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ADMINISTRATION SEEKS DEEP CUTS IN HOUSING VOUCHERS AND CONVERSION OF PROGRAM TO A BLOCK GRANT

Budget Could Cut Number of Families Assisted by 250,000 in 2005, and 600,000 — or 30% of all Assisted Families — by 2009

by Barbara Sard and Will Fischer

The Administration's new budget would cut funding for "Section 8" housing vouchers in 2005 by more than $1 billion below the 2004 level. The budget would cut the Section 8 program further in subsequent years.

The budget also would make radical changes in the program's structure. It would replace the voucher program with a block grant to local housing agencies (labeled the "Flexible Voucher Program") and, in so doing, repeal basic protections for low-income families that were developed on a bipartisan basis and have undergirded the program for decades. The block-grant proposal also would leave the program vulnerable to substantial further funding erosion over time.

These cuts are deeper, and the policy changes more sweeping and threatening to the low-income families and elderly and disabled people whom the program serves, than any proposal advanced by any prior Administration during the voucher program's 30-year history. The program began in 1974, when it was created under the Nixon Administration.

The Administration argues that these radical changes are needed to control explosive growth in program costs. Most recent cost growth has resulted from temporary pressures that are now easing, however, and the Congressional Budget Office projects that cost growth will slow greatly in 2005 under the *existing* program structure. CBO's budget projections show that if sufficient funding is provided in 2005 to keep pace with increases in rental costs and the current program structure is maintained, expenditures for the Section 8 program will grow only 1.8 percent in 2005. After adjusting for inflation, this represents an increase of only 0.1 percent.

The housing voucher program is the nation's principal low-income housing assistance program and currently assists two million low-income households, most of them low-income working families, elderly people, or people with disabilities. The program enables these households to afford modest rental units in the private housing market. The budget proposal to cut and radically alter the program would almost certainly have harsh consequences for many of these families.

The Administration has suggested that the expanded flexibility the block grant would provide would enable state and local housing agencies to absorb the large funding reductions the budget contains through increased efficiency. Few opportunities for painless cuts in the program exist, however, and what opportunities are present would not yield savings sufficient to offset more than a small fraction of the deep funding cut the budget contains. To operate the program within the shrunken funding level that would be provided, state and local housing agencies would have no alternative but to choose among several unappealing options, all of which would be injurious to low-income families.

- **Reducing the number of families assisted.** If the funding cut the budget contains for fiscal year 2005 were accommodated by reducing the number of people assisted, the number of families and elderly and disabled households served would have to be cut by approximately 250,000.[1] Without the rental assistance that vouchers provide, many of these households would have to divert scarce resources from basic needs such as food, child care, and clothing for school or work in order to pay the rent. Others would no longer be able to afford their current apartments and would be forced to live in overcrowded or substandard housing, in homeless shelters, or on the street.

- **Cutting costs by shifting rental burden to low-income families.** Another measure that local housing agencies could adopt to reduce expenditures in response to the large federal funding cut would be to shift more of the rental costs to the low-income families being assisted. This could be accomplished either by requiring families with vouchers to pay a higher percentage of their income for rent or by reducing the maximum amount of rent that a voucher can cover and thereby making fewer housing units accessible to families with vouchers, especially in areas with better schools and job opportunities. The likely result would be to concentrate families with vouchers in high-poverty areas. If the shortfall in the Administration's budget for 2005 were covered by raising rents, the rent burdens of the two million families and elderly and disabled households in the voucher program — most of whom have incomes below the poverty line and already struggle to make ends meet— would have to rise by an average of about $850 per year.

- **Cutting costs by shifting housing assistance to higher-income families.** Another way that local housing agencies could cut costs to deal with the sharp federal budget cut being proposed would be to shift vouchers from poorer families to families with more substantial incomes. The higher a family's income, the smaller the rent subsidy it needs to be able to afford housing. The average cost of providing a housing voucher to higher-income families thus is lower than the average cost of serving poorer families. The Administration's block-grant proposal would repeal existing statutory requirements that local housing agencies provide 75 percent of their vouchers to families with incomes below 30 percent of the area median income, which is roughly equivalent to the poverty line.

  Families with incomes below this level that secure no help with rental costs are much more likely than families at higher income levels to pay exorbitant shares of

[1]For a description of the methodology used to estimate the potential impact of the Administration's proposals, see Barbara Sard and Will Fischer, "Sources and Methods Used to Estimate Impact of Housing Voucher Proposals in Administration's Fiscal Year 2005 Budget," available on the Internet at: http://www.cbpp.org/3-17-04hous-meth.pdf.

> their limited incomes for housing, to live in overcrowded or substandard housing, or to reside in blighted areas with poor schools and fewer job opportunities. The voucher program was designed to help needy families overcome such problems. In an extraordinary part of the budget documents that HUD has issued in support of its budget proposals, HUD lists actions to shift vouchers from needier families to higher-income families as an "efficiency" improvement, since such a step would cut the average cost per voucher.

If the Administration's proposal is enacted, housing agencies would likely be compelled to cut their voucher programs much more sharply in years after 2005. Historically, funding for many block grants that assist low-income people has failed to keep pace with need and has fallen well behind inflation over time. Block grants have proven easier to freeze or cut than other programs. Given the budget deficits that Congress will confront in coming years, as well as a proposal in the Administration's budget to impose restrictive spending caps on overall non-entitlement spending for each of the next five years, it is likely that the resources appropriated in coming years for a voucher block grant would fall steadily further below the amount needed to maintain current levels of assistance. If that occurred, it would compel states and local housing agencies to institute deeper cuts each year.

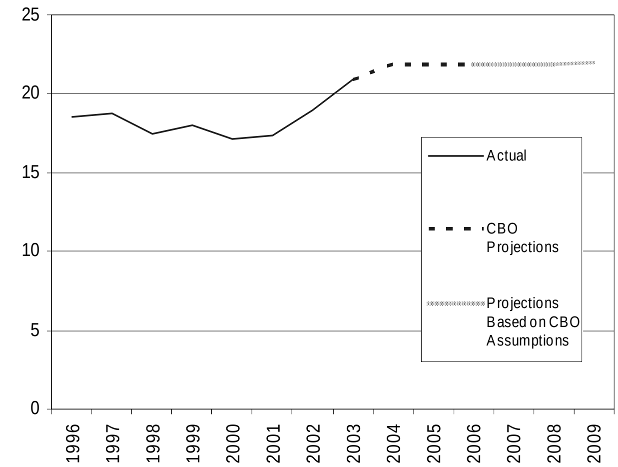
That this is what would be likely under the proposal is apparent from the Administration's budget. The Congressional Budget Office estimates that under the funding levels in the budget, Section 8 expenditures in 2009, the final year for which the Administration's budget plans are spelled out, would fall *$4.6 billion* below CBOs estimate of the amount needed to maintain the level of service that the program currently provides. If this cut were implemented by reducing the number of families served, state and local housing agencies would have to eliminate about 600,000 vouchers by 2009; this amounts to *30 percent* of the number of vouchers now in use. If the cut were carried out by raising the rents of voucher tenants, the average tenant family would face a rent increase of about $2,000 per year by 2009.

Growth in Voucher Costs Expected to Slow Sharply in 2005 Without Cuts or a Block Grant

The primary rationale the Administration cites for its proposal to convert the voucher program to a block grant is that overhauling the program's funding structure is necessary to control rapid growth in program costs.

The program has indeed experienced substantial cost growth in recent years. The Congressional Budget Office, however, projects that the rate of growth in Section 8 expenditures will slow sharply in 2004 and 2005 without cuts or conversion to a block grant. Trends in the factors that drive costs under Section 8 — such as rental housing costs and the incomes of low-income families — are difficult to predict, so actual cost growth may be somewhat higher or lower than CBO anticipates. But based on the economic projections that are currently available, CBO estimates that if funding is provided at levels that would maintain current levels of service Section 8 expenditures (or outlays) will rise only 1.8 percent in 2005.[2] As shown in Figure 1, when adjusted for the overall rate of inflation, Section 8 expenditures under the existing program structure are expected to be nearly flat in the years through 2009.

Figure 1: Inflation-Adjusted Section 8 Outlays without Cuts or Conversion to a Block Grant[3]
in billions of dollars



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[2] CBO does not release an estimate of voucher spending separate from its estimate of total Section 8 spending. The Section 8 program includes both the voucher program and a project-based housing assistance program. CBO does release assumptions regarding the number of vouchers, the percentage of vouchers in use, and the average cost per voucher. The CBO data and assumptions can be used to calculate the estimated outlay increase for the voucher program, separate and apart from the project-based program.

When the voucher component of Section 8 is looked at on its own, calculations based on the CBO assumptions indicate that voucher expenditures will rise by 3.3 percent in 2005, before adjustment for inflation, and 1.6 percent after adjusting for inflation. But these figures are somewhat misleading. Some of the increase in voucher costs does *not* represent an increase in federal housing expenditures, but rather reflects the cost of issuing new housing vouchers to low-income families who are being shifted from other, project-based forms of federal housing assistance to vouchers. In other words, some of the increase in voucher costs represents costs that are being shifted from other types of assistance to the voucher program.

[3] All outlays in the chart are in constant 2003 dollars, adjusted by CBPP using the Consumer Price Index. Outlay levels in the chart for fiscal years 2004 through 2006 are CBO projections from the March 2004 baseline. In 2007 through 2009, the chart shows the amount of outlays required to support all authorized Section 8 units that will require funding under CBO assumptions regarding the number of authorized units, per-units costs, and the voucher utilization rate. Because of technical, statutory constraints on the methods CBO uses to project total Section 8 outlays, CBO's actual outlay projections in those years are below the level required to support all of the authorized units that will require funding. As a result, CBO's actual projections are somewhat below the adjusted levels shown in the figure. For further discussion of the constraints on CBO's outlay estimates, see Barbara Sard and Will Fischer, "Sources and Methods Used to Estimate Impact of Housing Voucher Proposals in Administration's Fiscal

Section 8 costs have grown at a faster rate in the past few years, largely because of temporary cost pressures that are now easing. These pressures have included a period of unusually rapid growth in rental housing costs, an economic downturn that depressed the incomes of low-income families and thereby increased the average rent subsidies they received (the subsidies generally equal the difference between a unit's rental charge and 30 percent of household income, so subsidies rise during recessions when incomes fall), and Congressional decisions in years from 1999 to 2001 to issue substantial numbers of new vouchers.[4]

To cover this modest anticipated increase in housing voucher costs without instituting program cuts, the amount of funding that Congress provides to renew housing vouchers in use would have to rise by more than $600 million in 2005. The Administration has instead proposed to cut program funding by $1.05 billion below the 2004 level.[5] This represents a reduction of more than $1.6 billion below the amount needed to maintain the level of services available in 2004. HUD budget documents confirm that the proposed cut exceeds $1.6 billion. The Chairman of the House Appropriations Committee, Rep. Bill Young, recently stated that the shortfall under the Administration's funding level would be $1.7 billion, a somewhat larger gap than HUD estimates.[6]

Year 2005 Budget," available on the Internet at: http://www.cbpp.org/3-17-04hous-meth.pdf.

[4] A portion of the decline in cost growth in 2004 also reflects changes made by Congress in the fiscal year 2004 appropriations bill that reduced administrative funding for housing agencies. For a detailed analysis of the factors that have driven Section 8 cost growth and the reasons that growth is now slowing markedly, see "Nearly All Recent Section 8 Growth Results from Rising Housing Costs and Congressional Decisions to Serve More Needy Families," available on the internet at http://www.cbpp.org/2-2-04hous.htm.

[5] The fiscal year 2004 appropriations act provided $14.23 billion to support existing housing vouchers in use, including $48 million for the Family Self-Sufficiency program, an asset-development and employment counseling program that operates in conjunction with the voucher program. For fiscal year 2005, the Administration requests $13.18 billion for voucher renewals and no funding to continue the Family Self-Sufficiency program. This is a reduction of $1.05 billion. Administration budget documents that estimate the level of "obligations" under the voucher program (that is, the amount of funding provided by HUD to state and local housing agencies to support vouchers) also show that the voucher program would be cut below its 2004 level under the Administration's proposals for 2005. These documents contain an estimate that obligations of voucher funds in 2005 will be well over $1 billion below the 2004 level if the Administration's budget is approved. Analytical Perspectives, Fiscal Year 2005 Budget, p. 150.

[6] HUD documents show that the budget request falls $1.633 billion below the amount that HUD estimates would be needed to fund the 2004 level of services, plus the "tenant protection" vouchers needed to replace lost project-based housing subsidies. Rep. Young indicated in a document sent to Republican members of the House Appropriations Committee on March 3, 2004 that the shortfall would be $1.734 billion. Under CBO assumptions, the funding shortfall under the Administration's budget comes to a higher amount — $1.92 billion. We used the CBO-based shortfall estimate to derive estimates of the number of vouchers that would need to be eliminated and the rent increase that would need to be imposed to implement the proposed cut. HUD's $1.633 billion shortfall estimate assumes an increase in per-voucher costs of 1.103 percent (the general OMB projection of the increase in costs for fiscal year 2005). In contrast, CBO assumes that average voucher costs in fiscal year 2005 will increase 2.9 percent compared with 2004. CBO also estimates that slightly more vouchers will be in use in fiscal year 2005 than HUD estimates. Recent outlay data suggest that the CBO estimate is more likely to be correct.

The Administration has indicated that the budget does not contain cuts in project-based Section 8 subsidies.

Cuts of this Magnitude Cannot Be Achieved Without Harming Low-Income Families

Administration officials argue in general terms that the program can absorb the cuts being proposed through increased "efficiency." They contend that by removing most restrictions on how state and local housing agencies can use voucher funds, the block grant would enable these agencies to administer the voucher program more cost-effectively. The Administration has not explained, however, how agencies could achieve "efficiencies" that enable them to reduce expenditures by more than $1.6 billion in 2005 without adversely affecting large numbers of low-income families.

It is true that the block grant would provide housing agencies with increased flexibility to alter the program in ways that could reduce costs. Nearly all of the cost-reduction options available to agencies that would yield large savings, however, would harm low-income families and elderly and disabled people. The only means of reducing costs that Administration officials have cited that would *not* directly and inherently harm low-income families are to reduce errors in calculating rental charges or to reduce the frequency of certain administrative processes such as certification of tenant incomes or inspection of apartments.

A reduction in the frequency of certifications of tenant incomes would be as likely to increase costs as it would be to reduce them, however, because the small savings in administrative costs would likely be outweighed by an increase in rental subsidy costs due to the delay in picking up increases in tenant incomes. A rescheduling of housing inspections and a reduction in errors in rental computations could potentially result in some savings, but cannot be expected to yield more than a small fraction of the more than $1.6 billion by which funding in 2005 would be below the level needed to maintain current levels of assistance.[7]

The bulk of the required cost reduction would therefore need to be achieved in other ways. State and local housing agencies would be left to choose among three principal options for achieving those cuts. All three options would adversely affect low-income families.[8]

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[7] HUD has indicated in the past that successful efforts to reduce rent calculation errors are unlikely to achieve significant savings. This is true, in part, because a substantial minority of rent calculation errors result in tenants being charged too much rent. Elimination of those errors increases the share of rental costs that the voucher program must cover.

HUD's budget documents indicate that it achieved a 27.3 percent reduction in program errors and improper payments in 2003, nearly double its 15 percent error reduction goal. That progress was made *without* converting the program to a block grant and is already reflected in current program expenditure levels — the levels from which the proposed cuts would be made. HUD also has indicated that it is considering submitting legislation to Congress to further reduce errors in rent calculations by simplifying the rent rules for all HUD programs. Such proposals in means-tested programs to simplify benefit-computation rules often reduce error rates but usually do not result in large savings in program costs unless they represent a major policy change.

[8] For additional analysis of the implications of the Administration's proposals for state and local housing agencies, see Barbara Sard and Will Fischer, "Passing the Buck: The Administration's 'Flexible Voucher Program' Would Compel Housing Agencies to Impose Deep Cuts in 2005 and Subsequent Years," available on the internet at http://www.centeronbudget.org/3-16-04hous.htm.

Number of Vouchers Could Be Reduced

If agencies reduce the number of housing vouchers in order to shrink program costs to the degree that the proposed cut in funding would necessitate, they would have to eliminate about 250,000 vouchers in 2005, or approximately one of every eight vouchers currently in use. (The tables in Appendix A provide estimates of the number of vouchers that would have to be eliminated in each state in both 2005 and 2009 if the funding cuts were addressed through reducing the number of vouchers in use, as well as the average rent increases that would be required in each state if the cut were implemented solely by raising rent burdens. For estimates of the potential impact on individual state and local housing agencies, see "Local Effects of Proposed Cuts in Federal Housing Assistance," available on the internet at http://www.cbpp.org/3-17-04hous-states.htm.)

Such cuts would have sharp effects. Only one in four low-income families eligible for a housing voucher currently receives any type of federal housing assistance. In most parts of the country, there are long and growing waiting lists for vouchers. Large numbers of families and elderly or disabled people with severe housing needs — including many people who are homeless — are unable to obtain assistance. Reducing the number of families served would make these problems more severe.

HUD budget documents indicate that families currently using vouchers would continue to receive assistance under the block grant, but such statements are inconsistent with the legislative proposal the Administration has transmitted to Congress. The legislative language contains no provision to assure continued assistance to current participants.[9] The funding reductions the Administration has proposed are sufficiently deep that many housing agencies would likely see no alternative but to terminate the vouchers of some current participants or to raise rent burdens on these families and elderly and disabled households to such a degree that many would not be able to afford the increased rents.

The consequences for families that lose their vouchers would be harsh. Without voucher assistance, some families would have to divert scarce resources from basic needs such as food, child care, and clothing for school or work in order to pay the rent. Others would not be able to afford the rent. Some would be forced to move to overcrowded or substandard housing. Some likely would end up in shelters or on the street.

The effects of reductions in the number of vouchers would extend beyond the families who lose their vouchers or are stuck on waiting lists for longer periods because fewer vouchers are available. Major reductions in the number of voucher tenants could reduce demand for rental units and raise vacancy rates, which already are at record levels in a number of areas across the

[9] Under the proposed legislation, the only families specifically protected are those receiving Section 8 assistance for homeownership; those families would continue to have their level of benefits determined under existing law. Fewer than 2,000 families are likely to qualify for this protection. (HUD's Congressional Budget Justifications, p. C-14.) Contracts that housing agencies have with owners to provide "project-based" assistance for particular units would not be broken, but it is unclear whether the families living in these units could be required to pay more than 30 percent of their income for rent and could otherwise be subject to new requirements to continue receiving voucher assistance. See Section 223 (a)(3), (4) and (e)(2).

Current Block Grant Proposal is More Radical than Last Year's Proposal

The budget that the Administration submitted last year also included a proposal to convert the housing voucher program into a block grant. That proposal generated widespread opposition as being too radical a change and as placing low-income families at risk.

As part of last year's proposal, the Administration sought to transfer administration of the voucher program from the current mix of 2,500 state and local housing agencies to the states. The new proposal would allow the same agencies that run the program now to administer the new block grant. In most other respects, however, the new proposal is more radical — and more threatening to low-income families — than last year's proposal.

- **Families' current housing assistance could be terminated or reduced immediately.** Of the two million families and elderly and disabled individuals that currently receive assistance through the voucher program in meeting housing costs, only about 2,000 — or one-tenth of one percent — would have assurance that their subsidies would continue. (Such assurance would be provided only to families that receive voucher assistance to help meet mortgage payments.) All other families would face the risk of increased rent obligations or outright termination of their subsidies, due to the severity of the proposed funding cuts. Last year's proposal would have provided protections for families for up to five years.
- **The number of families receiving housing assistance could be substantially reduced.** Last year's proposal would have required states to serve at least the same number of families as were served in the previous year, to the extent that they were able to do so with the funding that Congress provided. The proposed legislation the Administration transmitted to Congress with this year's budget drops even that conditional protection.
- **The housing voucher program would no longer have to serve any *poor* families.** Most vouchers now must go to the neediest families. The new proposal would eliminate this "targeting" requirement altogether, rather than scaling it back, as last year's proposal would have done.
- **No affordability protection would remain.** The current proposal would abolish important program rules that place a ceiling on the percentage of household income that a family with a voucher may be charged for rent. The 2004 block grant proposal would have weakened but not eliminated those rules.

country. Such higher vacancy rates could be harmful both to neighborhoods in which substantial numbers of voucher holders live and to landlords who rent units to families with vouchers.

Most landlords who rent to voucher holders own only a small number of rental units. If a tenant family loses its voucher, a small landlord could face a significant financial setback. In some cases, landlords might attempt to avoid evicting tenants by allowing rent to be deferred for several months, which could cause them to forgo a sizeable amount of income. An eviction procedure itself typically entails significant legal and other costs for a landlord. Furthermore, in areas with slack rental markets, a unit left vacant by an evicted voucher tenant may remain unoccupied for many months, causing the owner to lose additional income.

Special Rent Protections of "Enhanced" Vouchers Would Be Eliminated

When owners of federally subsidized apartment buildings decide to stop accepting federal project-based subsidies and to increase the rents for units in the buildings, low-income tenants who reside in these buildings can face displacement from their homes. To prevent that from occurring, Congress established rules under which tenants in these buildings can receive a special type of voucher. Most of the tenants who receive these vouchers are low-income elderly people or people with disabilities.

Under the rules that govern these "enhanced" vouchers, the rent levels that the vouchers can cover may be set at the levels charged for comparable units, even if such rent levels exceed the rental charges that vouchers normally can cover. The Administration's new proposal would repeal the carefully designed rules that allow these vouchers to cover rent levels higher than the levels that vouchers otherwise can cover. Under the Administration's proposal, the rules requiring housing agencies to allow these vouchers to cover high rent levels would be abolished after a family has had an enhanced voucher for 12 months, and certain details of the rent rules may be changed immediately.

An estimated 100,000 – 150,000 mostly elderly and disabled households now receive higher rent subsidy assistance through these enhanced vouchers. If their subsidies are substantially reduced, many of these elderly and disabled households are likely to face substantial hardship. Some are likely to lose their homes because they can no longer pay the rent.

Rent Burdens for Low-Income Families Could Be Raised

The second measure that state and local housing agencies could be forced to take to reduce costs would be to raise the amounts that families with vouchers must pay for rent. The block grant would remove a longstanding rule, established under the Reagan Administration, that prevents housing agencies from requiring families with vouchers to pay more than 30 percent of their income for rent.[10] By requiring low-income families to pay more for rent, housing agencies would cut their costs in providing vouchers.

If the shortfall in funding under the proposed budget cut for 2005 were closed by raising rents, the rent increases would be large. To close the shortfall in this manner, the two million low-income families and elderly and disabled households in the voucher program would have to be charged an average of about $850 per year on top of their current rent payments. For many low-income families already struggling to make ends meet, such an increase would be difficult or impossible to bear. If rental charges were raised to this degree, many families likely would not be able to meet the higher monthly payment and be forced to leave their homes.

Housing agencies could accomplish a similar outcome by lowering the maximum amount of rent that a voucher can cover, which is referred to as the "payment standard." If a family rents

[10] The current rule capping the amount of rent that a participant can be required to pay at 30 percent of income applies to income after certain deductions are made. For example, elderly and disabled households with high health care costs are able to deduct a portion of these costs from their incomes. Similarly, families receive a fixed deduction of $40 a month per child. At the hearing before the House VA-HUD appropriations subcommittee on March 3, 2004, HUD Assistant Secretary Michael Liu stated that Congress had already "breached" the requirement that voucher tenants cannot be required to pay more than 30 percent of adjusted income for rent. This statement is not correct. Voucher tenants are *permitted* to pay more than 30 percent of their income to obtain a unit of their choice, but a housing agency cannot *require* a family to pay more than 30 percent of income. Agencies must set voucher payments at a level that ensures that most families are not required to pay more than 30 percent of income to use their vouchers.

a unit with a rental charge that exceeds the maximum rent a voucher can cover, the family must pay all of the extra cost. Currently, housing agencies are required, in most cases, to set maximum rents within 10 percent of the "Fair Market Rent." The Fair Market Rent for each local area is the amount estimated to be needed to rent a modest housing unit in that area, as determined by HUD each year based on rental market data.

If a housing agency reduced the "payment standard" (i.e., the maximum rent that a voucher can cover) significantly below the Fair Market Rent, families would be forced either to pay more themselves in rent or to move to a housing unit with a rent at or below the new, reduced "payment standard." In many parts of the country, very low-cost units are located disproportionately in neighborhoods with high concentrations of poverty, higher rates of crime, poorer schools, and fewer job opportunities. The housing units that would be no longer be affordable to voucher families under this approach (because the rental costs for those units would exceed the new, reduced "payment standard") would tend to be located in neighborhoods with less concentrated poverty, lower crime, better schools, and more jobs.

Vouchers Could Be Shifted from Poorer Families to Those with Higher Incomes

The third measure that state and local housing agencies could be forced to impose would be to shift assistance from poor families to families with somewhat higher incomes. Because vouchers make up the difference between the rent for a modestly priced apartment and 30 percent of a family's income, poorer families receive larger subsidies, on average. Shifting more vouchers to families at higher income levels would enable housing agencies to spread an inadequate amount of funding among a larger number of families than would otherwise be served. (In some areas, there also could be political pressures on state and local agencies to use the flexibility the block grant would provide them to shift vouchers from poor families to families at higher income levels.[11])

The block grant proposal would eliminate a key rule that requires housing agencies to ensure that at least 75 percent of the families newly admitted to the voucher program be what HUD defines as "extremely low-income" households — households with incomes below 30 percent of the local area median income (which nationally is roughly equivalent to the poverty line). This requirement was established as part of major housing assistance reforms enacted in 1998. In carefully-crafted bipartisan legislation, Congress opted to allow the two large "project-based" housing assistance programs — public housing and the project-based Section 8 program — to limit to a much smaller percentage the share of newly admitted households that must be "extremely low-income" households. This decision was made out of concern that concentrating large numbers of very poor people in housing developments would have a negative impact on a range of social outcomes. To balance the decision to serve fewer of the neediest families through the "project-based" programs, Congress required that 75 percent of families

[11] The elimination of the targeting requirement also would allow housing agencies to shift resources from assistance to renters to assistance to homeowners. Currently, housing agencies may use vouchers for homeownership, but many of the families that must be served under the current income targeting rules do not qualify for a mortgage, even with voucher assistance. As a result, most assistance under the voucher program is now provided to renters. HUD also has indicated that performance measures that will help determine funding allocations for housing agencies under the block grant will reward agencies that use voucher funds for homeownership. This will further encourage housing agencies to shift funds from renters to homeowners, who on average have significantly higher incomes.

entering the voucher program be "extremely low-income" families. Since families with vouchers are scattered in private rental housing and are *not* concentrated in particular projects or developments, concerns about concentrating too many poor families in particular projects or developments do not apply to vouchers.

Under the block grant proposal, the targeting requirements for vouchers would be repealed. Housing agencies would be free to reduce sharply the percentage of families they serve that are poor. Housing agencies could even stop admitting such families to the program altogether and admit only moderate-income families.

This would not be an unforeseen side effect of the Administration's proposal. To the contrary, in an extraordinary passage in budget documents HUD has issued that seek to justify the new voucher proposals, HUD cites the shifting of vouchers from lower-income to higher-income families as an example of the increased "efficiency" that could be attained under the proposal. The HUD documents even contain tables showing the level of savings that could be generated by reducing the share of vouchers going to poor families by half or more.[12]

Yet shifting voucher assistance from needier to less needy households has nothing to do with increasing program efficiency. It is simply a way to cut costs. Without vouchers, poor families are much more likely than families at higher income levels to live in substandard housing or to pay more than half of their income for rent.

The "extremely low-income" households that could be harshly affected consist primarily of working-poor families, poor elderly households, and poor people with disabilities. HUD data show that in 1999, one million "extremely low-income" renter households with housing problems were elderly. Another 370,000 were individuals with disabilities severe enough to qualify for the Supplemental Security Income program, which has a stringent disability test and pays benefits equal to about 75 percent of the poverty line. The Census data also show that in 1999, more than half of the "extremely low-income" renter households who lived in substandard housing or paid more than half of their income for rent were working households (i.e., households whose income came primarily or entirely from earnings).[13]

It should be noted that even under the most ambitious of the scenarios for shifting vouchers from poor families to those at higher income levels that HUD shows in its budget documents, such shifting would produce *less than one-fifth* of the savings needed to address the shortfall in voucher funding that the Administration's budget request for 2005 would create.[14]

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[12] HUD Fiscal Year 2005 Congressional Budget Justifications, Table 4.

[13] Office of Policy Development and Research, U.S. Department of Housing and Urban Development, *Trends in Worst Case Needs for Housing, 1978- 1999*, December 2003, Tables A-6a and A-7a. In these data, a household is considered to have a housing problem if its rent burden is more than 30 percent of income or if it occupies a unit that is substandard or overcrowded.

[14] The Administration's modeling of the cost savings under this scenario assumes that 12.5 percent of vouchers would become available in 2005 to be issued to new households, as current families leave the program. The HUD scenario that assumes the most rapid shift of vouchers from poorer to higher-income households appears to conclude that $609 million would be saved in a single year if *all* of the vouchers that became available when extremely low-income households left the program were reissued to families with higher incomes. It appears, however, that the model unrealistically assumes that all of the vouchers that become available through turnover in a year become

There would still be a need to cut deeply into the number of households assisted, to raise rents sharply, or to take both steps.

Local Agencies Would Need to Impose Deeper Cuts in Years after 2005

Under the Administration's proposals, housing agencies would be forced to reduce assistance further in the years after 2005. The proposed voucher block grant would eliminate the existing funding structure, under which Congress adjusts funding each year based on changes in actual voucher costs and seeks to provide sufficient funds to cover the number of authorized vouchers expected to be in use. Instead, under the new system, Congress would simply select a funding level for the voucher program each year and appropriate that amount.

There would be no mechanism to adjust funding from year to year to reflect changes in rental costs. In fact, there would be no requirement that funding be adjusted at all from one year to the next.[15] If funding were not adjusted to keep pace with rents for modest housing, funding for the program would, with each passing year, fall further behind the amount needed to maintain current levels of assistance. Housing agencies would need to impose ever-deeper program cuts each year.

Other programs that provide core supports to low-income families and that are funded through a block grant mechanism — such as child care and health care — have not fared well over time in terms of the levels of funding they receive. For example, the TANF block grant (which replaced the former AFDC entitlement program) provides funds for states to operate programs such as basic cash assistance for poor families with children, welfare-to-work programs, and child care for low-income working families. Funding for the TANF block grant has been *frozen* since it was established, and both the current House and Senate versions of TANF reauthorization legislation would freeze funding for another five years. The TANF block grant has lost 12 percent of its value due to inflation since 1998, the first year all states received TANF funding. If funding remains frozen through 2009, as appears likely, the value of the block grant in 2009 will be nearly 22 percent lower than in 1998.

The State Children's Health Insurance Program (SCHIP), a block grant used to provide health insurance to low-income children, provides another example. When it was established, Congress set the SCHIP funding levels so that funding actually *fell* from $4.3 billion in 1998 to $3.15 billion in 2002. Funding has remained at $3.15 billion through 2004, and its purchasing power has fallen by one-third since 1998. Even when SCHIP funding rises back to $4.05 billion in 2005, the value of the block grant in inflation-adjusted terms will be nearly 20 percent lower than its value in 1997.

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available at the start of the year. If, as is more likely, households leave the program at a relatively even rate over the course of the year, only $305 million would be saved under this scenario. That would close less than one-fifth of the over $1.6 billion shortfall that the Administration's budget request would create.

Furthermore, turnover rates tend to vary greatly in different areas and at different times. It would be difficult for housing agencies to predict the number of vouchers that could be shifted from lower-income to higher-income families or to count on generating a specific amount of savings through such a shift.

[15] See Section 223 (g)(3).

The Social Services Block Grant (SSBG) provides an illustration of what can happen to block grant funding over a longer period of time. When SSBG was established in 1973, states received $2.5 billion to provide an array of social services, including child care, child welfare services, and services for seniors. By 2004, SSBG funding had fallen to $1.7 billion, and the block grant had lost 84 percent of its purchasing power since 1973.

The risk that funding for a voucher block grant would fall behind inflation appears high in light of the tight funding constraints that Congress will face in coming years, the sharply reduced funding levels the Administration's budget shows for the new block grant through 2009, and the Administration's proposal to place austere caps on the amounts that can be spent on non-entitlement programs (including housing programs) each year through 2009.

The Administration is proposing that Congress enact legislation imposing a single overall annual cap on total appropriations for all non-entitlement programs. The cap would cover appropriations for defense, homeland security, international affairs programs, and domestic programs. There also would be a single overall cap on total *expenditures* for these programs. Under the proposed caps, if defense, homeland security, and anti-terrorism funding is set at the levels the Administration shows in its budget for each of the next five years, the amounts remaining under the caps for domestic non-entitlement programs would be insufficient to maintain current programs after 2005; large cuts would have to be made.[16] By 2009, overall funding for domestic non-entitlement programs (other than homeland security) would have to cut *$45.4 billion* below the 2004 level, adjusted for inflation.

Furthermore — and of particular importance here — the Administration's budget shows the year-by-year amounts that the Administration envisions for each budget account through 2009 in order to comply with the proposed caps. In the case of Section 8, the levels are extremely low. The Congressional Budget Office estimates that under the Administration's budget, Section 8 expenditures in fiscal year 2009 would be cut *$4.6 billion* below the amount that CBO estimates would be spent if current levels of assistance are maintained.[17] (The level shown for 2009 also would be more than $2 billion below the level that CBO estimates will be spent on Section 8 in 2004, even though rents will be higher in 2009 than in 2004.)

If this cut were implemented by reducing the number of families served, state and local housing agencies would have to eliminate about 600,000 vouchers by 2009; this amounts to 30 percent of the number of vouchers now in use. If the cut were carried out by raising the rent

[16] For additional information on the Administration's proposal for budget caps and long-term cuts to discretionary programs, see Richard Kogan and David Kamin, Center on Budget and Policy Priorities, "President's Budget Contains Larger Cuts In Domestic Discretionary Programs than Has Been Reported," available on the internet at http://www.cbpp.org/2-5-04bud.htm and "Administration's Budget Would Cut Heavily Into Many Areas of Domestic Discretionary Spending After 2005," available on the internet at http://www.cbpp.org/2-27-04bud2.htm.

[17] The Administration's own estimates show an even larger cut in 2009. The Office of Management and Budget has estimated that under its budget plans, Section 8 expenditures in 2009 will fall $6.1 billion below the amount CBO estimates is needed to maintain the current level of assistance.

burdens of voucher tenants, the average tenant family would face a rent increase of about $2,000 per year by 2009.[18]

Conclusion

The proposals in the Administration's fiscal year 2005 budget would result in a fundamental shift in the direction of federal housing policy and the abandonment of 30 years of progress in improving and expanding the voucher program. When the Nixon Administration first proposed the establishment of a housing voucher program, tenant-based housing subsidies constituted a bold effort to use private markets to deliver housing assistance that had previously been delivered primarily through government-owned projects. That experiment has been highly successful. When the Congressionally-mandated Millennial Housing Commission conducted a review of federal housing policy in 2001, it concluded that the voucher program was "flexible, cost-effective, and successful in its mission" and recommended that it continue to serve as the "linchpin" of federal housing policy.

The success of the voucher program has rested on a strong bipartisan record of Congressional action to support and improve the program. Since the program was established, Congress has periodically made adjustments to the statutes that govern it, striking a careful balance between granting flexibility to state and local housing agencies and maintaining basic rules to ensure that the program serves the purposes for which it was created. These adjustments have enabled vouchers to serve a wide range of different groups — including the elderly, people with disabilities, working families, families transitioning off of welfare, the homeless, domestic-violence victims and others — depending on the priorities of local communities. In recent years, vouchers have taken on new roles as replacement housing for families that lose project-based assistance, as supplements for development funds used to build new housing, and as a way to promote homeownership.

Until now, Congress has demonstrated a firm commitment to providing adequate funding to cover all vouchers that it is has previously authorized, as long as the vouchers can be put to use. This commitment is indispensable to the effective operation of a tenant-based housing program, since a landlord will be far less likely to rent to a family with a voucher if the landlord is uncertain whether the voucher will continue to be funded in future years.

The Administration's proposals would undo this legacy by sweeping away the carefully developed rules that have underpinned the operation of the voucher program, severing the link between program funding and the actual cost of vouchers, and seeking deep budget cuts through the end of the decade. The decisions made by Congress this year will play a crucial role in determining whether the voucher program's long record of success will continue.

[18] These reductions assume that the full cut in Section 8 spending would be applied to vouchers, rather than to the project-based Section 8 program. This appears likely because reducing funding for the project-based program would require that the laws that currently govern the renewal of expiring contracts between HUD and private owners be changed. The Administration has not proposed such a change.

Appendix A: Estimated Impact of Administration's Housing Voucher Proposal

State	Number of Authorized Vouchers as of July 2003	2005			2009		
		Reduction in Voucher Subsidy Funding	Reduction in Number of Families Assisted if Cut Were Carried Out by Eliminating Vouchers	Increase in Annual Rent if Cut Were Carried Out by Raising Rent Burdens	Reduction in Voucher Subsidy Funding	Reduction in Number of Families Assisted if Cut Were Carried Out by Eliminating Vouchers	Increase in Annual Rent if Cut Were Carried Out by Raising Rent Burdens
Alabama	28,458	$15,636,347	3,449	$538	$41,668,337	8,278	$1,399
Alaska	4,081	$3,114,750	495	$747	$8,300,304	1,187	$1,944
Arizona	20,361	$17,206,113	2,468	$827	$45,851,508	5,923	$2,152
Arkansas	22,406	$10,592,792	2,716	$463	$28,228,077	6,518	$1,204
California	294,708	$316,440,144	35,721	$1,051	$843,261,823	85,730	$2,734
Colorado	27,534	$25,499,420	3,337	$907	$67,951,833	8,010	$2,359
Connecticut	34,157	$31,434,109	4,140	$901	$83,766,819	9,936	$2,344
Delaware	4,939	$3,515,271	599	$697	$9,367,628	1,437	$1,813
District of Columbia	9,350	$10,477,524	1,133	$1,097	$27,920,908	2,720	$2,854
Florida	86,996	$71,818,139	10,545	$808	$191,383,728	25,307	$2,102
Georgia	47,579	$40,992,929	5,767	$843	$109,239,527	13,841	$2,194
Hawaii	11,993	$10,837,345	1,454	$885	$28,879,772	3,489	$2,301
Idaho	6,463	$3,742,472	783	$567	$9,973,083	1,880	$1,475
Illinois	83,694	$75,412,775	10,144	$726	$200,962,852	24,347	$1,889
Indiana	36,747	$22,963,464	4,454	$612	$61,193,919	10,690	$1,591
Iowa	21,020	$9,908,928	2,548	$461	$26,405,691	6,115	$1,201
Kansas	10,873	$6,222,238	1,318	$560	$16,581,257	3,163	$1,457
Kentucky	30,336	$16,172,938	3,677	$522	$43,098,266	8,825	$1,358
Louisiana	35,757	$21,221,837	4,334	$581	$56,552,765	10,402	$1,511
Maine	12,262	$7,723,520	1,486	$617	$20,581,932	3,567	$1,604
Maryland	42,317	$38,496,949	5,129	$891	$102,588,144	12,310	$2,317
Massachusetts	71,093	$84,553,821	8,617	$1,164	$225,322,263	20,681	$3,029
Michigan	46,059	$32,487,560	5,583	$690	$86,574,096	13,399	$1,796
Minnesota	30,206	$24,155,743	3,661	$783	$64,371,149	8,787	$2,037
Mississippi	17,734	$9,655,057	2,150	$533	$25,729,165	5,159	$1,387
Missouri	39,496	$23,421,739	4,787	$581	$62,415,148	11,489	$1,510
Montana	5,551	$3,005,270	673	$530	$8,008,558	1,615	$1,379
Nebraska	11,187	$6,369,561	1,356	$557	$16,973,851	3,254	$1,450
Nevada	11,900	$10,732,339	1,442	$883	$28,599,947	3,462	$2,297
New Hampshire	9,127	$7,353,180	1,106	$789	$19,595,035	2,655	$2,052
New Jersey	64,163	$64,315,454	7,777	$981	$171,390,287	18,665	$2,553
New Mexico	14,118	$8,481,599	1,711	$588	$22,602,089	4,107	$1,530
New York	200,442	$175,437,257	24,295	$857	$467,511,925	58,308	$2,229
North Carolina	54,348	$35,694,896	6,587	$643	$95,121,127	15,810	$1,673
North Dakota	7,225	$3,212,266	876	$435	$8,560,170	2,102	$1,132
Ohio	85,329	$55,648,788	10,343	$638	$148,295,023	24,822	$1,661
Oklahoma	22,581	$14,465,034	2,737	$627	$38,546,977	6,569	$1,631
Oregon	31,657	$20,239,114	3,837	$626	$53,993,968	9,209	$1,628
Pennsylvania	81,351	$54,262,080	9,860	$653	$144,599,670	23,665	$1,699
Puerto Rico	28,392	$18,061,218	3,441	$623	$48,130,227	8,259	$1,620
Rhode Island	9,596	$7,263,894	1,163	$741	$19,357,104	2,791	$1,928
South Carolina	23,458	$14,475,225	2,843	$604	$38,574,135	6,824	$1,571
South Dakota	5,636	$2,962,470	683	$515	$7,894,504	1,640	$1,339
Tennessee	30,366	$19,101,956	3,681	$616	$50,903,624	8,833	$1,602
Texas	139,516	$105,881,817	16,910	$743	$282,157,923	40,585	$1,933
Utah	10,318	$7,352,992	1,251	$698	$19,594,535	3,001	$1,815

Vermont	6,079	$4,288,399	737	$691	$11,427,890	1,769	$1,797
Virginia	42,399	$33,236,591	5,139	$767	$88,570,141	12,334	$1,996
Washington	42,851	$35,660,347	5,194	$817	$95,029,335	12,465	$2,125
West Virginia	14,662	$6,845,061	1,777	$457	$18,240,980	4,265	$1,189
Wisconsin	27,813	$15,498,511	3,371	$546	$41,301,027	8,091	$1,419
Wyoming	2,124	$1,157,561	257	$534	$3,084,713	618	$1,388

Note: The table shows estimates of reductions that would occur in each state if the proposed funding cuts were distributed proportionately across housing agencies based on the size of each agency's voucher program. For further information on the methodology used to estimate state-level cuts, see Barbara Sard and Will Fischer, "Sources and Methods Used to Estimate Impact of Housing Voucher Proposals in Administration's Fiscal Year 2005 Budget," available on the Internet at: http://www.cbpp.org/3-17-04hous-meth.pdf.