs of renewing existing vouchers. HUD typically requests funding for two kinds of new vouchers: incremental vouchers and tenant protection, or enhanced, vouchers.

Incremental vouchers are new vouchers that are often earmarked for a special population, such as families transitioning from welfare to work or for non-elderly disabled persons whose current housing has been designated as elderly-only. For example, 50,000 Welfare-to-Work vouchers were authorized and funded[26] in 1999. 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.

When Congress is deciding whether to authorize new incremental vouchers, one consideration is that any new vouchers authorized in that year will come up for renewal in the next year and each subsequent year — increasing the total cost of maintaining the program. The cost of new vouchers is typically calculated by multiplying the number of new vouchers to be authorized by the average annual per voucher cost. When Congress has provided funding for this purpose in the past, it has appropriated a specific amount of money to be used for new vouchers. For example, in FY2002, Congress provided $143 million for new incremental vouchers and indicated that the amount would be sufficient to fund 25,900 incremental vouchers. Congress has not funded any incremental vouchers since FY2002.

Tenant protection vouchers are also new vouchers, but they are given to families that were already receiving assistance through another HUD housing program, before being displaced (e.g., a landlord is converting a subsidized property to market-rate or units of public housing are being demolished). Since families receiving tenant protection vouchers were typically subsidized through another program (usually project-based Section 8), the creation of tenant protection vouchers is generally not seen as a net increase in the number of people assisted, rather a shift to vouchers from another form of assistance. Congress has typically funded all needed tenant protection vouchers.

Administrative Fees

HUD pays fees to PHAs for administering the voucher program. Ongoing administrative fees are generally calculated based on a percentage of the local fair market rent (FMR), as determined by HUD. HUD has historically published the

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[26] 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.

administrative fee amounts for each jurisdiction annually in the *Federal Register*. PHAs earn an ongoing fee for each voucher they are leasing in a year. PHAs can also earn special fees for certain hard-to-house families and for starting a new voucher program.

Prior to FY2003, the administrative fee was included as a part of the per voucher cost, so administrative fee funding was included in renewal funding. Beginning in FY2003, Congress provided HUD with separate funding for administrative fees and directed HUD to ensure that administrative fee costs fell within the amount appropriated. If the amount of administrative fees "earned" was greater than the amount provided in appropriations, the Secretary was directed to reduce administrative fees, down to the appropriated level. In FY2004, just over $1.2 billion was provided for administrative fees, which was not sufficient to fund all PHAs at the amount they would have received using the figures published in the *Federal Register*. Instead, agency administrative fees were distributed on a pro-rata basis based on their previous year's funding allocation. In FY2005, Congress provided roughly the same funding level as in FY2004 and directed the Secretary again to distribute the funds on a pro-rata basis.

Other Initiatives

In addition to funding the costs of vouchers and administrative fees, Congress has also provided funding for other initiatives designed to support the voucher program. The Family Self Sufficiency (FSS) program was established by Congress as a part of the National Affordable Housing Act of 1990 (P.L. 101-625). The purpose of the program is to promote coordination between the voucher program and other private and public resources to enable families on public assistance to achieve economic self-sufficiency. Families who participate in the program sign five-year contracts in which they agree to work toward leaving public assistance. While in the program, families can increase their incomes without increasing the amount they contribute toward rent. The difference between what the family paid in rent before joining the program and what they would owe as their income increases is deposited into an escrow account that the family can access upon completion of the contract. For example:

> If a family with a welfare benefit of $450 per month begins working, earning $800 per month, the family's contribution towards rent increases from $135 per month to $240 per month. Of that $240 the family is now paying towards rent, $105 is deposited into an escrow account. After five years, the family will have $6,300 plus interest in an escrow account to use for whatever purpose the family sees fit.

Congress's role in the FSS program has been to provide funding for FSS coordinators, who help families with vouchers connect with services, including job training, child care, transportation and education. In FY2005, Congress provided $46 million for FSS coordinators.

The Cost of the Voucher Program

Arguably the largest Section 8 voucher issue facing Congress today is the cost of the program. The amount of appropriations necessary to maintain the program at its current level has increased significantly every year for the past several years. The table below illustrates the large increases in both appropriations and spending over the past five years. Note that separate voucher and project-based Section 8 budget authority in some years and spending in all years are not available.[27] As is illustrated in **Table 4** below, congressional appropriations have increased over 44% in the past five years and the cost to the Federal Treasury has increased over 34% in the past four years.

Table 4. Changes in Section 8 Housing Certificate Fund Appropriations and Spending, FY2000-FY2005

(in millions of dollars)

	Budget authority (appropriation)	***Voucher (appropriation)***	***Project-based (appropriation)***	**Outlays (spending)**
2001	$13,941	*NA*	*NA*	$16,720
% change 00-01	22.5%	*NA*	*NA*	4.7%
2002	$15,536	*NA*	*NA*	$18,499
% change 01-02	11.4%	*NA*	*NA*	10.6%
2003	$17,116	*$12,604*	*$4,507*	$20,950
% change 02-03	10.2%	*NA*	*NA*	13.2%
2004 (est.)	$19,257	*$14,186*	*$5,071*	$22,356
% change 03-04	12.5%	*12.6%*	*12.5%*	6.7%
2005 (est.)	$20,064	*$14,765*	*$5,298*	NA
% change 04-05	4.2%	*4.1%*	*4.5%*	NA
% change 00-05	**44.6%**	***NA***	***NA***	**34.1%[a]**

Source: The Office of Management and Budget's Public Budget Database and HUD FY2006 budget documents.

Note: Outlays are higher than budget authority in each year because spending occurs in out-years under long-term contracts, for which multiple years of appropriations were provided up-front.

a. Since FY2005 outlay data are not available, the cumulative outlay change shown is from FY2000 to FY2004.

Given current questions about the state of the economy, deficit levels, and congressional priorities, funds available for domestic social programs have been limited and will likely continue to be restricted in the immediate future. These budget pressures have resulted in calls to restrain cost growth in the Section 8 voucher program. However, before debating the merits of reducing the program or

[27] HUD did not provide budget authority and outlay figures below the Housing Certificate Fund level prior to FY2004. However, separate budget authority figures were provided for FY2003 and FY2004 as a part of the President's FY2004 and FY2005 budget requests to accompany legislative reform proposals that proposed to split the accounts.

exploring ways to restrain costs, it is important to understand why costs have been rising. Costs in the voucher program are determined by the individual value of each voucher subsidy and by the number of vouchers funded. Recent increases in both the number of vouchers funded and their cost can be attributed to a number of factors.

New Vouchers. Part of the increase in the cost of Section 8 vouchers can be attributed to expansions in the program. Over the past several years, Congress has provided appropriations for an increasing number of vouchers (see **Table 5** below). Congress has created more than 200,000 new incremental vouchers since 1999, although no new incremental vouchers have been created since 2002.

Table 5. Incremental Vouchers Created and Funded, FY1999-FY2005

	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
Incremental vouchers	50,000	60,000	79,000	26,900	0	0	0

Source: CRS table based on information from HUD budget documents.

Although nearly a quarter of a million new vouchers have been created over the past several years, they do not fully explain the increased cost of the program. **Table 6** shows the actual and relative change in the number of subsidies funded in the combined voucher and project-based programs over the past five years. As can be seen by comparing **Table 6** and **Table 4**, both appropriations (budget authority) and spending (outlays) have increased much more rapidly than the number of subsidies eligible for funding. While appropriations have increased over 44% between FY2000 and FY2005 and spending has increased more than 34% between FY2000 and FY2004, the number of subsidies funded in the Section 8 program has increased only about 2.3%.[28]

[28] Part of the increase in increase in vouchers (9% as shown in **Table 6**) is attributable to new tenant protection vouchers being added to the vouchers eligible for payment. As noted earlier, tenant protection vouchers are used to subsidize families that are currently receiving assistance under another HUD program but whose assistance will be ending, such as when public housing is demolished or when project-based Section 8 contracts expire and the owners opt not to renew.

Table 6. Section 8 Vouchers and Project-based Units Eligible for Payment, FY2000-FY2005

(in thousands of subsidies)

	Vouchers	Project-based Units	Total Units
2001	1,966	1,343	3,309
% change 2000-2001	7.0%	-1.2%	3.5%
2002	1,997	1,328	3,326
% change 2001-2002	1.6%	-1.1%	0.5%
2003	2,095	1,276	3,371
% change 2002-2003	4.9%	-3.9%	1.4%
2004	2,136	1,247	3,384
% change 2003-2004	2.0%	-2.3%	0.4%
2005	2,142	1,244	3,386
% change 2004-2005	0.3%	-0.2%	0.1%
% change 2000-2005	**9%**	**-7.4%**	**2.3%**

Source: Data for 1999-2002 are taken from HUD FY2002 Performance and Accountability Report, pp. 1-15; data for 2003 and 2004 are taken from HUD FY2005 Congressional Budget Justification, p. T-1; data for 2005 are calculated by CRS based on HUD schedules of voucher expirations. Vouchers in 2005 include Moderate Rehabilitation units and 25,927 project-based contracts that are anticipated to convert to vouchers.

Utilization Rates. A PHA's "utilization rate" is the higher of the percentage of (1) its annual budget used in a year; or (2) its authorized vouchers actually under lease. Utilization of 100% is unrealistic because it takes time for families who have been given vouchers to find units. Sometimes, in tight housing markets, families cannot find housing with their vouchers and they have to give them back to the PHA. When this happens, a subsidy and its corresponding funding go unused for a number of months. Ultimately, PHAs are expected to have utilization rates of at least 95%[29] — meaning that they are leasing at least 95% of their units or spending at least 95% of their money. However, as shown in **Table 7** below, until recent years, national utilization rates were much lower.

Table 7. Section 8 Voucher Utilization Rates, FY2000-FY2004

	2000	2001	2002	2003	2004
Utilization rates	91.5%	91.6%	94.0%	97.4%	98.5%

Source: Table prepared by CRS using data from the Department of Housing and Urban Development. The 2002 and 2003 figures taken from HUD 2003 Performance and Accountability Report. The 2000 and 2001 figures are taken from the printed version of a hearing before the Subcommittee on VA, HUD and Independent Agencies, Hearing on the FY2003 HUD budget, 107th Cong., 2nd sess., Mar.

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[29] According to HUD's Housing Choice Voucher Guidebook, 95% utilization is considered standard performance and 98% is considered high performance.

19, 2002, document Part 6. The FY2004 estimate is taken from HUD 2005 Annual Performance and Accountability Report. Note that the 2004 rate is calculated based on the four quarters July 1, 2003 to June 30, 2004, rather than the fiscal or calendar year. Given the program changes enacted in 2004, it is possible that the calendar year utilization would be lower.

Even with little expansion in the number of vouchers eligible for payment, if more *existing* vouchers are used, then the cost of the program, in the form of outlays, can increase. Recent and rapid increases in voucher utilization rates may explain part of the recent increase in outlays for the voucher program.

Changes in utilization rates can also impact the amount of new budget authority needed to maintain the program. HUD recaptures any unspent funds from PHA budgets at the end of every year and makes those funds available to Congress to rescind in the following year. When Congress rescinds those recaptured funds, they are able to offset part of the cost of the program. When utilization rates increase, PHAs spend more money, leaving less money available for recapture. Since it takes one or more years for the recaptured funds to be made available for rescission by Congress, one would expect to see a lag of one or two years from an increase in utilization to result in a decrease in the amount of funds available for rescission. Additionally, since HUD estimates its budget more than a year in advance, one would expect a further lag in HUD's estimate of the amount available for rescission. Thus, it is likely that smaller amounts will be available for rescission over the next several years because of the sharp increases in utilization in 2002 and 2003.

Table 8 shows past rescission levels and net budget authority. Note that the spike in the amount rescinded in FY2004 was in part the result of over a billion dollars in savings from a one-time accounting change in the program. Without that change, HUD anticipated $1.37 billion would be available for rescission from unobligated balances in FY2004. It is also important to note that unobligated balances available for recapture do not come solely from low utilization rates. (Another reason that excess balances may accumulate is that excess funding of long-term contracts becomes available when those contracts expire.) Therefore, it is impossible to estimate how much changes in unobligated balances result from changes in utilization, although, conceptually, it is known that the two are related.

Table 8. Budget Authority and Net Budget Authority for the Section 8 Program, FY2000-FY2004

(in millions of dollars)

	FY2000	**FY2001**	**FY2002**	**FY2003**	**FY2004**	**FY2005**
Budget authority	$11,377	13,941	15,536	17,116	19,257	20,064
Rescission	-2,341	-1,971	-1,588	-1,600	-2,844	-1,557
Net budget authority	**9,036**	**11,970**	**13,948**	**15,516**	**16,413**	**18,507**

Source: The Office of Management and Budget's Public Budget Database.

Changes enacted in FY2003, described earlier in this report, may further increase the importance of utilization rates in determining the cost of the voucher program. Prior to FY2003, Congress funded the program based on the average cost of a voucher multiplied by the total number of vouchers *eligible* for payment. As a result, the number of vouchers *actually* used was not a factor in calculating the budget authority needed for the program. Beginning in FY2003, Congress began to fund only the vouchers that could reasonably be expected to be used in a given year, based on current utilization rates. This led to a savings in FY2003. However, if utilization rates remain high or increase further, this funding methodology will continue to result in a need for increased budget authority for vouchers.

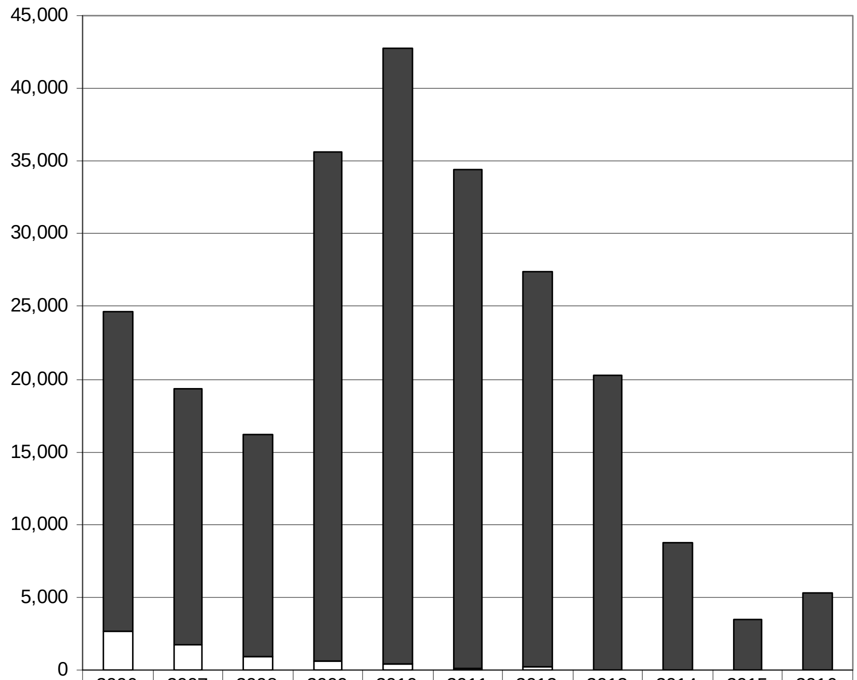
Expiring Contracts. The expiration of long-term Section 8 contracts has also contributed to the need for increasing appropriations in the voucher program. In the early years of the Section 8 program, contracts were written between HUD and landlords for many years at a time — up to 20 to 40 years. This practice required Congress to provide many years of budget authority up front for each subsidy. In order to reduce up front costs, Congress decided to shorten contract terms. Today, Congress provides one year of budget authority for each voucher it funds, so contracts are only written for one year at a time.

Starting in the 1990s, those earlier long-term contracts began to expire, and Congress began to be faced with the choice of whether or not to fund renewals. Thus far, Congress has chosen to provide funding to renew each contract that has expired. For vouchers, "renewal" means that each long-term voucher contract that expires is replaced with another voucher under a one-year contract. For old project-based Section 8 contracts, renewal can mean a couple of different things. If a landlord agrees to stay in the program, then his or her contract is renewed and funded under the current project-based component of Section 8. If the landlord decides to leave the program and not renew his or her contract, then each displaced household can receive a tenant protection voucher. This increases the size and funding needs of the voucher program, although it does not increase the total number of people served within the overall Section 8 program.

If Congress continues to provide sufficient funding to renew all expiring contracts, costs will continue to grow for a number of years. Each year, Congress will face the decision of whether to provide additional appropriations for Section 8 — on top of the amount needed to cover increasing housing costs and/or new vouchers — just to maintain the program at its current level. For example, according to HUD data, in 2005, 3,059,364 (2,109,724 voucher and 949,640 project-based) contracts required new funds in order to prevent them from expiring. Those same contracts will expire again in 2006 without continued congressional funding, as will another 28,041 (2,639 voucher and 21,967 project-based) that had been funded under long-term contracts that are ending. As a result, Congress will need to pay for over 28,000 additional contracts in 2006 just to prevent any households from losing their subsidies.

Figure 1 illustrates the number of Section 8 subsidies (vouchers, project-based units, and tenant protection vouchers for tenants whose landlords opt out of the program) that will require new funding each year, *in addition to* those that were funded in 2005, if Congress chooses to renew them.

Figure 1. Expiring Long-Term Section 8 Project-based Contracts and Vouchers That Would Require Renewal over the Next 10 Years



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
■ Project Based Contracts	21,967	17,676	15,246	34,994	42,332	34,274	27,165	20,256	8,746	3,507	5,288
□ Voucher Contracts	2639	1692	916	622	443	148	245	18	0	0	0

Source: CRS analysis of HUD data provided to the Congressional Budget Office (CBO).

Although the renewal costs of these expiring long-term contracts may be expensive, non-renewal has a number of consequences. Non-renewal could result in a reduction in the number of households assisted by HUD if there are not enough appropriated funds to guarantee vouchers. Some tenants who are currently assisted could face unaffordable rent increases that would force displacement or eviction. Furthermore, these assisted units represent a portion of the affordable housing stock and, in some parts of the country, they may be the main source of low-cost housing. This is particularly true of larger (three- and four-bedroom) and/or accessible units. If their contracts are not renewed and the rents revert to market rate, there will likely be a net loss in the amount of housing available for these families at an affordable cost.

Fair Market Rents. FMRs are calculated as the 40th percentile median rent in each part of the country and are meant to represent the cost of modest housing. In some communities with high geographic concentrations of families living in poverty, HUD sets FMRs at the 50th percentile rent. FMRs are presented by bedroom size and are the basis upon which PHAs set the value of vouchers. As the table below shows, FMRs for three recent years rose faster than inflation as defined by the CPI-U, which is a measure of all other spending on consumer goods in the economy. Since FMRs are the basis for setting voucher size, the faster they rise, the more expensive the voucher program becomes.

Table 9. National Average Population-Weighted Changes in Fair Market Rents for Two-Bedroom Apartments from the Previous Year

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
% Change in two-bedroom FMR	2.8	2.5	5.1	5.6	2.6
% Change in general inflation (CPI-U)	3.5	2.6	1.5	2.3	2.5

Source: Unpublished HUD calculations of population-weighted FMRs provided to CRS and the Bureau of Labor Statistics Consumer Price Index for all Urban Wage Earners September Unadjusted 12 month averages of each year.

Note: Average national changes in FMRs are weighted based on 1990 Census total population figures.

Payment Standards. Increases in the cost of vouchers are partly attributable to increases in the maximum subsidy paid by a PHA, called the payment standard. Prior to the 1999 Quality Housing and Work Opportunity Reconciliation Act (QHWRA) (P.L. 105-276), which reformed public and assisted housing law, PHAs were able to set payment standards between 80-100% of the FMR. (For a discussion of payment standards, and their relationship to FMRs, see page 5 of this report.) QHWRA changed the available range of payment standards to 90-110% of the FMR. Many PHAs took advantage of this change. According to HUD, in December 2000, the average payment standard was equal to 95% of the average FMR, but by December 2003, the average payment standard was equal to 104% of the average FMR.[30] PHAs raise their payment standards for a number of reasons. When rental markets are tight and rents are rising, PHAs may increase their payment standards in order to make it easier for families to find housing. Since PHAs can change payment standards faster than FMRs are updated, PHAs can increase or decrease payment standards in reaction to rapid changes in the rental market. Further, PHAs can increase payment standards for certain populations who have greater difficulty finding units, such as larger families or individuals with physical disabilities, in order to expand the range of housing available to them. Finally, PHAs can increase payment standards to allow families to move to areas with lower concentrations of poverty. Some have argued that the rapid increases in payment standards adopted by PHAs have unnecessarily increased the cost of the program and that Section 8 rents now lead the market rather than reflect the cost of modest housing in the market.

[30] *The Flexible Voucher Program: Why A New Approach to Housing Subsidy Is Needed — A White Paper*, May 18, 2004, available from the Department of Housing and Urban Development, at [http://www.hud.gov/offices/pih/programs/hcv/fvp/wponfvp.pdf].

Options for Restraining or Reducing Costs

If the goals of the Section 8 Housing Choice Voucher program are to provide safe, decent, and affordable housing to low-income families, then the program has had some success in meeting those goals for the over 2 million households currently being served. Families with vouchers generally pay an "affordable" share of their incomes towards rent to live in housing that must be certified as at least standard quality. However, a tension has been growing in recent years between the desire to meet these program goals — including new and expensive goals such as deconcentrating poverty and moving families into homeownership — in the face of large unmet need, while also controlling costs.

While the remainder of this report will focus on cost-saving reform proposals, since that has been the focus of recent congressional debate, it is important to note that these are not the only possible program changes. Some low-income housing advocates have argued that, rather than trying to reduce the costs of the program, Congress should focus on ways to expand the program, which they consider to be largely successful, to serve more families while fixing any problems in the current program, such as work disincentives or administrative complexity. Others argue that recent cost increases are largely explainable and reasonable given the rental housing market and recent policy changes, and that cost-saving reforms are not necessary as costs are unlikely to continue to increase at the same pace. Instead, they argue, Congress should focus its attention on program improvements, which may in fact increase costs, but would better meet the needs of low-income families.

If the focus of Congress continues to be the restraint of program costs, several options exist. One approach is to maintain the current funding structure and either serve fewer families or make incremental changes to the program design in order to cut costs and/or improve effectiveness and efficiency. Another option would be to convert the current voucher program into a broader-purpose grant program with fixed funding, as proposed by the Bush Administration, and allow PHAs or states to make more decisions about program rules and goals.

Maintain Current Funding Structure

In its current funding structure, the cost of the Section 8 voucher program is largely determined by rents and wages. If Congress wishes to reduce the costs of the program while maintaining its current program structure, it could enact policies that would influence either the rental or labor markets to reduce rents or increase wages. Options include subsidizing the construction of lower-cost housing, making changes to the minimum wage, or undertaking other efforts through taxes or education and training programs designed to increase families' incomes. All of these options have a number of pros and cons beyond their influence on the Section 8 voucher program. As noted earlier, the cost of the current voucher program is driven by the goals of the program and the structure of the benefit, which is contingent on rents and incomes. In order to reduce the costs in the program while largely maintaining its current structure, the goals of the current program may need to be changed.

Redefining "Safe" and "Decent". The voucher program requires that participating units meet federally established Housing Quality Standards (HQS). Some argue that the standards are too strict and that they disallow more modest, and therefore more affordable, housing. Some advocate lessening HQS to expand the pool of available lower-cost housing for voucher-holders, thus reducing subsidy levels. Others argue that the standards are important to prevent federal dollars from flowing to slumlords. They credit HQS with helping to increase the generally high quality of the nation's housing stock.

One reason that subsidy levels have increased is that PHAs have been encouraged to use vouchers to promote the deconcentration of poverty. Congress has intentionally increased the value of a voucher to support this goal. For example, Congress has allowed HUD to expand the FMR to 50% of median rent in areas with high concentrations of poverty. Congress has also allowed PHAs to increase payment standards up to 110% of local FMR without prior HUD approval and up to 120% with prior HUD approval, in part to promote the deconcentration of poverty by expanding housing options for families. Higher-value vouchers give families more options when choosing where to live, including in "better" neighborhoods. While studies have found different levels of impact, it is generally agreed that areas with lower poverty and crime are better for families. On the other hand, some argue that, under the guise of deconcentrating poverty, PHAs have allowed subsidy costs to soar, and families with vouchers are now living in housing that is higher quality than was ever intended under the program.

Redefining "Affordable". Another option for lowering the cost of the voucher program is to make the subsidies more shallow by requiring families to pay greater shares of their incomes toward rent. It is generally accepted that housing is affordable for low-income families if it costs no more than 30% of their adjusted gross income. The rationale behind the 30% figure is that low-income families need the full remaining 70% to meet their other needs. However, this figure is somewhat arbitrary. For some families with little work, transportation, medical, child care, or other outside costs, 40% or even 50% of income might be the most reasonable contribution toward housing costs. In fact, the current voucher program allows families to choose to pay up to 40% of their incomes toward housing costs initially, and even greater upon renewal of a lease. For other families, with high work, transportation, medical, child care, or other outside costs, some percentage lower than 30% might be the most reasonable contribution. Critics of the current rent calculation generally argue for one of two changes: increase the amount of income a family can pay toward rent or decouple rent from income by adopting flat rents. Unless flat rents were set low, either change would result in shallower subsidies paid to families. Shallower subsidies would allow PHAs to either save money or serve more people with the same amount of money.

Some argue that serving more people by providing shallower subsidies would be more equitable than the current system under which families in the same circumstances do not necessarily get the same benefit. The horizontal inequity results from the fact that there is not enough funding in the program to provide vouchers to all eligible families, so some families receive large subsidies while other families with the same financial situation receive no subsidy.

Another argument in favor of moving from an income-based rent to a flat rent concerns administrative ease. The complicated rent calculation, paired with the difficulty of verifying the incomes of tenants, has led to high levels of error in the subsidy calculation. According to a HUD 2001 Quality Control study, 60% of all rent and subsidy calculations contained some type of error. HUD has estimated an annual $2 billion in subsidy over- and under-payments in the Section 8 voucher program. These errors have led the Government Accountability Office (GAO) to designate the Section 8 program as a "high risk" program, meaning it is particularly susceptible to waste, fraud and abuse. Beginning with the FY2003 Consolidated Appropriations Act (P.L. 108-7), HUD has access to the National Directory of New Hires, a database that may allow PHAs to better verify income data. This new option may help PHAs increase their accuracy.

Some argue that the rent calculation itself is flawed. Since rent goes up as income goes up, families have a disincentive to increase earnings and/or an incentive to hide income. Furthermore, PHAs are directed to predict future income based on past income history when determining the value of a voucher. As work and income levels are often unstable in the low-wage job market, this can prove a difficult task and can often result in miscalculations. One way to reduce errors to an acceptable level is to adopt flat rents. Flat rents could work in a couple of different ways. Families could pay some fixed, below-market rent, based on unit size, as set by the PHA, regardless of their incomes. As incomes changed, rent would stay the same. A PHA could also choose to adopted tiered rents. Under tiered rents, PHAs set different flat rents for broad tiers of income. Families pay the rent charged for their income tier and only fluctuations in income that move them from one tier to another would change their rent. Flat rents are not as responsive to changes in family income as income-based rents and their adoption can result in families paying much less or much more towards rent than is generally considered affordable (30% of income).

Low-income housing advocates are generally opposed to increasing the amount of rent paid by families because they fear that families will not be able to meet their other basic needs. They have voiced concern at the prospect of flat rents, noting that families could be left paying half or more of their incomes towards rent under a flat rent system. There is also some concern that if the subsidies are made more shallow, families will be unable to find housing with them.

Redefining "Low-Income". Several options for reducing costs are centered around the way the program defines eligibility and income. One option for lowering the cost of the voucher program while maintaining its current structure would be to subsidize higher-income families. Eligibility for the program could be increased, for example, up to 80% of area median income. Additionally, the current requirement that 75% of all subsidies be targeted at households at 30% or below area median income could be reduced or eliminated. Since subsidy levels are tied to incomes, the higher the family's income, the lower the subsidy paid by the PHA. Raising eligibility levels and loosening targeting requirements could result in either cost savings, or the ability to serve more families with the same amount of money. Low-income housing advocates support retaining current income eligibility and targeting requirements. They argue that since the lowest-income households face the heaviest rent burdens, they are the most needy of assistance and should therefore receive it. Another potential concern is that increasing the income standard increases the number of households eligible for the program without necessarily increasing the amount of money available for the program, exacerbating the horizontal inequity problem.

Another option, outside of targeting higher-income families, is to give incentives to families to increase their work efforts and therefore their incomes. Non-elderly, non-disabled families could be encouraged to work through expansions in the Family Self-Sufficiency program, or by the institution of time limits and/or work requirements. Low-income housing advocates generally support expanding the FSS program, which encourages work and increases in earnings. However, expanding FSS would not result in cost savings, since as families incomes rise, their rent increases are deposited in an escrow account.

The rent calculation in the Section 8 program has come under criticism for discouraging work. As a family's income rises in the voucher program, the amount the family pays for rent rises, since a tenant's contribution is based on income. Families with Section 8 subsidies face an effective 30% tax on any increase in earnings. In order to get around this problem in the Public Housing program, Congress has instituted a mandatory income disregard. No such mandatory requirements exist in the voucher program.[31] Currently, in the voucher program, if PHAs choose to disregard increased earnings, they must pay for it out of their own budgets or face sanctions from HUD for not accurately calculating subsidies. Adopting mandatory earned income disregards could help eliminate the disincentives to work, but they do not decrease the cost of the subsidy.

Also, under the voucher program, there is currently no work requirement. The Public Housing program does have a mandatory eight-hour work or community service requirement for non-elderly, non-disabled tenants; however, most public housing residents are exempted and it is unclear how thoroughly the provision has been implemented.[32] Adopting a strict work requirement in the voucher program may help encourage non-elderly, non-disabled households that are not currently working to go to work; however, it may not increase their incomes. Even with a strict work requirement, research based on the 1996 welfare reform changes (P.L. 104-193) indicates that, for many poor families, increases in work do not necessarily translate into greater total income and that most households who are not currently working need a number of work supports (such as child care and transportation assistance) in order to make them successful in becoming financially self-sufficient. Such supportive services are not currently part of the voucher program and would require additional funding.

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[31] There is a mandatory earned income disregard applicable only to disabled families in certain situations. For more information, see The National Housing Law Project's Earned Income Disregard Packet for Public Housing Voucher Program and Other HUD Programs available at: [http://www.nhlp.org/html/pubhsg/eid_packet.htm].

[32] For more information on the community service/work requirement in public housing, see CRS Report RS21591, *Community Service Requirement for Residents of Public Housing*, by Maggie McCarty.

Create New Program

In order to constrain costs, some argue that the existing voucher program should be dismantled and replaced with a new, broader-purpose grant program. They argue that the current rules and regulations are too cumbersome to allow for efficiency, the current income-based rent calculation is inherently flawed and that the unit-based funding system had given PHAs no incentive to restrain costs. Additionally, the current program is a discretionary program, but its unique unit-based funding structure has put Congress in a difficult position when it comes to funding it "sufficiently," in that Congress is pressured by advocacy groups to renew each expiring voucher regardless of its cost so that no families lose assistance. By not funding individual vouchers, but by creating a broader program, this annual funding dilemma would be eliminated and Congress could fund the program at a level that it deems appropriate given other priorities, rather than the amount calculated based on the difference between rents and incomes in communities across the country. At the same time, decoupling funding from individual vouchers may make it easier for Congress to reduce overall funding for the program, which is a concern raised by low-income housing advocates. The conversion of the Section 8 Housing Choice Voucher program to a broader purpose grant program would have multiple implications, which are discussed below.

Flexibility. The current voucher program is governed by hundreds of pages of regulations and guidance that make the program, some argue, overly prescriptive and difficult to administer. Supporters of broader purpose grants in general argue that they provide the flexibility necessary to meet their local needs and priorities. Fewer rules and regulations may make the voucher program easier to coordinate with other social service programs and PHAs have long asked for greater administrative flexibility. However, PHA advocacy groups have not come out in support of recent legislative reform proposals; they contend that the greatest administrative burdens are found in the regulations governing the current voucher program and that the Secretary could provide greater flexibility without this larger legislative restructuring.

Critics of this type of additional administrative flexibility contend that many of the current rules governing the voucher program are designed to protect voucher recipients. They worry that the needs of low-income families could go unmet if current rules (i.e., quality standards, portability, income targeting, income-based rent, etc.) are abandoned.

Promoting Work. The Administration testified before the Senate Appropriations Committee, VA, HUD, and Independent Agencies Subcommittee,[33] in support of their FY2005 reform proposal, that:

> The current system fails to support families making the transition from public assistance to self-reliance and work, and in doing so reduces the number of families that could be helped for a given amount of money. Under the reform, the

[33] Statement made by Assistant Secretary for Public and Indian Housing, Michael Liu, Senate VA- HUD Appropriations Subcommittee, FY2005 Budget Hearing, Apr. 1 2004.

> voucher program would be a means for families to transition to a better life, and more of them will be helped.

As discussed earlier in this report, time limits and work requirements are not currently features of the voucher program. Proposals to encourage PHAs to move families off of assistance are consistent with the goals of welfare reform. However, critics note that more than one third of the voucher caseload is made up of elderly and disabled families, families who do not use TANF and are not generally expected to work. Of the non-elderly, non-disabled, about half are already currently employed. Critics question whether low-income working families and elderly and disabled families could transition off rental assistance when it is difficult for them to increase their incomes and housing costs continue to rise. Their argument is supported by HUD's 2004 Annual Performance and Accountability Report (page 2-65), which reports on a HUD study of all non-elderly, non-disabled families in the voucher program within a five-year period. This study found that the vast majority of such families — 75% — were in the program five years or less, yet generally were unable to reach "self-sufficiency" (defined as able to afford housing at the local FMR) within five years. For example, in 2004, only .8% of non-elderly, non-disabled families in the voucher program could afford housing at their local FMR level. This suggests that the majority of families in the voucher program are already leaving the program relatively quickly, but their incomes are not necessarily increasing, which raises questions as to where these families are going and why they are leaving the program.

Funding. As noted earlier, historically, Congress had demonstrated a commitment to renew all vouchers that it has previously funded so that no family loses its housing assistance. Critics of broader-purpose grant proposals are concerned that once the program is converted, Congress will no longer exhibit the same level of commitment to meet the program's funding needs, leaving PHAs with insufficient funding to continue serving the same number and composition of families. PHA advocacy groups and low-income housing advocates have expressed concerns that funding cuts could change the character of the current program by forcing PHAs to choose between serving higher-income families, requiring families to pay more for their housing, or serving fewer families. Low-income housing advocates contend that the Section 8 program is one of the few remaining resources targeted at the extremely low-income and that many other programs (the HOME Investments Partnerships program, the Community Development Block Grants program, and the Low-Income Housing Tax Credit program) already serve less-poor households.

The Bush Administration had made the argument to convert the program to a broader purpose grant program and unsuccessfully proposed two initiatives during the 108^{th} Congress, which are described below. A new reform initiative, supported by the Administration, has been introduced in the 109^{th} Congress and is also discussed later in this report.

Housing Assistance for Needy Families (HANF). The HANF program (H.R. 1841 and S. 947, 108^{th} Congress) was a Bush Administration initiative during the first session of the 108^{th} Congress that would have replaced the existing tenant-based voucher program that is administered by local PHAs with a block grant provided to states. Rather than receiving funding for a fixed number of units, states would have received a fixed budget, proportional to the amount of funds the state was receiving under the Housing Choice Voucher program. Under HANF, the Secretary of HUD would have been able to lower the 75% targeting requirement to 55%, impose minimum rents, increase eligibility to 80% of area median income and reduce the frequency of HQS inspections from annually to every three years.

Low-income housing advocates opposed HANF out of concern that it would lead to an erosion of funding and that it would not serve low-income families adequately. PHA groups opposed the proposal to transfer administration to states and also voiced concerns about erosion in funding levels. HANF was not acted upon in the 108th Congress, although multiple hearings were held.

The FY2005 Flexible Voucher Program. The President's Flexible Voucher Program (FVP), first recommended in the second session of the 108th Congress as a part of the FY2005 budget request, would have converted the existing unit-based voucher program into a broader-purpose grant program. Under the FVP proposal, PHAs would have received a fixed number of dollars that they could have used to serve as many families as they chose with loosened income eligibility, income targeting, and quality inspection requirements. FVP was not enacted before the end of the 108th Congress. A proposal similar to FVP is now pending in the 109th Congress.

Developments in the 109th Congress

President's FY2006 Budget Proposal

On February 7, 2005, President Bush released his FY2006 budget request. It included $15.9 billion for the Section 8 tenant-based voucher program, an increase of over 7% from the FY2005 enacted level. The request also proposes to continue and expand the practice of funding PHAs on a budget-basis (rather than a per-unit basis), and it states that the President supports reform of the program. (For a more comprehensive discussion of the FY2006 HUD appropriations, see CRS Report RL32869, *The Department of Housing and Urban Development (HUD): FY2006 Budget*.)

Budget-based Funding. As noted earlier in this report, PHAs were funded on a unit-basis prior to 2004. Their budgets were determined based on the number of vouchers they were allocated to administer at their actual costs. In FY2003, PHA budgets were based on the number of vouchers they were *reasonably expected* to lease at their actual costs. In FY2004, the formula was changed to fund PHAs based on the number of vouchers they were expected to lease[34] at a *fixed cost*. In FY2005, the formula was changed again. It funded PHAs based on the number of vouchers they were *actually using* over a fixed period of time at a *fixed cost*. In FY2005, the appropriation was insufficient to fund all agencies at the level determined by the formula, so their budgets were reduced across-the-board by 4.1%. The Administration has stated that the FY2005 appropriation completed the shift of the voucher program

[34] Although they were permitted to increase their leasing up to their authorized level.

to budget-based funding. They argue that this shift will help in "controlling the program's upward spiral in costs."[35]

In his FY2006 budget request, the President is proposing to fully dissociate PHA budgets from units and costs. It recommends that each PHA's funding be based on the amount of funds it received in the previous year, prior to the proration, plus inflation. Specifically, the budget states:

> [HUD will] provide renewal funding for each public housing agency based on each public housing agency's 2005 annual budget for renewal funding as calculated by HUD, prior to prorations, and by applying the 2006 annual adjustment factor, as established by the Secretary.[36]

Discussion of FY2006 Budget Request. Compared to last year's budget proposal, which included a cut in program funding, this year's budget proposal for the voucher program has received a relatively more favorable reaction from low-income housing advocates. However, they have raised some concern regarding its adequacy to fund all existing vouchers.[37] A cursory look at the Congressional Budget Office's per-voucher cost estimate for 2006, multiplied by the number of vouchers that can reasonably be expected to be used, indicates that the funding request is very close to the amount needed to fund all vouchers that would likely be in use.[38] If CBO's estimates of costs or projected vouchers are too low, or if utilization has increased significantly, then the overall funding request may be too low to sustain the current services level. However, given current pressures on PHAs to reign in costs as a result of the FY2005 funding restrictions, utilization may be lower than last year and costs may be lower than the CBO estimate, which is based on market conditions and does not reflect recent program changes.

It is important to note that this discussion of "adequacy" is relevant in the context of the current program where vouchers are defined by the federal government as roughly the difference between rent and income, targeted at extremely low-income families, and numerically allocated to PHAs. Under reform proposals that would enable PHAs to determine their own voucher parameters, national estimates of funding adequacy may be even more difficult to calculate. Further, the idea of "adequacy" could be evaluated differently. Currently, adequacy is generally measured from a current services perspective; under a new program, adequacy could be discussed in the larger context of unmet need in a community.

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[35] Budget of the United States Government, FY2006 — Appendix, p. 528.

[36] Ibid., p. 527.

[37] For example, see *President's Budget Would Restore Some Rental Vouchers Cut in 2005 But Reduce the Program Substantially in Future Years: 370,000 Fewer Families Could Receive Voucher Assistance by 2010,* Center for Budget and Policy Priorities, Feb. 18, 2005.

[38] CBO, in an "interested parties" table, estimates that in 2006, the average annual per voucher cost will be $6,895. CBO also estimates that the funding for 2.1 million vouchers will expire in FY2006. At a 97% utilization rate (which has been the peak average annual utilization rate in recent years), using these figures, just over $14 billion would be required to fund all vouchers in use. The President's request includes $14.1 for voucher renewals.

Another concern that has been raised regarding the FY2006 budget request surrounds the allocation of funding. The President's budget proposes to fund PHAs based on their allocation in FY2005. The allocation of funds in FY2005 was based on a three-month period in 2004 (May-July), which may have been a low-point for some PHAs' budgets. All PHAs received notification of the FY2004 budget changes in April 2004, and some had been notified that their budgets would be lower than they had anticipated. After receiving that notification, many agencies undertook cost-cutting measures, which may be reflected in that May-July period. If the FY2006 funding is based on the FY2005 allocation, then some agencies may receive an allocation of funds for two consecutive years that is arbitrarily lower than it might have otherwise been. This raises questions about whether using FY2005 as a base is rational or equitable.

Congressional Action on HUD Appropriations. On June 30, 2005, the House of Representatives passed its version of the FY2006 HUD appropriations bill (H.R. 3058). The bill adopted the President's proposed formula for distributing renewal funds (based on the prior year's allocation), but included a set-aside of $45 million to be used by the Secretary to adjust the budgets of agencies that were adversely impacted by the FY2005 formula because of a high number of portability vouchers. The bill included $100 million more than the President requested for voucher renewals, but a total funding level, $15.6 billion, that is below the President's request.

On July 21, 2005, the Senate Appropriations Committee reported its version of H.R. 3058. It adopted a different formula for distributing renewal funds to PHAs; it would allocate funds based on PHA's actual costs and utilization as reported over the last 12 months. The Committee bill also includes a $45 million set-aside, which the Secretary can use to adjust the budgets of agencies that were adversely impacted by the FY2005 formula because of a high number of portability vouchers or because the 3-month time period used was an anomaly for the agency. After set-asides, the Senate version provides less in renewal funding and less in total funding, $15.6 billion, than the President's request. Low-income housing advocates, while praising the Senate formula, have raised concerns that the renewal funding level is not adequate to fund agencies at 100% of their formula eligibility and may not be sufficient to maintain all existing vouchers in use.

The State and Local Housing Flexibility Act of 2005 (S. 771/H.R. 1999)

The State and Local Housing Flexibility Act of 2005 was introduced by Senator Allard on April 13th and by Representative Gary Miller on April 28th, as S. 771 and H.R. 1999, respectively. The Act consists of three titles. Title I, The Flexible Voucher Act, is discussed further below. Title II, Public Housing Rent Flexibility and Simplification, would permit PHAs to alter the rent calculations for public housing in the same ways they would be permitted to change voucher rents under Title I. Title III, the Moving To Work Program, would make the current Moving to Work demonstration a permanent program with expanded eligibility for PHAs and expanded waiver authority for the Secretary of HUD.

Title I is similar to the Flexible Voucher Program proposed by the Administration as a part of the FY2005 budget request. It would replace the current voucher program with a broader-purpose grant program. PHAs would continue to administer the program, although if they were not meeting the Secretary's performance standards, their funds could be awarded to other entities selected by the Secretary. Flexible Voucher Program funds could be used for six eligible activities: tenant-based rental assistance; project-based rental assistance; tenant-based homeownership assistance for first-time homebuyers; self-sufficiency activities including escrow savings accounts; other activities, as specified by the Secretary, in support of tenant-based, project-based, or homeownership assistance; and administrative costs. Income eligibility, targeting, subsidy determination, and quality inspection rules would all be loosened, while portability rules and enhanced voucher features would be restricted. The Secretary would be directed to implement temporary implementing regulations within 90 days of passage and final regulations, not including funding formulas, within 18 months. The Secretary would be directed to undertake negotiated rulemaking to develop grant and administrative fee allocation formulas, to be published within 24 months. A comparison of major changes from current law can be found in **Table 10**.

Table 10. Comparison of Key Provisions in Flexible Voucher Program Proposal (S. 771/H.R. 1999) to Current Law

Key Provisions	Current Law	Flexible Voucher Program
Eligibility	Generally, families are eligible if their *adjusted gross income* is at or below *50%* of area median income (AMI), although PHAs must target *75%* of all vouchers to families at or below *30%* of AMI.	Families would be eligible if their *gross income* is at or below *80%* of AMI, although PHAs would be directed to target *90%* of all assistance to families at or below *60%* of AMI.
Subsidy Levels	Benefits are statutorily set as the difference between the lesser of rent or the payment standard (set by the PHA at between 90%-110% of the fair market rent) and the family's contribution.	Benefits would be set by the PHA and they would be directed to establish maximum subsidy levels.
Tenant Contribution	Tenant contributions are statutorily set as the greater of 30% of a family's adjusted gross income, 10% of a family's gross income, or the minimum rent (set by the PHA, not to exceed $50, with a hardship exemption)	PHAs could establish rents based on a percentage of income, flat rents, tiered rents, or some combination of the three models, at their discretion. They would be required to set minimum rents.

Key Provisions	Current Law	Flexible Voucher Program
Time Limits	Current law does not include any time limits. Lease-compliant families can continue to receive assistance (even if their incomes increase above eligibility limits) until their tenant contribution is equal to the rent, at which point their subsidy is zero.	Beginning in January 2008, PHAs would be permitted to establish time limits of no less than 5 years. Families whose gross income increases above 80% of AMI would lose eligibility for assistance.
Enhanced Vouchers	The payment standard for an enhanced voucher is equal to the rent for the unit (even if it is greater than the PHA's payment standard), allowing a family that would otherwise be displaced to remain in that unit, even if its rent is above the local PHA's payment standard. The "enhanced" feature of the voucher remains for as long as the family lives in the unit.	The payment standard for an enhanced voucher would remain equal to the rent for the unit (even if it is greater than the PHA's maximum subsidy level) for the first year. After 12 months, the voucher would revert to tenant-based rental assistance, subject to the local PHA's Flexible Voucher Program.
Inspection of Units	PHAs must inspect units to ensure that they meet federal housing quality standards prior to occupancy and at least annually thereafter.	PHAs would be required to inspect units within 60 days of the first payment made to the owner and at least once every four years thereafter to ensure that they meet federal housing quality standards or other standards approved by the Secretary. PHAs would be required to inspect at least 25% of units each year.
Portability	Families who receive voucher assistance, after one year, can move to any jurisdiction in the country where a voucher program is being administered.	Families receiving rental assistance, after one year, would be permitted to move to another unit within the jurisdiction of the PHA that issued the voucher.

Key Provisions	Current Law	Flexible Voucher Program
Grandfathering	Not Applicable.	Families receiving homeownership assistance or project-based voucher assistance on the day before enactment of the Act would continue to receive assistance under current law for the length of their contracts. Elderly and disabled households receiving assistance on the day before enactment of the Act would continue to be treated under current law until January 2009. Elderly and disabled households receiving assistance after the date of enactment would also be treated under current law until January 2009, unless their PHA had devised a plan for meeting the needs of the elderly and disabled prior to the January 2009 deadline for developing such a plan.

Source: Congressional Research Service.

Thus far, the Administration has signaled support for this legislation and both bills have garnered several co-sponsors. Low-income housing advocates have generally opposed the proposal. The bill has been referred to the Financial Services Committee in the House, which held a full committee hearing on May 11 and a Housing Subcommittee hearing on May 17, and to the Banking, Housing and Urban Affairs Committee in the Senate, which had not scheduled a hearing at the time this report was updated.

Conclusion

The Section 8 voucher program is the largest direct housing assistance program for low-income families. With a FY2005 budget of over $14 billion ($20 billion for all of Section 8), it reflects a major commitment of federal resources. That commitment has led to some successes. Over 2 million families currently 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 evaluate whether the cost of the Section 8 voucher program can or should be controlled. Minor revisions or major reforms are options currently facing Congress. As was noted in the 2004 State of the Nation's Housing report:[39]

> Even at the peak of the full-employment economy in the late 1990s, housing problems in the nation failed to improve and some even worsened. Without fundamental changes, these challenges will continue to escalate, further dividing the two-thirds of Americans who are well-housed and the remaining third who are not — including a substantial minority who must struggle simply to keep a roof over their heads and meet other basic needs.

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[39] *The State of the Nation's Housing, 2004,* from Harvard University's Joint Center for Housing Studies, at [http://www.jchs.harvard.edu/publications/markets/son2003.pdf]