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Report to the Chairman, Subcommittee on Housing and Community Opportunity, Committee on Financial Services, House of Representatives

April 2006

RENTAL HOUSING ASSISTANCE

Policy Decisions and Market Factors Explain Changes in the Costs of the Section 8 Programs

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Highlights

Highlights of GAO-06-405, a report to the Chairman, Subcommittee on Housing and Community Opportunity, Committee on Financial Services, House of Representatives

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Policy Decisions and Market Factors Explain Changes in the Costs of the Section 8 Programs

Why GAO Did This Study

Annual appropriations for the Department of Housing and Urban Development's (HUD) Section 8 programs—a key federal tool for subsidizing rents of low-income households—have increased sharply in recent years, raising concerns about their cost. Section 8 pays the difference between a unit's rent and the household's payment (generally 30 percent of adjusted income). Section 8 includes a voucher program administered by public housing agencies (PHA) that allows eligible households to use vouchers to rent units in the private market and a project-based program administered by property owners who receive subsidies to rent specific units to eligible households. In both programs, contracts between HUD and the administrators specify the duration and amount of the subsidy.

GAO assessed Section 8 trends from fiscal years 1998 through 2004 and examined (1) annual budget authority and outlays for each program; (2) factors that have affected outlays; and (3) the estimated impact of factors, such as market rents, on the average rental subsidy per voucher household.

www.gao.gov/cgi-bin/getrpt?GAO-06-405.

To view the full product, including the scope and methodology, click on the link above. For more information, contact David G. Wood at (202) 512-8678 or WoodD@gao.gov.

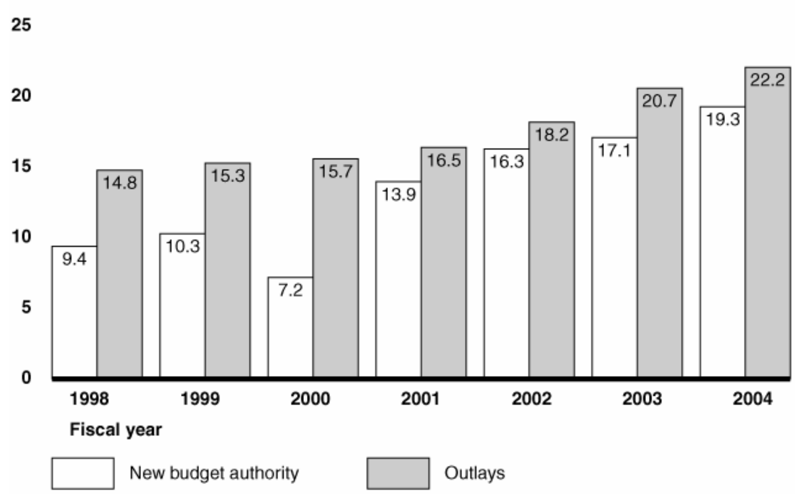
What GAO Found

From 1998 through 2004, annual budget authority for Section 8 grew from $9.4 billion to $19.3 billion (105 percent, or 82 percent after adjusting for inflation), while outlays grew from $14.8 billion to $22.2 billion (50 percent, or 33 percent after inflation adjustment). The steep rise in budget authority was partly due to the additional funding needed to cover the cost of renewing long-term contracts. GAO estimates that voucher outlays grew by 93 percent from 1998 through 2004 (71 percent after inflation adjustment), accounting for almost all of the growth in total Section 8 outlays. Estimated project-based outlays grew by 6 percent (and actually declined after inflation adjustment) over this period.

GAO estimates that about 43 percent of the growth in voucher outlays from 1998 through 2004 stemmed from policy decisions that increased the number (from 1.6 million to 2.1 million) and use of vouchers, while over half of this growth was due to an increase in the average rental subsidy per household. For the project-based program, a modest increase in the average rental subsidy per household drove the growth in outlays but was partly offset by a reduction of 62,000 in the number of units.

On the basis of statistical analysis of cost data, GAO estimates that growth in the average annual rental subsidy per voucher household from 1999 through 2004 is primarily explained by changes in market rents (about one-half of the growth), PHAs' decisions to increase the maximum subsidized rents (about one-quarter), and lagging growth in assisted household incomes (about 16 percent.) Household and neighborhood characteristics, while important cost determinants, did not vary enough to cause a substantial change in the average rental subsidy per household.

Annual Budget Authority and Outlays for Section 8, 1998-2004
Nominal dollars in billions



Source: HUD budget data.

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Abbreviations

AMI	area median income
CBO	Congressional Budget Office
CRS	Congressional Research Service
FMR	fair market rent
GDP	gross domestic product
HAP	housing assistance payment
HUD	U.S. Department of Housing and Urban Development
HUDCAPS	HUD Central Accounting and Program System
Mod Rehab	Section 8 Moderate Rehabilitation
PAS	Program Accounting System
PHA	public housing agency
PIC	Public and Indian Housing Information System
QCT	qualified census tract
TRACS	Tenant Rental Certification System

United States Government Accountability Office
Washington, D.C. 20548

April 28, 2006

The Honorable Robert W. Ney
Chairman
Subcommittee on Housing
and Community Opportunity
Committee on Financial Services
House of Representatives

Dear Mr. Chairman:

Annual appropriations for the Department of Housing and Urban Development's (HUD) Section 8 rental housing programs have grown significantly in recent years, climbing to nearly $21 billion in 2006.[1] Authorized by the Housing and Community Development Act of 1974 (P.L. 93-383), as amended, Section 8 currently comprises the Housing Choice Voucher (voucher) and project-based programs. While these programs are the federal government's primary tool for making rental housing units affordable to low-income households, they are not entitlements—that is, not all eligible households receive assistance. HUD and Congress have recently supported changes to the voucher program designed to limit further growth in appropriations without reducing the number of households that receive assistance. However, analysis of factors driving the growth in the budgetary costs of Section 8—which could assist in such efforts—has been limited, in part because HUD has not separately reported budget authority or outlays for each program.[2]

The voucher and project-based programs share the common mission of making housing affordable to low-income households by paying subsidies that make up the difference between a unit's rent and the household's payment, which is generally 30 percent of monthly income after adjustments. Despite their shared goals, the two programs operate differently. The voucher program, administered by state and local public housing agencies (PHA), provides vouchers that eligible households can use to rent houses or apartments in the private market. The subsidies in the

[1]Unless otherwise noted, all years cited in this report are federal fiscal years, which run from October 1 through September 30, and all dollars are nominal.

[2]Budget authority is enacted by law and gives federal agencies the legal authority to incur obligations. Outlays (i.e., payments that liquidate obligations), minus budget receipts, contribute to federal budget deficits or surpluses.

voucher program are tied to the household, rather than to any particular dwelling unit (i.e., they are tenant-based). In contrast to vouchers, the project-based program is administered by property owners who have agreed to rent specific dwelling units to eligible households. The subsidies in the project-based program are tied to the rental unit rather than to any specific tenant. Under both programs, the program administrators enter into contracts with HUD that specify the number of vouchers or units authorized to receive rental subsidies and the duration of the subsidy payments. For the voucher program, PHAs have flexibility to determine the maximum amount of rental subsidy they can pay for assisted households within limits set by HUD. For example, HUD establishes "fair market rents" for each geographic area, based on actual market rents for standard-quality rental units, but PHAs may choose a "payment standard" that is up to 10 percent lower or higher.

Each year, Congress appropriates budget authority to cover the cost of Section 8 contracts. HUD uses its budget authority to incur obligations (e.g., enter into contracts) that result in expenditures, or outlays, of federal funds. Unlike budget authority, outlays occur when payments are made and thus reflect the programs' actual annual cost of providing rental assistance. Originally, Section 8 contracts were written with 5- to 40-year terms, and Congress appropriated all of the budget authority needed to cover the projected costs of these contracts up front. Under this approach, further appropriations were generally not needed; HUD could make outlays to provide the subsidy in each year, using the budget authority already appropriated, until the contract expired. However, for expiring contracts that are renewed, appropriations of new budget authority are needed to cover the renewed contract term. Today, contracts are renewed and funded in 1-year increments for vouchers and either 1- or 5-year increments for the project-based program.

In response to your request, this report provides information on trends in the size and the cost of the Section 8 programs from 1998 through 2004 (the last year for which data were available at the time of our analysis). Specifically, the report discusses (1) the annual numbers of vouchers in the voucher program and units in the project-based program, (2) the annual new budget authority and outlays for each program, and (3) the factors that have affected outlays.[3] In addition, for the voucher program—the larger of the Section 8 programs and the focus of recent efforts to limit costs—the report discusses factors, such as changes in market rents, that have affected the annual average rental subsidy cost per household.

To determine the annual number of vouchers and project-based units and the annual amounts of new budget authority and outlays for each program, we obtained and analyzed data from HUD's budget office, annual budget requests and other budget documents, and audited financial statements. HUD's budget office was not able to report data on budget authority and outlays for the voucher and project-based programs separately. We estimated outlays using data from HUD's accounting systems, which showed the rental assistance payments paid to PHAs and property owners under each program from 1998 through 2004. Our report generally presents budget authority and outlay amounts in nominal dollars; amounts adjusted for inflation are shown in appendix IV. To identify the factors that have affected outlays, we analyzed data on rents and household incomes from HUD's administrative databases and reviewed reports by HUD, Congressional Budget Office (CBO), and Congressional Research Service (CRS). To assess the impact of different factors on the average rental subsidy cost per household for the voucher program, we developed a statistical model using data from HUD and the Census Bureau. Our model allowed us to estimate the effect of each of several variables—market rents, household incomes, household and neighborhood characteristics, and a measure of the relationship between program policies and market rents—on the average rental subsidy per voucher household while controlling for the effects of other variables. Because data on certain variables used in our statistical model were not available for 1998, our analysis of average rental subsidy costs in the voucher program covers the period from 1999 through 2004. We assessed the reliability of the data from HUD's accounting systems and administrative databases by reviewing related documentation and interviewing agency officials who work with the systems. In addition, we performed internal checks to determine the extent to which the data fields were populated and the reasonableness of

[3]We excluded the Section 8 Moderate Rehabilitation program from our analysis of units and outlays because, while it is a project-based program, it is administered differently and evolved independently from the other project-based programs. The program accounts for a small and declining portion of the overall project-based program (about 34,000 units as of 2004). We could not exclude the program from our analysis of budget authority because HUD's budget office was not able to break out budget authority by individual program. Information on the Moderate Rehabilitation program is included in appendix II.

the values contained in the fields. We concluded that the data were sufficiently reliable for the purposes of this report. To address all of the objectives, we interviewed officials from HUD's Offices of the Chief Financial Officer, Public and Indian Housing, Housing, and Policy Development and Research. We also met with CBO and CRS officials and representatives of various industry and research groups. We conducted our work in Washington, D.C., and Chicago, Illinois, from April 2005 through March 2006 in accordance with generally accepted government auditing standards. Appendix I provides additional details on our scope and methodology.

Results in Brief

Overall, the size of the Section 8 program—that is, the combined number of authorized vouchers and project-based units—increased annually, from 2.93 million in 1998 to 3.36 million in 2004, or 15 percent during the period. This growth resulted exclusively from the authorization of additional vouchers; the number of project-based units actually declined. Specifically, the number of authorized vouchers rose from about 1.60 million in 1998 to 2.09 million in 2004, a 31 percent increase. At the same time, the number of authorized project-based units fell from 1.33 million to 1.27 million, a 5 percent decrease, primarily because property owners and HUD decided not to renew some project-based contracts. HUD generally provided vouchers to households in project-based units for which contracts were not renewed so that these households could continue receiving rental assistance. These "tenant protection" vouchers, including those provided to households no longer receiving assistance under other HUD programs, accounted for 42 percent of the increase in the number of vouchers from 1998 through 2004.

Both annual new budget authority and outlays for the Section 8 programs increased significantly from 1998 through 2004. Appropriations of new budget authority grew from $9.4 billion to $19.3 billion (from $10.6 billion to $19.3 billion after adjusting for inflation). This new budget authority was primarily needed to renew expiring contracts covering 818,095 vouchers and 373,310 project-based units. Annual outlays rose from $14.8 billion to $22.2 billion (from $16.8 billion to $22.4 billion after adjusting for inflation). On an annual basis, total Section 8 outlays typically exceeded new budget authority appropriated during this period because HUD was making rental assistance payments under long-term contracts for which Congress had appropriated budget authority in previous years. Although HUD did not separately track outlays for the voucher and project-based programs during this period, we estimate that outlays for vouchers increased from $7.5 billion in 1998 to $14.5 billion in 2004, and accounted for nearly all of the growth in total Section 8 outlays. Outlays for the project-based program rose from an estimated $7.3 billion to $7.7 billion.

A number of policy decisions and market factors contributed to the growth in outlays for the voucher and project-based programs from 1998 through 2004. These include increases in the total number of assisted households, the average rental subsidy cost per household, and other program expenses. Specifically, about 43 percent of the growth in voucher outlays was the result of policy decisions that increased the number of assisted households—for example, the decision to offer tenant protection vouchers—while over half was the result of an increase in the average annual rental subsidy cost per voucher household from $4,420 to $6,262 (a 42 percent increase, or 25 percent after adjusting for inflation). In contrast, most of the growth in project-based outlays resulted from a 12-percent increase in the average annual rental subsidy per household ($5,305 to $5,948)—an increase that was partially offset by the declining number of project-based units. Congress and HUD have taken steps to limit further growth in the budgetary costs of the Section 8 programs. For example, in 2003, Congress authorized changes to the method for calculating the amounts of voucher funding in order to slow the growth in both new budget authority and outlays. In addition, for the project-based program, Congress and HUD continued steps begun in 1997 to reduce above-market rents at some properties and to limit annual rent increases.

On the basis of our statistical analysis of cost data for the voucher program, we found that three factors primarily accounted for the growth in the average annual rental subsidy per voucher household from 1999 through 2004:[4]

- Over one-half of the total increase was explained by changes in market rents.

- About one-quarter of the total increase was due to overall higher payment standards—that is, by PHAs' exercising their flexibility to increase the maximum amount of rental subsidy they can pay for assisted households.

[4]Our analysis covers the period from 1999 through 2004 because data on certain variables used in our statistical model were not available for 1998.

- About 16 percent of the increase was due to the fact that the incomes of assisted households grew modestly during this period and did not keep up with increases in market rents.

We also found that although household and neighborhood characteristics were important determinants of per household rental subsidies, on average, they did not vary enough from 1999 through 2004 to cause a substantial change in the average per household rental subsidy.

In written comments on a draft of this report, HUD suggested that the report include a description of its proposed legislation for reforming the voucher program and provide additional explanations of the differences between the average per household costs for the project-based and voucher programs. We revised our final report in response to HUD's comments where appropriate.

Background

Prior to the 1970s, the federal government made housing affordable to low- and moderate-income households by subsidizing the production of privately and government-owned properties with below-market interest rate mortgages, direct loans, and other development subsidies. Under these production programs, the rent subsidies were project based, and tenants received assistance only while living in the subsidized units. In the early 1970s, concerns were raised about the effectiveness of these programs: Many moderate-income tenants benefited from federal assistance, while lower-income families did not; federal costs for producing the housing exceeded the private sector costs to produce the same services; and allegations of waste surfaced. Interest in a more cost-effective approach led Congress to explore options for using existing housing to shelter low-income tenants. Section 8 of the Housing and Community Development Act of 1974, as amended, authorized programs that reflected both approaches—a tenant-based rental certificate program (now called the voucher program) for use in existing housing and a project-based program. The project-based program comprises multiple subprograms, including Section 8 New Construction/Substantial Rehabilitation, Loan Management Set-Aside, and Property Disposition. Appendix III contains detailed descriptions of these subprograms.

The voucher program provides vouchers to eligible households to rent houses or apartments in the private market from landlords who are willing to accept the vouchers. Voucher holders are responsible for finding suitable housing that complies with HUD's housing quality standards. The voucher program pays the difference between the lesser of the unit's gross rent or a local "payment standard," and the household's payment, which is generally 30 percent of monthly income, after certain adjustments.[5] To be eligible to apply for assistance, households must have very low incomes—less than or equal to 50 percent of area median income (AMI) as determined by HUD. Under the provisions of the Quality Housing and Work Responsibility Act of 1998 (P.L. 105-276), at least 75 percent of new participants in the voucher program must be households with extremely low incomes—at or below 30 percent of AMI.[6] Households already participating in the voucher program remain eligible for assistance as long as their incomes do not rise above 80 percent of AMI. The voucher program is administered by over 2,500 state and local PHAs that are responsible for inspecting dwelling units, ensuring that rents are reasonable, determining households' eligibility, calculating households' payments, and making payments to landlords. HUD provides funding to PHAs for administrative expenses as well as rental subsidies.

The project-based program subsidizes rents at properties whose owners have entered into contracts with HUD to make rents affordable to low-income households. Often these properties were financed with mortgages insured or subsidized by HUD or with bonds issued by state and local housing finance agencies. Property owners and managers are responsible for administering the program at about 22,000 properties nationwide. The project-based program operates much like the voucher program, paying the difference between a HUD-approved unit rent and the household's payment, which is generally equal to 30 percent of adjusted monthly income.[7] In general, only households with low incomes (i.e., at or below 80 percent of AMI) are eligible for assistance, and since 1998 at least 40 percent of new residents must have extremely low incomes. Private property owners and managers have requirements similar to those for PHAs for administering the project-based program—they must ensure that

[5]The payment standard is based on the HUD-determined fair market rent for the locality. HUD sets fair market rents generally equal to the 40th percentile of the market rents (including utilities) paid by recent movers for standard-quality units. PHAs may set local payment standards at 90 to 110 percent of the fair market rent for their area and, with HUD's approval, above 110 percent of the fair market rent.

[6]See 42 U.S.C. 1437n (b)(1).

[7]Under current HUD policies, as expiring contracts are renewed, HUD generally sets rents for project-based Section 8 units based on market rents for comparable units. These rents are adjusted annually using a HUD-determined operating cost factor.

households meet program eligibility requirements and must calculate households' payments. HUD pays rent subsidies directly to the property owners but does not pay them a separate administrative fee, as the owners' administrative costs are reflected in the HUD-approved rents. However, because of limited staff resources and the large number of project-based Section 8 contracts, HUD pays contract administrators (state and local PHAs) administrative fees to oversee most of the contracts, a task that requires processing monthly payment vouchers, reviewing property owners' tenant information files, and addressing health and safety issues.

Each year, Congress appropriates budget authority to cover the costs of new Section 8 contracts, renewals of expiring contracts, amendments to existing project-based contracts, and administrative fees.[8] For the period covered by our review (1998 through 2004), Congress appropriated funds for the Section 8 programs in HUD's Housing Certificate Fund account.[9] Over time, Congress has changed the way it funds the Section 8 programs. From 1974 to 1983, Congress made large up-front appropriations to cover the projected costs of multiyear Section 8 contracts. Initially, voucher contracts were written for 5 years and were renewable, at HUD's discretion, for up to 15 years, while the terms for project-based contracts ranged from 15 to 40 years. When these initial contracts began to expire in 1989, HUD required new budget authority to renew them. Owing to budget constraints, Congress funded Section 8 contracts with amounts that led to shorter contract terms. HUD initially renewed expiring contracts generally for 5-year terms but starting in the mid-1990s switched to 1-year terms for the voucher program and either 1- or 5-year terms for the project-based program.

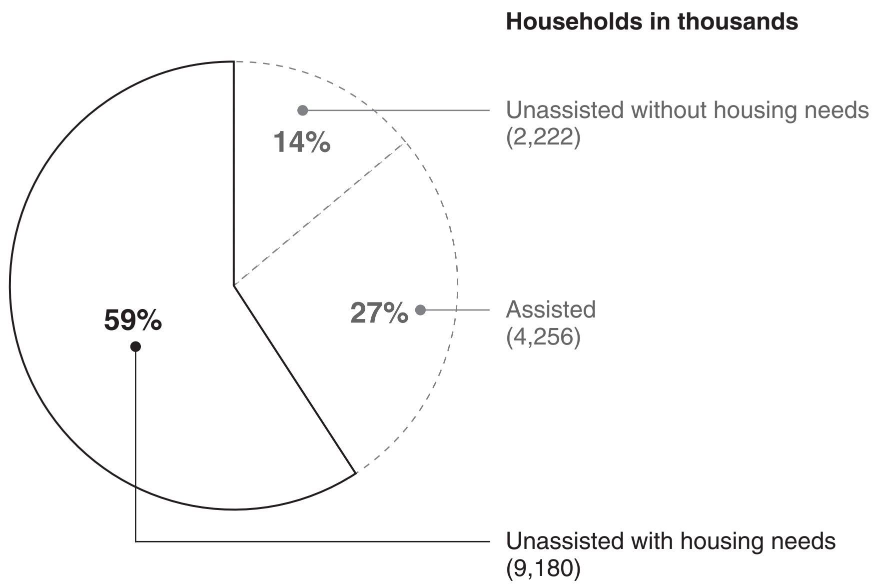
The Section 8 programs are not entitlements, and as a result, the amount of budget authority HUD requests and Congress provides through the annual appropriations process limits the number of households that Section 8 can assist. Historically, appropriations for the Section 8 programs (as well as for other federal housing programs) have not been sufficient to assist all

[8]Amendments fund existing project-based Section 8 contracts that have depleted their budget authority before the end of the contract term. HUD does not amend voucher contracts.

[9]Prior to this account, funds for Section 8 were appropriated in the Annual Contributions for Assisted Housing account. Beginning in 2005, Congress directed the agency to create two new Section 8 budget accounts—a tenant-based account and a project-based account. New budget authority is appropriated into these two accounts.

households that HUD has identified as having housing needs—that is, households with very low incomes that pay more than 30 percent of their income for housing, live in substandard housing, or both. According to HUD data for calendar year 2003, Section 8 and other federal housing programs assisted an estimated 4.3 million households, or 27 percent of all renter households with very low incomes (see fig. 1).[10] HUD estimated that over 9 million very low income households (about 59 percent) did not receive assistance and had housing needs. Of these 9 million households with housing needs, over 5 million had what HUD terms "worst case" needs—that is, they paid over half of their income in rent, lived in severely substandard housing, or both.

Figure 1: About 59 Percent of Very-Low Income Renter Households Did Not Receive Housing Assistance and Had Housing Needs in 2003



Source: HUD.

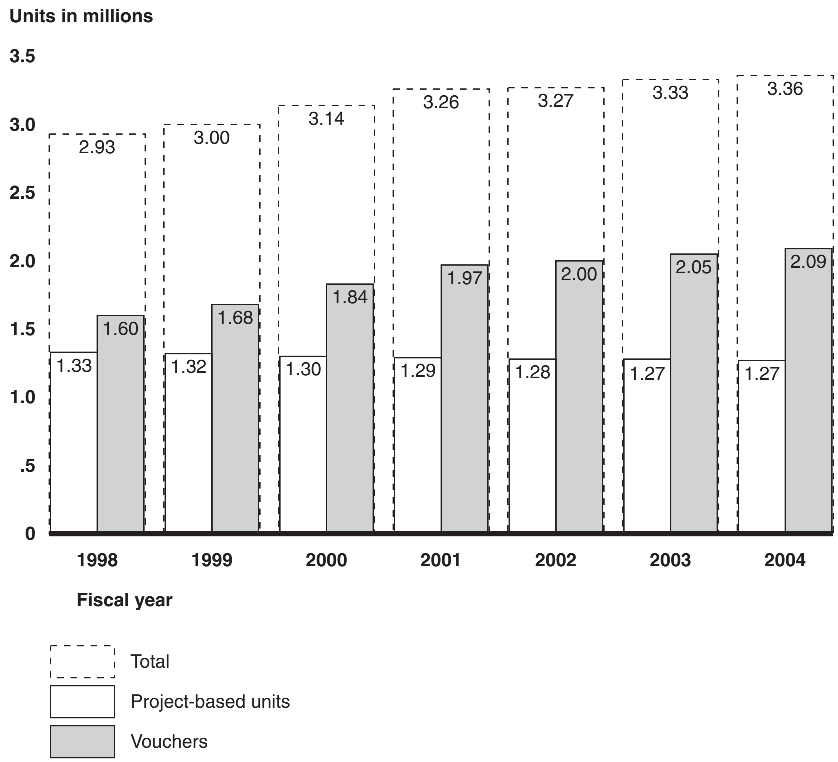
Note: Total = 15.7 million households that rented and had very low incomes.

[10]U.S. Department of Housing and Urban Development, Office of Policy Development and Research, *Affordable Housing Needs: A Report to Congress on the Significant Need for Housing* (Washington, D.C.: December 2005).

Increases in the Number of Vouchers Drove Growth in the Size of Section 8 from 1998 through 2004

The combined number of authorized vouchers and project-based units grew from about 2.93 million to 3.36 million from 1998 through 2004—an overall increase of about 15 percent and an average annual increase of about 2 percent (see fig. 2). Most of this increase occurred from 1998 to 2001, when about 327,000 vouchers were added. However, as figure 2 shows, this overall trend masked a difference in the trends for the individual programs: The number of vouchers grew by 31 percent during this period, while the number of project-based units declined by 5 percent.

Figure 2: The Total Number of Authorized Section 8 Vouchers and Units Increased from 1998 through 2004



Source: HUD.

Note: Totals may not add because of rounding.

It is important to note that at any given time the actual number of households assisted with Section 8 programs is likely to be less than the number of authorized vouchers and project-based units, because some authorized vouchers and units may not be in use. For example, vouchers may go unused because households may not be able to find units that meet the program's affordability requirements and quality standards. (As discussed subsequently in this report, the extent to which authorized vouchers are actually used to rent units—and thus incur subsidy costs—is called the voucher utilization rate.) Project-based units may not be in use during the period when landlords are seeking new occupants for units that have been vacated.

The Number of Vouchers Increased by 31 Percent

From 1998 through 2004, the number of authorized vouchers grew from about 1.60 million to almost 2.09 million, an increase of 490,944 vouchers (see fig. 2). This increase represents an average annual growth rate of almost 5 percent. The new vouchers were composed of both "incremental vouchers" and tenant protection vouchers. Incremental vouchers are those that resulted from Congress' decision to expand the program to serve more households. Notices published in the *Federal Register* and HUD data indicate that the agency awarded 276,981 incremental vouchers and 205,853 tenant protection vouchers from 1998 through 2004 (see table 1).

Incremental vouchers consist of three major types: fair share, welfare-to-work, and special purpose. Fair share vouchers are those that HUD allocates to PHAs on a competitive basis using a formula that accounts for poverty rates, renter populations, vacancies, overcrowding, and other measures, in each county and independent city throughout the country. Welfare-to-work vouchers are designated for households for which a lack of stable, affordable housing is a barrier to employment and that are making the transition to economic self-sufficiency.[11] Finally, special purpose vouchers include those designated for a variety of special needs populations, such as persons with disabilities. Fair share vouchers accounted for about 56 percent of the total, while welfare-to-work and special purpose vouchers represented 18 percent and 26 percent, respectively.

From 1998 through 2002, Congress provided new funding each year for a large number of incremental vouchers to help address the unmet housing

[11]HUD awarded approximately 50,000 additional vouchers to PHAs through the Welfare-to-Work program demonstration in 1999. While HUD continued to renew the vouchers issued in 1999, no new welfare-to-work vouchers have been awarded since that time. HUD began phasing out the demonstration program in March 2004.

needs of very low-income households, and fair share vouchers were the key type of incremental vouchers used to increase the number of assisted households. Starting in 2003, Congress provided no new funding for fair share vouchers, but did provide new funding for a smaller number of special purpose vouchers. By 2004, however, no new funding was provided for any type of incremental voucher.

Unlike incremental vouchers, tenant protection vouchers do not add to the total number of authorized units under Section 8 (and other HUD programs for which they are used) because they replace one form of HUD assistance with another. Tenant protection vouchers are offered to eligible households that had received housing assistance under various HUD programs (including the project-based program, certain HUD mortgage insurance programs, and public housing) before the assistance was terminated. As part of its annual budget request, HUD estimates the number of tenant protection vouchers it will need and the amount of funding required for these vouchers. As table 1 shows, the number of tenant protection vouchers awarded from 1998 through 2004 remained relatively stable, from a low of 22,839 in 2002 to a high of 36,000 in 2001.

Table 1: Number of New Vouchers Awarded by Major Voucher Type, 1998-2004

	Year							
Voucher type	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**Total**
Incremental	32,358	52,540	76,934	90,493	22,856	1,800	0	**276,981**
Fair share	0	0	60,801	78,475	16,460	0	0	**155,736**
Welfare-to-work	0	50,000	0	0	0	0	0	**50,000**
Special purpose[a]	32,358	2,540	16,133	12,018	6,396	1,800	0	**71,245**
Tenant protection	27,736	29,158	29,333	36,000	22,839	26,787	34,000	**205,853**
Subtotal								**482,834**
Unknown[b]								**8,110**
Total	**60,094**	**81,698**	**106,267**	**126,493**	**45,695**	**28,587**	**34,000**	**490,944**

Source: GAO analysis of HUD data.

[a]Special purpose vouchers include Mainstream vouchers, which are targeted to persons with disabilities, and other smaller voucher subprograms.

[b]For 8,110 vouchers, or about 2 percent of the total, data indicating voucher type were not available.

The Number of Project-Based Units Declined by 5 Percent

The number of authorized project-based units fell from 1.33 million to 1.27 million, a decline of approximately 62,000 units (see fig. 2). This represented an average annual decrease of less than 1 percent. The number of project-based Section 8 units declined primarily because either property owners or HUD decided not to renew Section 8 contracts. Owners may choose not to renew their contracts and to opt out of the program for a variety of reasons, including plans to convert the properties to market-rate rental units. HUD may decide not to renew some contracts if property owners have not complied with program requirements, such as maintaining the property in decent, safe, and sanitary condition.

If a property owner or HUD decides not to renew a project-based Section 8 contract, the property is no longer required to comply with program rules, including affordability requirements. To protect Section 8 households from rent increases that may result when owners opt out of their contracts, HUD provides a special type of tenant protection voucher known as an enhanced voucher. Enhanced vouchers are designed to ensure that tenants can afford to remain in the properties that are no longer receiving project-based Section 8 assistance—even if the rents for these units exceed those for the regular voucher program (such vouchers are considered enhanced because they allow these higher subsidies). If HUD terminates a project-based Section 8 contract, the agency usually provides affected families with regular vouchers to allow them to find other housing. The substitution of tenant protection vouchers for subsidies previously paid for project-based units has helped minimize the net loss of Section 8 units.

Section 8 New Budget Authority Increased at a Faster Rate than Outlays from 1998 through 2004

Although both budget authority and outlays for the Section 8 programs increased significantly from 1998 through 2004, the rates of growth differed. Appropriations of new budget authority grew more than twofold during this period (105 percent), partly because HUD needed more budget authority to cover the cost of renewing long-term contracts that began to expire in 1989. In comparison, from 1998 through 2004 total Section 8 outlays rose at a slower rate (50 percent). However, this increase masks substantial differences in the rates of growth for the individual Section 8 programs. Although HUD did not separately track outlays for the voucher and project-based programs during this period, we estimate that outlays increased by 93 percent for the voucher program and by 6 percent for the project-based program.

Renewal of an Increasing Number of Expiring Contracts Contributed to Much of the Growth in Budget Authority

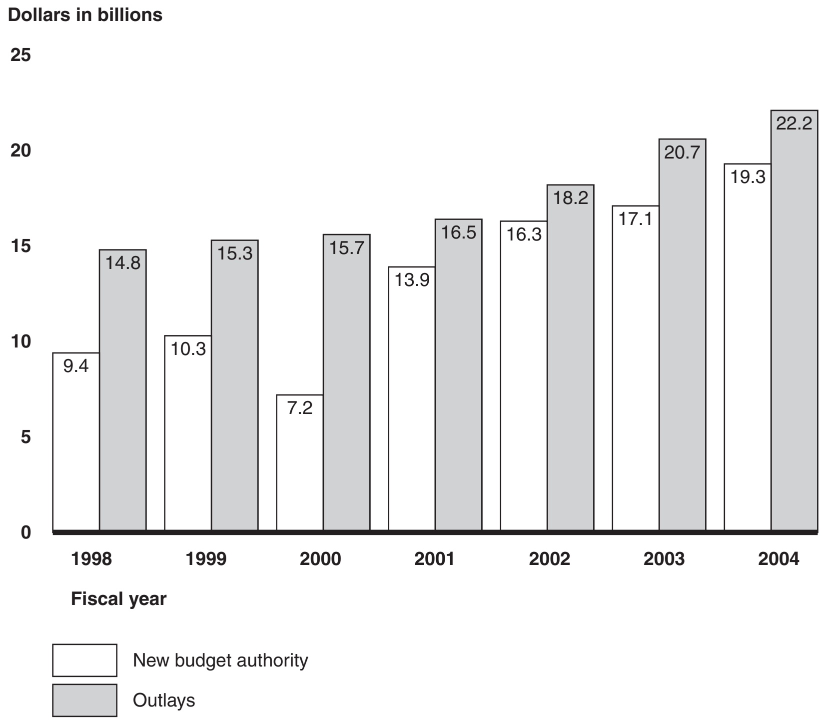
Appropriations of new budget authority for Section 8 grew from $9.4 billion in 1998 to $19.3 billion in 2004, an overall increase of about 105 percent and an average annual rate of 13 percent (see fig. 3). During 2001, new budget authority grew by 22 percent, the largest single-year increase during this period.[12] For the other years, the annual increase in new budget authority ranged from 10 to 17 percent. Over the same period, new budget authority for Section 8 accounted for an increasing share of HUD's total annual appropriations, growing from 41 percent in 1998 to 54 percent in 2004.[13] Part of the growth reflects the effects of inflation. After adjusting for inflation, new budget authority rose from $10.6 billion in 1998 to $19.3 billion in 2004 (82 percent).[14] Appendix IV contains detailed information on budgetary costs in nominal and inflation-adjusted dollars.

[12]We adjusted the percent growth in new budget authority from 2000 to 2001 to include the $4.2 billion advance appropriation in 2000. Without the adjustment, new budget authority increased by 94 percent.

[13]To calculate these percentages, we divided total budget authority for Section 8 by the total gross discretionary budget authority for the entire agency.

[14]We used the gross domestic product (GDP) price index to adjust for inflation and 2004 as the reference year.

Figure 3: New Budget Authority for Section 8 More than Doubled from 1998 through 2004, while Outlays Grew by 50 Percent



Source: HUD budget data.

Notes:

Because HUD does not report budget authority separately by subprograms, we were unable to exclude the Moderate Rehabilitation program from budget authority.

New budget authority dropped in 2000 because it did not include a $4.2 billion advance appropriation that was contained in the 2000 appropriations but was not available for obligation until 2001.

New budget authority reflects across-the-board reductions by Congress in 2001 (0.22 percent), 2003 (0.65 percent), and 2004 (0.59 percent).

Outlays for the Section 8 programs are based on our estimate of outlays for rental assistance payments and certain administrative expenses under the voucher and project-based programs only. The Moderate Rehabilitation program, for example, is not included in our estimate of outlays.

We adjusted outlays for 1999 to include an advance payment of $680 million that was made in 1998 for the 1999 voucher program and reduced outlays for 1998 by the same amount.

HUD did not separately track budget authority for the voucher and project-based programs for the period covered by our analysis. HUD budget officials told us they had no need to do so because Congress funded both programs under a single budget account, the Housing Certificate Fund. However, to provide better transparency and strengthen oversight of the programs, Congress directed HUD to create two new budget accounts—Tenant-Based Rental Assistance and Project-Based Rental Assistance—for all new Section 8 appropriations.[15] Beginning with its 2006 budget, HUD has provided separate information for each program.

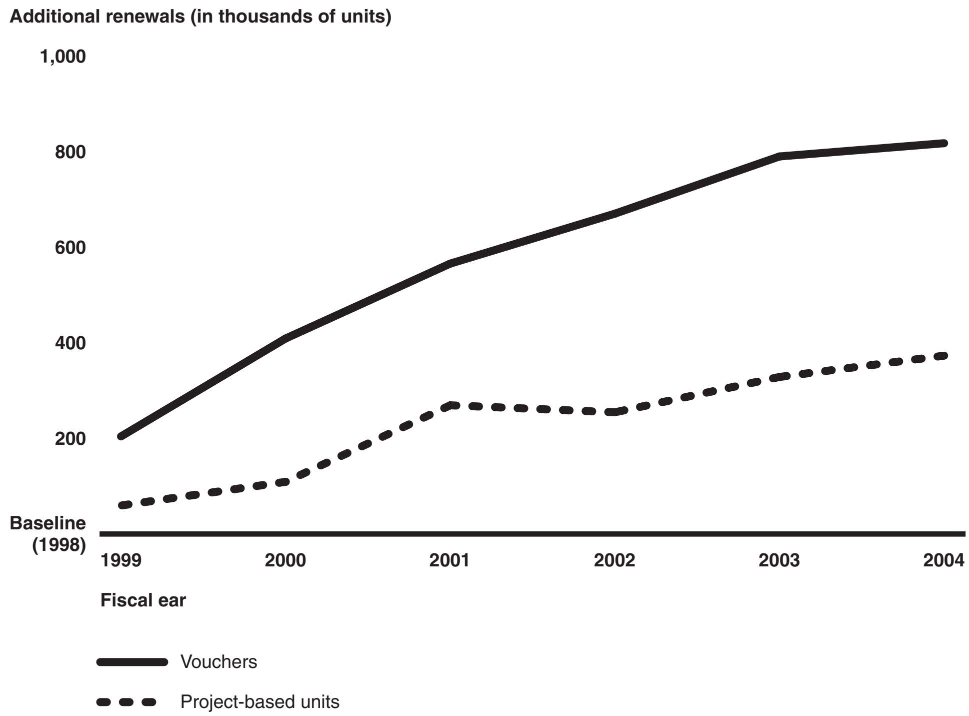
The substantial growth in new budget authority stemmed primarily from decisions to renew expiring long-term Section 8 contracts. From 1974 to 1983, Congress made large up-front appropriations to cover the projected costs of multiyear Section 8 contracts that were written in those years. Because Congress and HUD funded these long-term contracts up front, they generally did not require new budget authority during the years specified in the contracts.[16] During the early to mid-1990s, large numbers of these long-term contracts reached the end of their terms. Decisions to renew the contracts created the need for new budget authority. As figure 4 shows, the trend in the numbers of expiring contracts continued from 1998 through 2004. Specifically, the number of project-based units with expiring contracts that were renewed grew significantly—by 373,310 units from 1998 through 2004. (As noted previously, because some project-based contracts were not renewed, the total number of authorized project-based units declined during this period—even as the number needing new budget authority grew.) Additional new budget authority was required each year to cover the renewal of 818,095 vouchers from 1998 through 2004.[17]

[15]U.S. House of Representatives, Committee on Appropriations, *Committee Report on the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Bill, 2005*, Rpt. 108-674 (Washington, D.C.: 2005).

[16]For some contracts, insufficient budget authority was appropriated to cover the costs of rental assistance before the contract expired. As a result, Congress appropriated additional budget authority to fund contract amendments.

[17]Despite these increases, budget authority for rental assistance programs was still lower from 1998 through 2004 than from 1977 through 1981, when Congress appropriated around $30 billion annually (in nominal dollars).

Figure 4: Renewals of Expiring Vouchers and Project-Based Units Have Grown Significantly since 1998



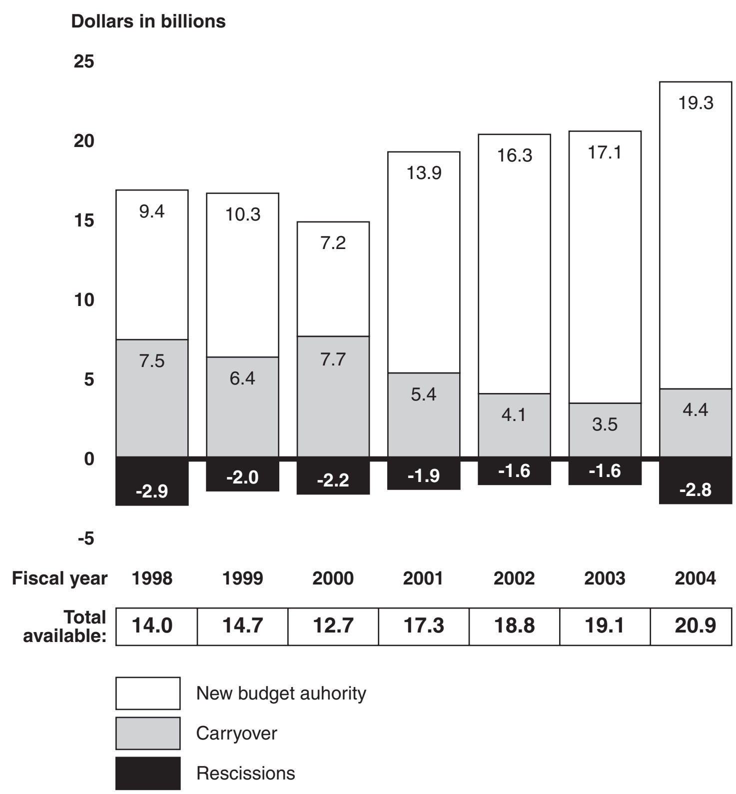
Source: HUD budget data.

A factor also contributing to the need for new budget authority was a declining amount of "carryover" budget authority. Carryover consists of unobligated budget authority (not yet committed to specific contracts), including funds that have been "recovered" (de-obligated from expired contracts that did not need all of the budget authority that had been obligated for them). Congress may rescind any portion of such unused budget authority and in fact enacted rescissions in the Section 8 program during each of the years we examined.[18] Total budget authority available to renew Section 8 contracts in any year thus consists of both the carryover, net of rescissions, as well as new budget authority, and represents all of the funds available to HUD for future obligations and outlays.

[18] A rescission is legislation enacted by Congress that cancels budgetary authority that has already been provided before that authority would otherwise lapse.

Typically, HUD has had large amounts of carryover funds in the Section 8 programs, and these carryover funds have helped offset the need for new budget authority. However, as shown in figure 5, the carryover amounts generally declined during the period we examined. For example, about $7.5 billion in carryover funds in 1998 lessened the need for new appropriations of budget authority in that year, whereas the decline in carryover funds in later years increased the need for new appropriations. Partly because of declining carryover amounts during this period, total available budget authority grew at a slower rate than new budget authority. More specifically, total available budget authority grew from $14.0 billion to $20.9 billion over this period (fig. 5), an average annual rate of about 7 percent. Congress rescinded between $1.6 billion and $2.9 billion each year during the period.

Figure 5: Total Available Budget Authority for Section 8 Grew, although Carryover Declined from 1998 through 2004



Source: HUD budget data.

Notes:

Total available budget authority may not add because of rounding.

New budget authority dropped in 2000 because it did not include a $4.2 billion advance appropriation that was contained in the 2000 appropriations but was not available for obligation until 2001.

Appendix IV provides detailed information on total available budget authority in inflation-adjusted dollars.

Total Section 8 Outlays Grew by 50 Percent

As figure 3 shows, annual outlays for Section 8 programs grew from $14.8 billion in 1998 to $22.2 billion in 2004, an overall increase of about 50 percent and an average annual increase of 7 percent.[19] About 78 percent of this growth occurred from 2002 to 2004, with 2003 representing the largest annual increase ($2.5 billion). Despite this growth, total Section 8 outlays accounted for a relatively stable share of HUD's total outlays over this period, ranging from 45 percent in 1998 to 52 percent in 2004.[20]

Outlays for Section 8 generally exceeded new budget authority for the program each year from 1998 through 2004 (see fig. 3). This pattern resulted primarily from the way the program was originally funded. As noted previously, initial Section 8 contracts generally had long terms and received large up-front appropriations of budget authority to cover their projected costs. As a result, HUD has for many years—including the 1998 through 2004 period—made outlays for contracts that have not required new budget authority. During this period, the gap between outlays and new budget authority narrowed as the number of expiring vouchers and project-based units that required new budget authority grew and were renewed on an annual basis. If all Section 8 contracts had reached the end of their multiyear terms and were renewed annually, new budget authority requirements would more closely approximate the expected annual outlays.

[19]After adjusting for inflation, total outlays for Section 8 increased from $16.8 billion in 1998 to $22.4 billion in 2004, an increase of 33 percent.

[20]To calculate these percentages, we divided outlays for both the voucher and project-based programs by total gross discretionary outlays for the entire agency.

Estimated Outlays for Vouchers Rose by 93 Percent, while Those for the Project-Based Program Remained Relatively Stable

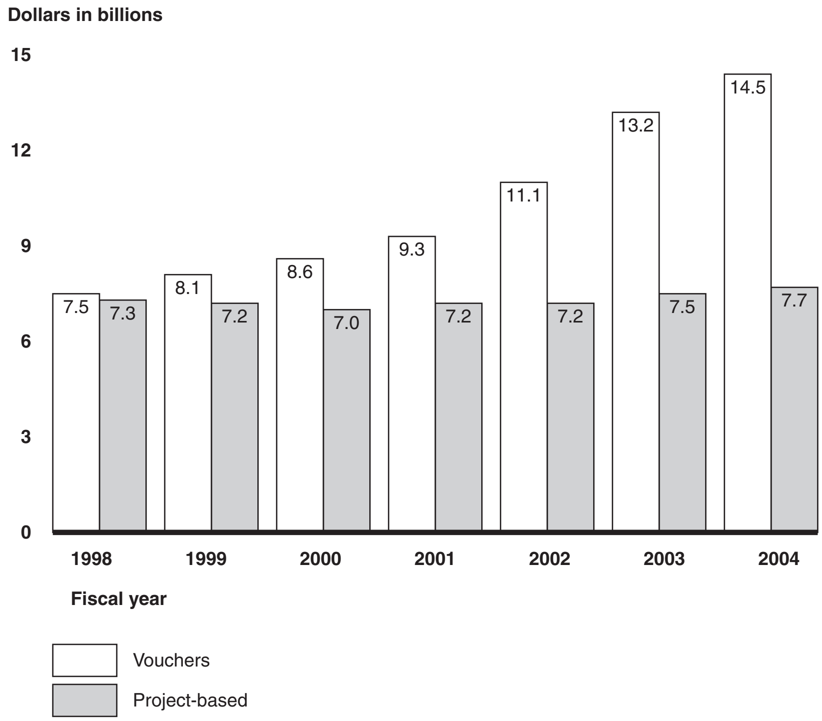
Since HUD did not separately track outlays for the voucher and project-based programs (for the same reasons it did not do so for budget authority), we developed our own estimates of outlays for both programs based on data from the accounting systems HUD uses to record Section 8 rental subsidy payments.[21] On the basis of these data, we estimated that from 1998 though 2004:

- Outlays for the voucher program rose from $7.5 billion to $14.5 billion (fig. 6)—an overall increase of 93 percent and an average annual rate of increase of 12 percent. The largest annual increases—approximately 20 percent—occurred both in 2002 and 2003. About 56 percent of the total increase in outlays also occurred in these 2 years. As discussed in more detail in a subsequent section of this report, the growth in voucher program outlays resulted in large part from increases in the average rental subsidy per household and decisions by Congress to expand the number of vouchers.

- In contrast, outlays for the project-based program remained relatively stable, rising from $7.3 billion to $7.7 billion, or about 6 percent from 1998 through 2004—an average annual rate of about 1 percent.

[21]We analyzed data from HUD's Program Accounting System, which contained payment information for project-based Section 8 contracts, and HUD Central Accounting and Program System, which contained payment information for both a limited number of project-based Section 8 contracts and all voucher contracts. The estimated total outlays for the Section 8 programs cited in this report are also based on data from these systems.

Figure 6: Estimated Outlays Grew Faster for Vouchers than for the Project-Based Program from 1998 through 2004



Source: HUD budget data.

Note: We adjusted voucher outlays for 1999 to include an advance payment of $680 million that was made in 1998 and reduced voucher outlays for 1998 by the same amount.

Because of its much faster rate of growth, the voucher program accounted for nearly all of the growth in total Section 8 outlays from 1998 through 2004. Specifically, the program accounted for about $7.0 billion (94 percent) of the $7.4 billion increase in total Section 8 outlays during this period. In contrast, the project-based program accounted for only $419 million (6 percent) of the overall increase in total Section 8 outlays. In 1998, the voucher and project-based programs each represented about half of the total outlays for the Section 8 programs. In a relatively short time span, voucher outlays surpassed those for the project-based program by a significant margin, and by 2004 the voucher program was responsible for about 65 percent of total Section 8 outlays.

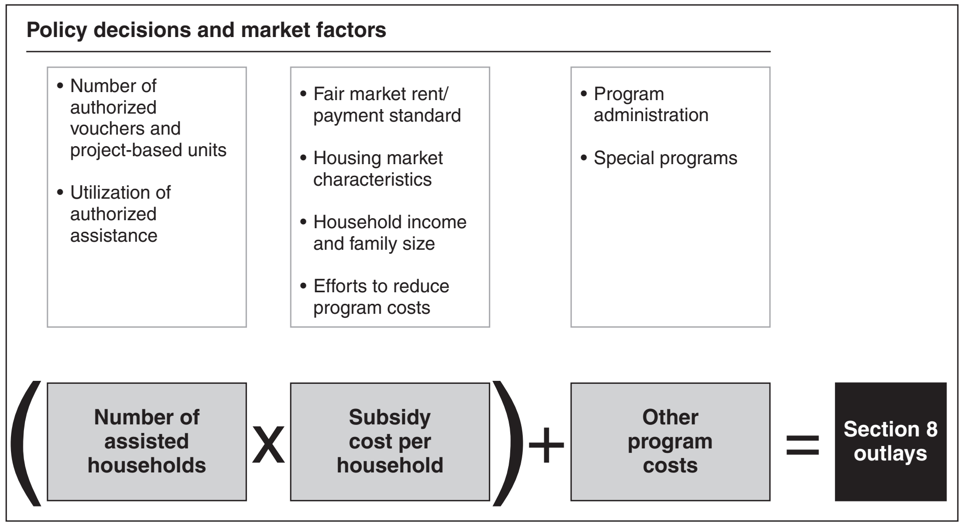
Outlays for the project-based program increased at a rate slower than inflation from 1998 through 2004. Specifically, after adjusting for inflation, outlays dropped from $8.3 billion to $7.8 billion, a decrease of 6 percent. The growth in voucher outlays, however, significantly outpaced the rate of inflation, increasing from $8.5 billion to $14.6 billion (71 percent) in inflation-adjusted dollars.[22] Additional information on outlays in nominal and inflation-adjusted dollars appears in appendix IV.

Policy Decisions and Market Factors Drove Increases in Section 8 Outlays, but HUD and Congress Have Acted to Limit Further Growth

A number of policy decisions and market factors contributed to the growth in total Section 8 outlays from 1998 through 2004, including decisions to expand the number of households receiving vouchers, increases in the average rental subsidy per household, and other program costs. Figure 7 shows the general relationship between these policy decisions and market factors and Section 8 outlays. Although these factors also affected budget authority, our analysis focuses on outlays because, unlike budget authority, outlays occur when payments are made and thus reflect the actual annual cost of providing rental assistance. Congress and HUD have taken steps to limit further growth in Section 8 program costs—for example, by changing the program's funding formula for vouchers.

[22]Outlays for 2004 in inflation-adjusted dollars differ from those in nominal dollars because any payment made in the first three quarters of 2004 has been adjusted to reflect inflation occurring prior to the last quarter.

Figure 7: Factors Affecting Section 8 Outlays



Source: GAO.

Policies to Expand the Number of Assisted Households Resulted in an Increase in Voucher Outlays, while the Declining Number of Units Limited Growth in Project-Based Outlays

Decisions to increase the number of households receiving vouchers were a significant driver of growth in voucher outlays from 1998 through 2004. As noted previously, between 1998 and 2004 Congress authorized funding for a total of 490,944 incremental and tenant protection vouchers. This trend, coupled with a rise in the percentage of authorized vouchers in use (the utilization rate) that started in 2001, increased the number of assisted households and, in turn, the amount of outlays for vouchers. We estimate that about $3.0 billion (43 percent) of the increase in voucher outlays from 1998 through 2004 was attributable to the additional assisted households resulting from the authorization of new vouchers and higher utilization rates (table 2).[23]

Certain policy changes were designed to increase average voucher utilization rates. For example, starting in 2002, PHAs that applied for fair share vouchers had to maintain utilization rates of at least 97 percent to be eligible to receive them. Also, according to HUD, Congress' decision in

[23]We estimated this amount by multiplying the number of new vouchers authorized from 1998 through 2004 (490,944) by the percentage of authorized vouchers in use in 2004 (98.5 percent). We then multiplied the result by the average per household subsidy in 2004 ($6,262).

2003 to limit the funding basis for voucher contracts to only vouchers that were actually in use effectively encouraged PHAs to increase their utilization rates in order to receive more funding.

Table 2: Estimated Impact of Policy Decisions and Other Factors on the Change in Outlays for the Voucher and Project-Based Programs from 1998 through 2004

Dollars in millions

	Estimated change in outlays	
Factors	**Vouchers**	**Project-based**
Change in the number of assisted households/units	$3,028	-$367[a]
Change in rental subsidy per household[b]	3,569	616
Change in administrative costs[c]	368	170
Total	**$6,966**	**$419**

Source: GAO analysis of HUD data.

[a]This amount represents the estimated outlays that did not occur in 2004 because the number of project-based units declined. This amount partially offset the increase in outlays caused by growth in the average rental subsidy per household. Taken together, these two factors produced a net increase of $250 million (-$367 million plus $616 million) in outlays, or about 60 percent of the total change in outlays for the project-based program.

[b]For each program, these amounts were derived by taking the difference between the (1) change in total program outlays for this period and (2) individual changes in program outlays due to the other two factors.

[c]These amounts comprise actual increases in the administrative fee for vouchers and the cost of Performance-Based Contract Administrators for the project-based program. Limitations in the data did not allow us to identify other program costs.

Using the average annual household subsidy in 2004 for the project-based program ($5,948), we estimate that the decline of about 62,000 units reduced project-based outlays by roughly $367 million (see table 2). However, this decrease was more than offset by the other factors, leading to an overall increase of $419 million.

Although the decline in the number of project-based units caused outlays for the project-based program to be less than they would have been otherwise, its effect on total Section 8 outlays was offset to a large degree by the issuance of tenant protection vouchers to households displaced from their project-based units. As noted previously, under the project-based program (or other HUD programs), tenants in units receiving assistance that is terminated (e.g., because the unit owner decides not to renew an expiring contract) may face higher rental payments. To protect these tenants from potentially unaffordable rent increases and continue providing assistance, Congress made tenant protection vouchers available. In effect, outlays from the project-based program were shifted to the voucher program, although not on a one-for-one basis because the per household subsidy costs were different for project-based units and vouchers.[24]

Increases in the Average Rental Subsidy per Household Contributed to Higher Outlays for Both Programs

Increases in the average rental subsidy per household also contributed to the growth in outlays for the voucher and project-based programs, although the average subsidy increased more for vouchers than for project-based programs.[25] As figure 8 shows, the average subsidy for vouchers grew from $4,420 to $6,262 from 1998 through 2004, an overall increase of 42 percent.[26] The annual rate of increase in the average per household subsidy for vouchers was 6 percent during the period, ranging from a low of 1 percent in 1999 to a high of 11 percent in both 2002 and 2003. The high rate of growth in 2002 and 2003 coincided with the largest yearly increases in voucher outlays (see fig. 6). For 2004, the annual rate of increase slowed to over 2 percent after several years of substantial growth. The growth in the number of enhanced vouchers, which, as previously noted, allows for higher subsidies, may have contributed to the overall increase. As described in table 2, an estimated $3.6 billion (51 percent) of the increase in voucher outlays was due to growth in the average rental subsidy per household.[27]

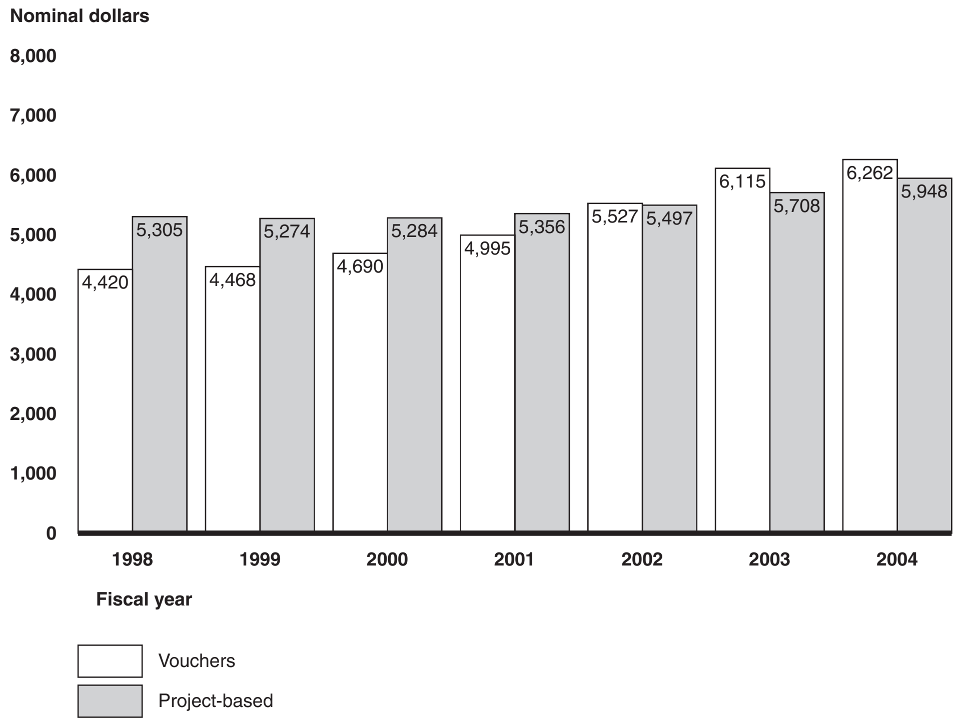
[24]Since HUD did not maintain separate outlay data for tenant protection vouchers for the entire period of our analysis, we could not estimate the impact of this shift on total Section 8 outlays.

[25]The data for this analysis were based on extracts taken in each December from 1998 through 2004. For each year, the data contained household and rent information that were updated throughout the calendar year. We multiplied all figures by 12 to annualize them. These per household costs exclude administrative fees.

[26]After adjusting for inflation, the average rental subsidy per voucher household rose from $5,031 to $6,313, an increase of 25 percent over this period. The average for 2004 ($6,313) in inflation-adjusted dollars differs from the average in nominal dollars ($6,262) because subsidies from the first three quarters of 2004 have been adjusted to reflect inflation occurring prior to the last quarter.

[27]We estimated this amount by subtracting the increase in voucher outlays due to (1) the change in the number of assisted households ($3,028 million) and (2) the change in administrative costs ($368 million) from the total increase in outlays ($6,966 million).

Figure 8: The Average Annual Rental Subsidy per Household Grew by 42 Percent for Vouchers and 12 Percent for the Project-Based Program from 1998 through 2004



Source: HUD data from the Public and Indian Housing Information Center (PIC) and the Tenant Rental Assistance Certification System (TRACS), 1998-2004.

Note: These averages do not include an administrative fee for vouchers or the cost of Section 8 contract oversight for the project-based program. However, the costs to property owners for administering the project-based program, which are reflected in the units' rents, are accounted for in these averages.

In comparison, the average rental subsidy per household for the project-based program grew more modestly during the period—from $5,305 to $5,948, an overall increase of 12 percent and an average annual increase of 2 percent.[28] The annual rate of increase in average per household subsidy did not exceed 1 percent from 1998 through 2001 and remained at less than 4 percent from 2002 through 2004. As described in table 2, we estimate that this raised outlays for the project-based program

[28]After adjusting for inflation, the average subsidy per project-based household fell from $6,038 to $5,990, a decrease of 1 percent.

by about $616 million.[29] The decline in the number of project-based units partially offset this increase in program outlays, however.

As figure 8 shows, during the period we examined, the per household subsidy in the voucher program was initially less than the project-based per household subsidy but then became greater. However, this trend does not mean that the project-based program has become more cost-effective. Any comparison of the cost-effectiveness of these programs should account for all subsidies received during the properties' life cycles, adjusted for any differences in unit and household characteristics, such as the number of bedrooms and family size.[30] For example, the average project-based subsidy per household during the period we examined did not account for the effects of past subsidies or for potential future subsidies that may be needed to maintain properties in the program. Similarly, it is important to note that the nationwide trends we present do not reflect the considerable variation that exists across local rental housing markets. That is, even during the period we examined, in some markets the per household subsidy for vouchers may have remained below that for the project-based program.

For both the voucher and project-based programs, many policy decisions and market factors influenced the average per household rental subsidy, such as HUD's fair market rent (FMR) determinations, housing market conditions, household incomes, and policies for limiting the cost of rental assistance. More detailed information on the trend in the average rental subsidy per household and the specific impact of these factors on per household rental subsidies for vouchers are discussed in a subsequent section of this report.

[29] We estimated this amount by subtracting the increase in project-based outlays due to (1) the change in the number of assisted units ($-367 million) and (2) the change in administrative costs ($170 million) from the total increase in outlays ($419 million).

[30] In a 2002 report, we estimated the costs of vouchers relative to housing programs that were actively developing low-income housing at the time. Since Section 8's project-based program no longer developed new housing, it was not part of the scope of our report. Nonetheless, we estimated that the average 30-year federal cost of the production programs was from 16 percent to 43 percent more than the costs for vouchers. See GAO, *Federal Housing Assistance: Comparing the Characteristics and Costs of Housing Programs*, GAO-02-76 (Washington, D.C.: Jan. 31, 2002). Other studies have also found that vouchers cost less than other housing programs. For a listing of these studies, see HUD, *Targeting Rental Production Subsidies—Literature Review* (Washington, D.C.: December 2003).

Administrative and Special Program Costs Contributed Modestly to the Increase in Outlays for Both Programs

Other costs for program administration and special programs contributed to the change in outlays for the voucher and project-based program, although to a lesser extent than the other factors (see table 2). More specifically, according to data from HUD's accounting systems, administrative costs for vouchers increased by about $368 million from 1998 through 2004. Although complete data on administrative costs for the project-based program were not available, a major administrative expense was HUD's Performance-Based Contract Administrator initiative, which started in 2000. This initiative, intended to augment HUD's oversight of project-based Section 8 contracts, added $170 million in outlays from 1998 through 2004.

According to HUD, outlays for special programs increased but were relatively small during the period covered by our analysis. There have been multiple special programs, including the Family Self-Sufficiency program, which paid for service coordinators to help participating families achieve economic independence. The Family Self-Sufficiency program accounted for about $50 million in outlays in 2004. Since detailed data on the outlays for special programs were not readily available for this period, we were unable to comprehensively estimate their impact on outlays.

HUD and Congress Have Taken Steps to Limit Growth in the Cost of Both Programs

HUD has implemented measures to limit increases in the cost of the Section 8 programs. For example, as noted previously, in 2003 Congress authorized changes to HUD's policies for funding vouchers to slow the growth in new budget authority and, in turn, outlays. Before 2003, Congress appropriated budget authority using a unit-based approach that covered all vouchers authorized in each contract, whether or not all of the vouchers had been utilized. Concerned that appropriations were exceeding actual program needs, Congress changed the formula for funding voucher contracts to a dollar-based approach, basing it on actual expenditures from the previous year plus an inflation factor. In addition, Congress authorized a contingency fund to cover increases in rental costs in excess of the inflation factor.

In HUD's 2004 budget, Congress authorized the creation of a Quality Assurance Division within HUD to provide more oversight of the administration and cost of the voucher program. A key part of this effort involves monitoring and verifying program costs reported by PHAs. The division also audits PHAs' program records to ensure that voucher costs were reported accurately and monitors local rental market trends to determine whether HUD's FMRs were set too high or too low. In addition, quality assurance staff review PHAs' compliance with HUD's requirement that rents for voucher units be reasonable—that is, comparable to rents for similar unassisted units in the market.

Congress and HUD have taken further steps since the period of our analysis to limit cost growth. For example, Congress made further changes to the voucher's dollar-based formula in 2005 that eliminated all contingency funding, so that PHAs were expected to absorb all additional cost increases during the year. To help PHAs keep their costs within their funding levels, HUD issued guidance in 2005 concerning options PHAs could exercise to limit costs.[31] These options included the following.

- *Reduce payments standards:* Because PHAs may set their own payment standards—that is, the maximum rent that can be used to calculate rental subsidies—anywhere between 90 and 110 percent of the FMR for their area, reducing payment standards allow PHAs to limit growth in rental subsidy payments.

- *Ensure reasonable rents:* Statute and HUD regulations require PHAs to compare rents for voucher units to those for comparable unassisted units and reduce rents for voucher units if warranted.[32] To ensure that rents are reasonable, PHAs can conduct more frequent reviews of rents charged by landlords. Any rent reductions would reduce the rental subsidy payments that PHAs make.

- *Deny moves within and outside PHA jurisdiction:* The voucher program allows households to move anywhere within and outside of a PHA's jurisdiction. However, if a PHA has insufficient funding, it can deny a voucher household's move to an area that would result in higher subsidy costs—for example, an area with a higher payment standard.

- *Not reissue vouchers or terminate assistance:* Vouchers can become available to new households when assisted households leave the program (turnover). To limit costs, PHAs can choose not to reissue turnover vouchers or pull back outstanding vouchers for other unassisted households searching for housing. PHAs can also terminate

[31] Public and Indian Housing Notice 2005-9.

[32] See 42 U.S.C. § 1437f(o)(10) and 24 C.F.R. 982.507(b).

assistance if they determine that the funding provided by HUD is insufficient, although according to HUD, the department is not aware of any instance in which a PHA has terminated voucher assistance.

- *Set higher minimum rents:* HUD policy allows PHAs to set a minimum rent for households that can range from as low as $0 to as high as $50. Some PHAs currently allow certain households with very little income to pay rents that are below the minimum rent ceiling (i.e., less than $50). To reduce their costs, these PHAs can raise the minimum rent to $50.

Furthermore, HUD supports proposed legislation—the State and Local Housing Flexibility Act of 2005—that would replace the existing voucher program with the "flexible voucher program."[33] This proposed program would, among other things, allow individual PHAs to set (within broad federal guidelines) eligibility requirements, the maximum period that a household could receive assistance, and households' contributions toward rents. According to HUD, this proposed program, which would initially continue to fund vouchers using the dollar-based approach, would create incentives and provide flexibilities for PHAs to manage their funds in a cost-effective manner.[34]

For the project-based program, Congress has taken steps to control the cost of rental subsidies, and as our analysis shows, these steps have limited growth in the program's average rental subsidy per household and thus in outlays. In 1997, Congress passed the Multifamily Assisted Housing Reform and Affordability Act, which established the Mark-to-Market program. When properties entered the project-based program in the late 1970s through the mid-1980s, HUD often subsidized rents that were above local market levels to compensate for high construction costs and program-related administrative expenses. Thereafter, these rents were adjusted annually using an operating cost factor determined by HUD. In the early 1990s, HUD concluded that the continued growth in subsidy levels would be unsupportable within HUD's budget limitations. The Mark-to-Market program, which began in 1998, authorized HUD to reduce rents to market levels on project-based properties with HUD-insured

[33]See S. 771 and H.R. 1999.

[34]The legislation would require HUD to establish a final funding formula through a negotiated rulemaking process no later than 24 months after enactment.

mortgages.[35] According to HUD, the program has reduced project-based rental subsidy costs at over 2,700 properties by an estimated $216 million per year since 2000.[36]

Policy Changes and Trends in Market Rents and Household Incomes Increased the Average Subsidy per Voucher Household

We developed a statistical model to assess the impact that certain variables—specifically, market rents, payment standards, household incomes, and household and neighborhood characteristics—had on the change in the average rental subsidy per household for the voucher program.[37] Changes in market rents explained a significant part of the increase in the average rental subsidy per household. Specifically, we estimate that from 1999 through 2004, over one-half of the increase in the average per household subsidy was explained by higher market rents, all other things being equal.[38] Higher payment standards and the relatively slow growth in household incomes also contributed to the increase. Although we found that household and neighborhood variables were important determinants of per household rental subsidies, their average values did not vary enough from 1999 through 2004 to cause a significant change in the average per household rental subsidy over this period.

Growth in Market Rents

Because voucher households rent units in the private market, trends in market rents have a major effect on per household rental subsidies. To assess the impact of market rents on per household rental subsidies, we

[35]If the reduced rents affected a property's financial viability, HUD could restructure the mortgage and reduce the monthly mortgage payment so that the adjusted rents cover project expenses, including mortgage payments.

[36]U.S. Department of Housing and Urban Development, *Performance and Accountability Report for Fiscal Year 2005* (Washington, D.C.: Nov. 15, 2005).

[37]See appendix V for a detailed discussion of our model. All estimates from the model are expressed in 2004 dollars.

[38]Our analysis covers the period from 1999 through 2004 because data on certain variables used in our statistical model were not available for 1998.

used HUD's FMRs as indicators of local market rents.[39] Our model estimated the average per household subsidy that HUD paid in each year (baseline estimate).[40] We then used the model to estimate the average per household subsidy HUD would have paid in each year, had the average market rents remained at the 1999 level, adjusted for overall price level changes. Comparing this figure with the baseline estimate indicates the influence of changes in rents. We estimate that from 1999 through 2004 the average annual rental subsidy per household would have grown from $5,225 to $5,800 (an increase of 11 percent), if the average market rents had remained at 1999 levels, compared with the 24 percent growth, from $5,225 to $6,478, in the baseline estimate (fig. 9).[41] Expressed differently, the effect of market rents accounted for over half of the increase in the average per household subsidy, all other things being equal.[42]

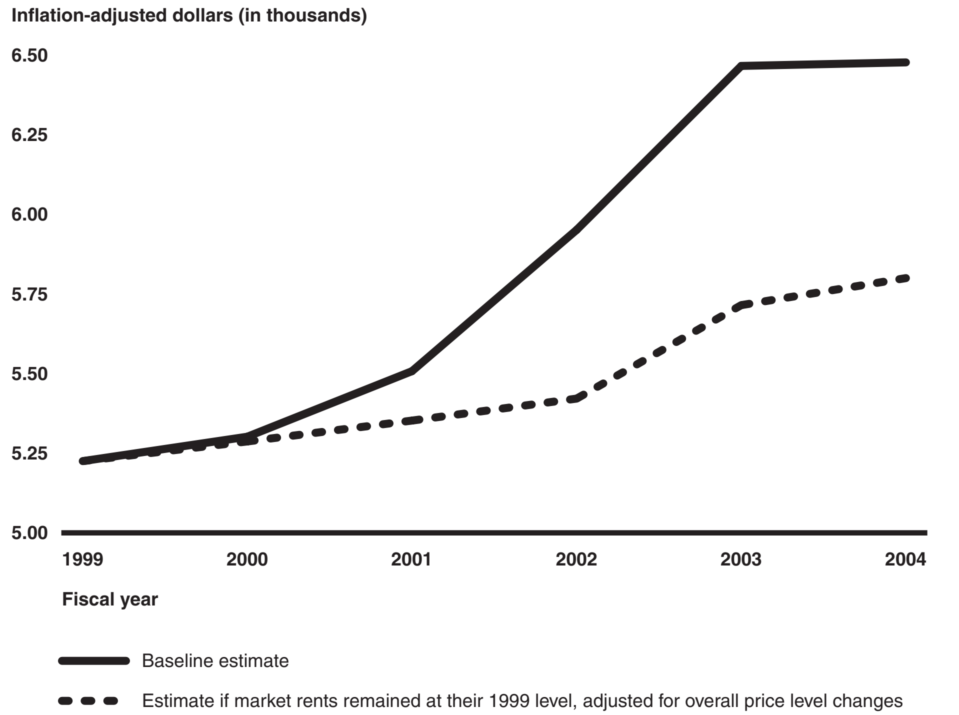
[39]FMRs are generally equal to the 40th percentile of the market rents (including utilities) paid by recent movers for standard-quality units. For those markets where the FMR is equal to the 50th percentile, we adjusted these FMRs to the 40th percentile level. Our 2005 report (GAO-05-342) found that the FMRs for fiscal year 2000 were generally accurate when compared with 2000 census data. Specifically, the report found that 88 percent of the 2000 FMRs (weighted by population) that HUD estimated in 1999 were within 10 percent of the census figure. About 7 percent (weighted by population) were lower than census rents by at least 10 percent, and about 6 percent were greater by at least 10 percent.

[40]Even though we had data showing the actual amount HUD paid in rental subsidy for each household, we estimated the amounts in order to compare consistent values. Each estimated value contained an error term that captured the effects of omitted variables unavailable for the modeling process. By comparing two estimated values, we removed the influence of the omitted variables from our comparison. Appendix V provides additional information about our model.

[41]As a result of the weighting procedures used in our statistical model and the differences in time periods, the growth in our baseline estimate of the average subsidy per voucher household varies somewhat from those cited earlier in this report.

[42]We calculated this amount by dividing the difference between the two estimates in 2004 ($6,478-$5,800 = $678) by the growth in the baseline estimate from 1999 through 2004 ($6,478-$5,225 = $1,253).

Figure 9: Growth in Market Rents Had a Significant Impact on the Estimated Average Rental Subsidy per Household



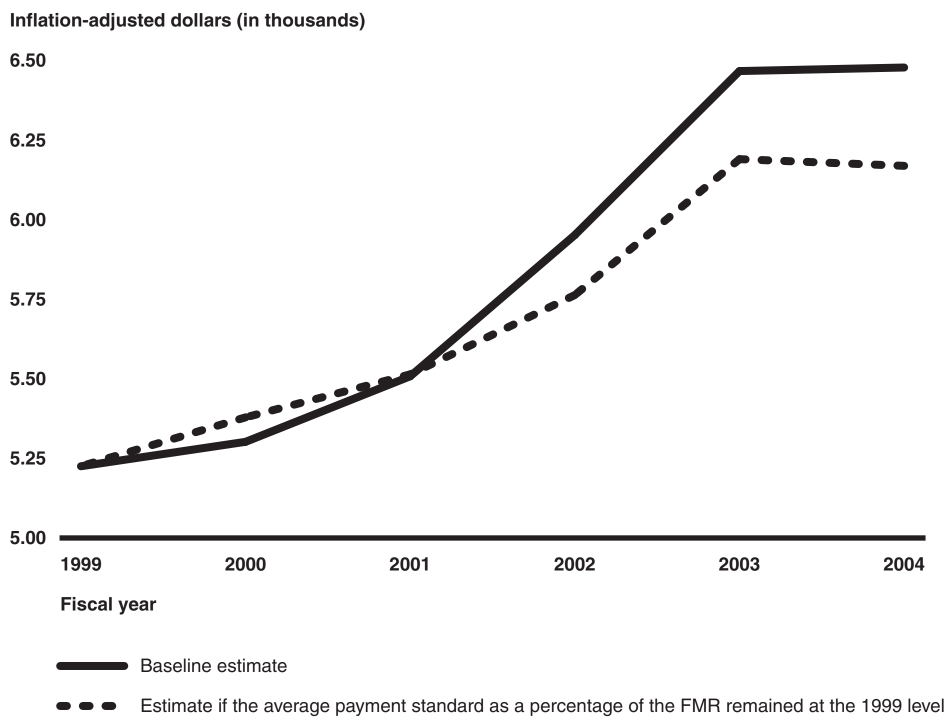
Source: GAO analysis of HUD data from PIC, 1999-2004.

PHAs' Exercise of Flexibility in Setting Payment Standards

In 1998, the Quality Housing and Work Responsibility Act (P.L. 105-276) authorized PHAs to set local payment standards anywhere between 90 to 110 percent of the FMR without the need for prior HUD approval. This flexibility was intended to make it easier for voucher households to find housing successfully, reduce concentrations of poverty by helping voucher households find housing in neighborhoods with higher incomes, and allow PHAs to respond to local market conditions. The result of this policy was that the average payment standard, as a percentage of the FMR, increased from about 96 percent in 1999 to 103 percent in 2004. The average voucher rent as a percentage of the FMR also increased, rising from about 94 percent in 1999 to 97 percent in 2004 (see app. VI for detailed discussion of the trends in voucher rents).

To assess the impact of higher payment standards on the change in per household rental subsidies, we compared our baseline estimate with the average per household subsidy that our model predicted HUD would have paid in each year had the average payment standard, as a percentage of the FMR, remained at its 1999 value. As shown in figure 10, we estimate that over this period the average per household subsidy would have grown from $5,225 to $6,169 (an 18 percent increase) if the average payment standard as a percentage of the FMR had remained at the 1999 level, compared with the 24 percent growth, from $5,225 to $6,478, in the baseline estimate. Further, we estimate that the impact of higher payment standards accounted for about one-quarter of the increase in the average per household subsidy from 1999 through 2004, all other things being equal.[43]

Figure 10: Estimated Growth in the Average Rental Subsidy per Household Would Have Been Less Had the Average Payment Standard Remained at the 1999 Level



Source: GAO analysis of HUD data from PIC, 1999-2004.

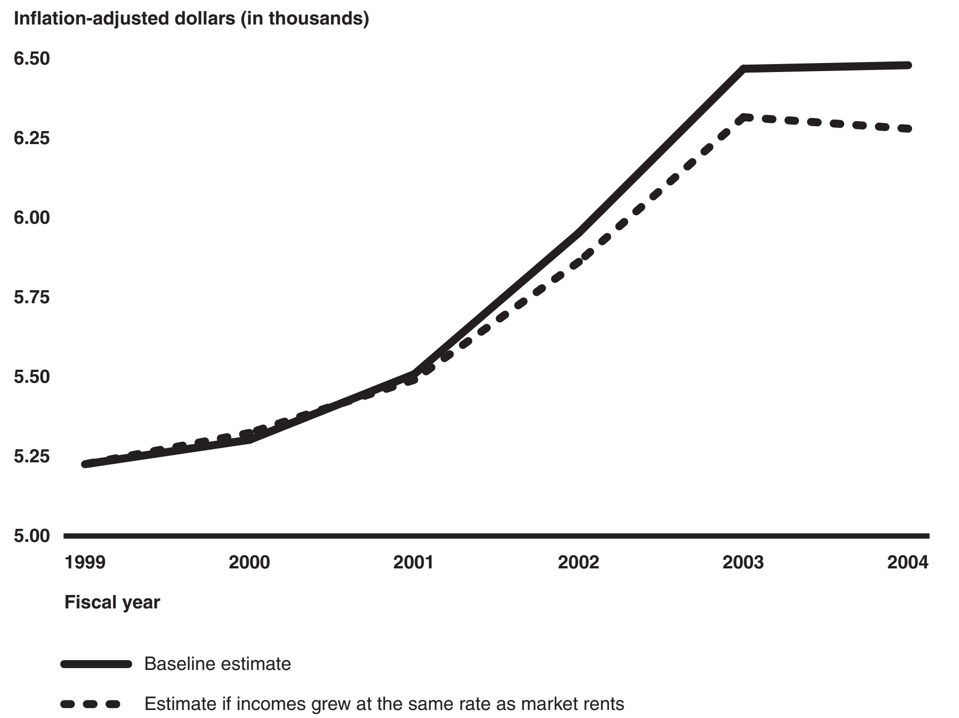
[43]We calculated this amount by dividing the difference between the two estimates in 2004 ($6,478 - $6,169 = $309) by the growth in the baseline estimate from 1999 through 2004 ($6,478 - $5,225 = $1,253).

Slower Growth in the Average Income for Voucher Households

Slow growth in household incomes, which did not keep pace with the increases in market rents, also contributed to higher per household rental subsidies. Specifically, from 1999 through 2004, the average income of voucher households grew from $8,779 to $10,086, an overall increase of 15 percent and an average annual rate of about 3 percent. However, market rents, as measured by FMRs, increased by about 23 percent over this period, or an average annual rate of over 4 percent. To determine the impact of household income on the change in per household rental subsidies, we compared the baseline estimate with the estimated amount that our model predicted HUD would have paid had the average household income grown at the same rate as the average market rent. As shown in figure 11, we estimate that over this period the average per household subsidy would have grown from $5,225 to $6,279 (an increase of 20 percent) if the average income had grown as fast as the average market rent, compared with the 24 percent growth, from $5,225 to $6,478, in the baseline estimate. Further, we estimate that the effect of relatively slow growth in the average household income accounted for about 16 percent of the increase in the average per household subsidy, all other things being equal.[44]

[44]We calculated this amount by dividing the difference between the two estimates in 2004 ($6,478 - $6,279 = $199) by the growth in the baseline estimate from 1999 through 2004 ($6,478 - $5,225 = $1,253).

Figure 11: Had Household Income Grown as Fast as Market Rents, Growth in the Estimated Average Rental Subsidy per Household Would Have Been Less



Source: GAO analysis of HUD data from PIC, 1999-2004.

Household and Neighborhood Characteristics of Voucher Holders Did Not Have a Significant Effect on the Growth in the Average Rental Subsidy per Household

We analyzed certain household characteristics, such as family size, family types (for example, whether the household was headed by an elderly person or a person with a disability), and others, and found that, while they were major determinants of per household rental subsidies, they did not vary enough over this period to effect significant change in the average per household rental subsidy. Stated differently, these factors exhibited about the same influence on per household voucher subsidies throughout the period, and thus do not help explain the overall trend of increased rental subsidy.

In addition, we analyzed the characteristics of the neighborhoods—also important determinants of per household subsidies—where voucher holders live.[45] Specifically, given the significant increases in voucher rents and payment standards, we explored the extent to which the increase in the average per household subsidy was the result of voucher households moving to neighborhoods with less poverty and other favorable characteristics. However, just as with the household characteristics, the average values of these variables did not vary enough from 1999 through 2004 to cause a substantial change in the average per household rental subsidy over this period. Because we did not have comprehensive data on the quality of rental units in the voucher program, we could not explore whether the trends in higher voucher rents and payment standards were also accompanied by changes in the quality of units occupied by voucher holders.

Observations

The cost of providing rental assistance has been a long-standing issue for policymakers and has led Congress, on different occasions, to reform various housing programs. Recent proposals for reform have focused on the voucher program, which experienced a significant growth in outlays and constituted nearly all of the increase in total Section 8 outlays from 1998 through 2004. We found that the growth both in the number of assisted households—driven largely by policy decisions to expand this nonentitlement program—and in the average rental subsidy per household explain much of the increase in voucher outlays over this period. In turn, the average per household subsidy rose in large part because of changes in the rental market, use of higher payment standards by PHAs, and household incomes that grew more slowly than rents.

To the extent that policymakers wish to stem the rising cost of the voucher program, our analysis suggests that future increases could be mitigated by reducing the number of assisted households, lowering payment standards, requiring households to pay a larger share of their incomes toward rent, subsidizing households with higher incomes, or a combination thereof. However, these actions require making difficult trade-offs between limiting program costs and achieving long-standing policy objectives, such as

[45]We ran statistical models using different variables to measure neighborhood quality. In the model cited above, we used a single measure of neighborhood quality indicating whether the associated census tract was designated by HUD as a qualified census tract, meaning that at least 50 percent of households had incomes that were less than 60 percent of the AMI or there was a poverty rate of at least 25 percent. In a second model, we used a number of census variables describing the socioeconomic and housing conditions of the associated census tracts. Both models yielded similar results.

serving more needy households, having assisted households pay a relatively small share of their incomes in rents, making it easier for voucher holders to find housing (especially in tight rental markets), reducing the concentration of poverty, and giving PHAs the flexibility to respond to local rental market conditions.

Congress and HUD have already responded to the increasing cost of vouchers by changing the way the program is funded. Specifically, HUD no longer provides funding to PHAs based on the number of authorized vouchers, but rather based on the prior year's level of voucher expenditures, adjusted by an inflation factor. While this approach allows HUD to limit the annual rate of increase in the program's cost, it does not directly address the policy decisions and market factors that we identified as contributing to the increase in program costs. Instead, it will be up to PHAs to exercise their flexibilities and make decisions regarding how to use the voucher funding that they receive from HUD. For example, some PHAs may choose to reduce their local payment standard, a course that, as our analysis suggests, would likely limit growth in voucher costs. The decisions that PHAs make will eventually influence trends in outlays, per household subsidies, and unit rents, and these trends will become more apparent in the years following the period covered by our analysis.

Agency Comments

We provided HUD with a draft of this report for review and comment. In a letter from the Acting Deputy Chief Financial Officer (see app. VII), HUD suggested technical clarifications, which we incorporated where appropriate, and made the following comments:

- HUD noted that the draft report's discussion of efforts to limit growth in program costs did not cite the department's recent legislative proposal—the State and Local Housing Flexibility Act—to reform the voucher program. The proposal's primary mechanism for limiting cost growth is the continued implementation of a dollar-based approach for funding the voucher program. Our draft report discussed the dollar-based approach and its intended impact on program costs. However, in response to HUD's comment, we added language to the final report describing the legislation's key provisions and objectives.
- HUD indicated that the draft report was incorrect in stating that to be eligible for assistance under the voucher program, households must have very low incomes—less than or equal to 50 percent of AMI. HUD said that households must have low incomes—less than or equal to 80

percent of AMI—to be eligible. The income limit that HUD referred to generally applies to households already participating in the voucher program. The income limit cited in our draft report referred to the eligibility criteria for new applicants. We revised the final report to make this distinction clearer.

- HUD said that our draft report's discussion of the growth in appropriations from 1998 through 2004 that was due to expiring Section 8 contracts may have inadvertently cited 1989 (rather than 1998) as the year in which contracts began to expire. Based on our analysis of prior studies on this issue, 1989 is generally regarded as the year in which Section 8 contracts started to expire. Contracts that expired, and were renewed with shorter terms in 1989 and afterwards, required new appropriations for renewals in subsequent years, including the years covered by our analysis. Accordingly, we made no changes to the final report.

- Finally, HUD stated that the draft report did not mention a critical reason that the lower cost per unit in project-based programs did not imply greater cost effectiveness—specifically, that vouchers are used for units that, on average, have more bedrooms and serve larger households than project-based units. In response to HUD's comments, we revised the final report to reflect the fact that determining the cost-effectiveness of HUD's housing programs must account for not only all subsidies received over time but also unit and household characteristics.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the report date. At that time, we will send copies to the Secretary of Housing and Urban Development and other interested congressional committees. We will also make copies available to others upon request. In addition, this report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you have any questions about this report, please contact me at (202) 512-8678 or WoodD@gao.gov. Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix VIII.

Sincerely yours,

David G. Wood

David G. Wood
Director, Financial Markets and
Community Investment

Objectives, Scope, and Methodology

This report provides information on trends in the size and cost of the Department of Housing and Urban Development's (HUD) Section 8 program from 1998 through 2004. Specifically, our report objectives were to determine (1) the annual numbers of vouchers in the voucher program and units in the project-based programs, (2) the annual new budget authority and outlays for each program, (3) the factors that have affected outlays, and (4) the impact of factors on the average rental subsidy cost per household for the voucher program.

To determine the annual numbers of vouchers in the voucher program and units in the project-based program, we obtained and reviewed data on the numbers of authorized vouchers and project-based units from 1998 through 2004 from HUD's budget office. We compared the annual numbers of vouchers and project-based units that HUD provided with information reported in the agency's annual budget requests to ensure that they were consistent. We obtained data on the number of units authorized under the Section 8 Moderate Rehabilitation program from HUD's program offices. We compiled and analyzed HUD notices of funding announcements and awards published in the *Federal Register* to determine the different types of new vouchers that were added to the program.

To determine the annual amount of new budget authority and outlays for each program, we obtained and analyzed data from HUD's budget office, annual budget requests and other budget documents, and audited financial statements. We also reviewed relevant prior reports from HUD, HUD's Office of Inspector General (OIG), the Congressional Budget Office (CBO), and the Congressional Research Service (CRS). Because HUD's budget office was not able to report data on outlays for the voucher and project-based programs separately, we obtained data on rental assistance payments from HUD's accounting systems and estimated the amount of rental assistance payments paid to public housing agencies (PHA) and property owners under each program from fiscal years 1998 through 2004. Specifically, from the HUD Central Accounting and Program System (HUDCAPS), we obtained information on rental assistance payments and other expenses for the voucher and the Section 8 Mod Rehab program, as well as for a limited number of contracts for the project-based program. From HUD's Program Accounting System (PAS), we obtained similar information for the remaining project-based Section 8 contracts. In total, the data we used comprised approximately 3 million payment records. Our analysis included payment records associated with the voucher and project-based programs only and did not include payment records for other HUD rental assistance programs, such as the Section 202 Supportive

Housing for the Elderly and Section 811 Supportive Housing for Persons with Disabilities programs. We included payment records for certain administrative expenses, such as fees paid to PHAs for the voucher program and to Performance-Based Contract Administrators for the project-based program.

We compared our estimate of outlays for the voucher, project-based, and Mod Rehab programs and other related expenses (total outlays) with published totals in HUD's annual budget requests. Our estimates using HUDCAPS and PAS were, on average, 0.7 percent less than the totals in HUD's annual budget requests. For 1998 and 1999, our estimate of total outlays varied from the published totals by -1.2 percent and -4.2 percent, respectively. For 2000 through 2004, our estimates of total outlays were within 0.4 percent. One reason for the variation between our estimates and the published totals is that our analysis did not include certain nonrental assistance activities paid for with Section 8 funds.

In order to assess the reliability of the data from HUDCAPS and PAS, we reviewed related documentation and interviewed agency officials who work with these databases. In addition, we performed internal checks to determine the extent to which the data fields were populated and the reasonableness of the values contained in the fields. We concluded that the data were sufficiently reliable for the purposes of this report.

To identify the factors that have affected outlays, we analyzed our reports and reports by HUD, CBO, CRS, transcripts of congressional committee hearings, and congressional committee reports. We also obtained and analyzed data on rental subsidies per household, a key factor affecting outlays, from two HUD databases—the Public and Indian Housing Information Center (PIC) for the voucher program and the Tenant Rental Assistance Certification System (TRACS) for the project-based program. Using these data, we analyzed trends in unit rents, household incomes, and household rental payments. In order to assess the reliability of the data from PIC and TRACS, we reviewed related documentation and interviewed agency officials who work with these databases. In addition, we performed internal checks to determine the extent to which the data fields were populated and the reasonableness of the values contained in the fields. We concluded that the data were sufficiently reliable for the purposes of this report.

To assess the impact of different factors on the average rental subsidy cost per household for the voucher program, we developed a statistical model using data from HUD and the Census Bureau. Specifically, we obtained household-level data from PIC on the rental subsidies per household, unit rents, household incomes, various demographic characteristics, and geographic information about where households were located. We also incorporated information from the 2000 Decennial Census and HUD on neighborhood characteristics at the census tract level. Our model allowed us to estimate the effect of each variable—market rents, household incomes, household and neighborhood characteristics, and a measure of the relationship between the payment standard and HUD's fair market rent—on the average rental subsidy per voucher household, while controlling for other variables. The PIC data for 1998 did not have complete information for certain fields (such as the fair market rent associated with an individual household), and consequently, we did not include data for 1998 in our model. Appendix V contains further information on the results of our statistical analysis.

To address all of the objectives, we interviewed officials from HUD's Offices of the Chief Financial Officer, Public and Indian Housing, Housing, and Policy Development and Research. We also met with CBO and CRS officials and representatives of various industry and research groups: the Center for Budget and Policy Priorities, the Council of Large Public Housing Authorities, the National Leased Housing Association, and the National Low Income Housing Coalition. We conducted our work in Washington, D.C., and Chicago, Illinois, from April 2005 through March 2006 in accordance with generally accepted government auditing standards.

Information on the Section 8 Moderate Rehabilitation Program

This appendix provides information on the Section 8 Moderate Rehabilitation (Mod Rehab) program. The Mod Rehab program was created in 1978 to add to the existing stock of assisted housing. It did this by providing funding to upgrade a portion of the estimated 2.7 million then-unassisted rental housing units with deficiencies that required a moderate level of repair, and rental subsidies for low-income households to live in them. Congress funded no new contracts for the Mod Rehab program after 1989 and repealed the program in 1991.

Under annual contracts with public housing agencies (PHA) that administer the Mod Rehab program, HUD provides the funding for rental subsidies as well as an administrative fee to the agencies. The administering agencies, in turn, enter into contracts with property owners. Under these contracts, property owners rehabilitate their housing units to meet HUD's standards for housing quality by completing repairs costing at least $1,000 and make the rehabilitated units available to eligible households. In exchange, PHAs screen applicants for eligibility and pay the difference between the approved contract rent and the household's portion of the rent. The Mod Rehab has features that are common to both the project-based and voucher programs. For example, similar to the voucher program, the Mod Rehab program is administered by PHAs and was intended to utilize the existing stock of privately owned rental housing. However, Mod Rehab is fundamentally a project-based program because the rental subsidy is tied to a specific unit, not the household.

During the 11 years that Congress funded new contracts under the Mod Rehab program, the term for the Section 8 contracts was 15 years. When the oldest of these contracts began to expire in 1995 and 1996, HUD instructed PHAs to replace them with vouchers. Since fiscal year 1997, however, HUD has renewed expiring contracts on an annual basis if the owners opt to do so and the properties consist of more than four rental units.

As shown in table 3, the Mod Rehab program has undergone significant reductions in the number of units—from 71,659 in 1998 to 34,141 in 2004, a decline of about 52 percent. As with project-based Section 8, owners of Mod Rehab properties can choose to leave the program upon contract expiration, and in these cases, eligible households can receive enhanced vouchers.

Table 3: Number of Authorized Units under the Section 8 Moderate Rehabilitation Program, 1998-2004

Year	Authorized units
1998	71,659
1999	64,463
2000	57,777
2001	52,342
2002	49,013
2003	42,504
2004	34,141

Source: HUD.

Data on budget authority for the Mod Rehab program were not available separately. From 1998 through 2004, HUD received budget authority for the Mod Rehab program as part of the overall appropriations for Section 8 in the Housing Certificate Fund account. Starting in its 2006 budget request, HUD included renewal funding for the Mod Rehab program in its Project-Based Rental Assistance budgetary account. Similarly, data on Mod Rehab outlays were not available. However, as we did for the voucher and project-based programs, we estimated Mod Rehab outlays using data from HUD's accounting systems. As table 4 shows, from 1998 through 2004, estimated Mod Rehab outlays decreased by over 50 percent, from $472 million to $246 million. The decrease in outlays was due to significant reductions in the number of units assisted under the program.

Table 4: Estimated Outlays for the Section 8 Moderate Rehabilitation Program, 1998-2004

Dollars in millions

	Estimated outlays	
Year	Nominal dollars	Inflation-adjusted dollars
1998	$472	$536
1999	364	408
2000	351	386
2001	332	358
2002	305	322
2003	280	289
2004	246	248

Source: GAO analysis of HUD Central Accounting and Program System.

Description of the Section 8 Rental Housing Assistance Programs

Federal rental housing assistance, which began with the enactment of the U.S. Housing Act of 1937, includes subsidies to construct new affordable housing and to make rents affordable in existing rental housing. From 1937 through 1974, the emphasis was almost exclusively on new construction. Questions about the cost-effectiveness of new construction led Congress to explore options for using existing housing to shelter low-income families. In 1974, it added Section 8 to the U.S. Housing Act of 1937 and created the Existing Housing Certificate program, the first major program to rely on existing privately owned rental housing and to provide tenant-based, rather than project-based, assistance. Another type of Section 8 assistance, the voucher program, started as a demonstration program in 1983, was made permanent in 1988, and operated simultaneously with the certificate program until 1998. At that time, the two programs were consolidated into the Housing Choice Voucher program, which combined features of both earlier programs. This program is now the largest federal housing assistance program. Table 5 summarizes the Section 8 rental housing assistance programs, including their authorization date and current status.

Table 5: HUD Programs with Section 8 Rental Assistance, in Order of Year Authorized

Program	Type of subsidy	Year authorized	Status	Description
Section 202 Elderly and Disabled Housing Direct Loan Program	Project-based: direct loan with below-market interest rates, rental assistance payments generally through Section 8	1959	No new commitments since 1991	Provides direct loans at below-market rates for up to 40 years to finance the construction of rental housing for the elderly and disabled. All projects built since 1974 also receive Section 8 rent subsidies.
Section 8 New Construction and Substantial Rehabilitation	Project-based: rental assistance payment, below-market interest rate loans[a]	1974	No new commitments since 1983, except for Section 202 program (see above)	Provides rent subsidies in new or substantially rehabilitated projects. Subsidy initially covered the difference between tenants' payment and fair market rent, determined by HUD. Subsidy contracts were for 20 to 40 years. Tax incentives and financing arrangements also may reduce owners' effective mortgage interest rates and project rents. Current restructuring of ongoing contracts will result in realignment of subsidy payments.
Section 8 Loan Management Set-aside and Property Disposition	Project-based: rental assistance payment	1974	No new commitments	Provides subsidies to units in financially troubled projects in the FHA-insured inventory and on the sale of HUD-owned projects. Subsidies ensure improved cash flows and preserve projects for lower-income tenants. Subsidies cover the difference between tenant payments and unit rents, which often are below market rates because of other federal subsidies.

(Continued From Previous Page)

Section 8 Existing Housing Certificates	Tenant-based: rental assistance payment	1974	Merged in 1998 with the voucher program to become the Housing Choice Voucher program	Aids low-income households to rent housing units in the market. Rent cannot exceed the HUD-established fair market rent for the geographical area. HUD pays the difference between the actual unit rent and the tenant payment. Administered by local public housing authorities, which enter into contracts with landlords.
Section 8 Moderate Rehabilitation	Project-based: rental assistance payment	1978	No new commitments since 1989	Provides rental subsidies to units in privately owned properties where the owners agreed to make up to $1,000 per unit in repairs in order to receive rental assistance. Although the program was repealed in 1991, property owners may request 1-year renewals of existing contracts. Unlike project-based Section 8, Mod Rehab relied on existing private housing and was administered by public housing authorities. However, like project-based Section 8, rental assistance under Mod Rehab is tied to the unit, and a household can benefit from the subsidy only if it remains in the unit.
Section 8 Vouchers	Tenant-based: rental assistance payment	1983	Merged in 1998 with Existing Housing Certificates to become the Housing Choice Voucher program	Similar to the Section 8 Certificate program in that assisted households could live in privately owned units, and public housing authorities administered the program. Unlike the certificate program in that recipients could occupy units whose rents exceeded the voucher payment standard—roughly equivalent to the fair market rent—if they paid the difference. If rents were below the payment standard, households could keep the difference (also known as the shopper's incentive).
Housing Choice Voucher Program	Tenant-based: rental assistance payment	1998	Active	Aids low-income households to rent housing units in the market. Public housing authorities have discretion to set voucher payment standard anywhere between 90 and 110 percent of the fair market rent. HUD pays the difference between the payment standard (or, if less, the unit's rent) and the total tenant payment, which is usually at least 30 percent of adjusted household income. If the unit's rent exceeds the payment standard, the tenant can pay the difference, provided that household initial rent burden does not exceed 40 percent of adjusted income).

Source: GAO.

[a]The subsidy is provided by another housing program.

Data on Budgetary Costs for the Voucher and Project-Based Programs

This appendix provides detailed data on total available budget authority and outlays for the Section 8 programs. Since we are evaluating budget trends over a 7-year period, we present the budgetary data in both nominal (current) and inflation-adjusted dollars. We use the gross domestic product (GDP) index to adjust for inflation and 2004 as the reference year.

Table 6: Total Available Budget Authority in Nominal Dollars, 1998-2004

Dollars in millions

Fiscal year	New budget authority	Carryover	Rescission	Total available budget authority
1998	$9,373	$7,542	-$2,897	**$14,018**
1999	10,327	6,366	-2,000	**14,692**
2000	7,177	7,721	-2,243	**12,655**
2001	18,110	5,375	-1,947	**21,538**
2002	16,281	4,093	-1,589	**18,786**
2003	17,112	3,549	-1,600	**19,060**
2004	19,257	4,439	-2,844	**20,852**

Source: HUD.

Note: Totals may not add because of rounding.

Table 7: Total Available Budget Authority in Inflation-Adjusted Dollars, 1998-2004

Dollars in millions

Fiscal year	New budget authority	Carryover	Rescission	Total available budget authority
1998	$10,552	$8,491	-$3,262	**$15,782**
1999	11,476	7,075	-2,223	**16,328**
2000	7,817	8,410	-2,443	**13,784**
2001	19,272	5,720	-2,072	**22,919**
2002	17,000	4,274	-1,659	**19,616**
2003	17,521	3,633	-1,638	**19,516**
2004	19,257	4,439	-2,844	**20,852**

Source: HUD.

Note: Totals may not add because of rounding.

Table 8: Outlays for the Section 8 Programs, 1998-2004

Dollars in millions

Fiscal year	Nominal dollars	Inflation-adjusted dollars
1998	$14,773	$16,794
1999	15,306	17,148
2000	15,681	17,267
2001	16,488	17,734
2002	18,235	19,225
2003	20,715	21,414
2004	22,159	22,372

Source: GAO analysis of data from the HUD Central Accounting and Program System (HUDCAPS) and Program Accounting System (PAS).

Table 9: Outlays for the Voucher and Project-Based Programs, 1998-2004

Dollars in millions

	Voucher		Project-based	
Fiscal year	Nominal dollars	Inflation-adjusted dollars	Nominal dollars	Inflation-adjusted dollars
1998	$7,513	$8,540	$7,261	$8,254
1999	8,109	9,101	7,197	8,047
2000	8,641	9,516	7,040	7,750
2001	9,328	10,037	7,160	7,697
2002	11,083	11,684	7,153	7,541
2003	13,247	13,694	7,468	7,720
2004	14,479	14,617	7,680	7,755

Source: GAO analysis of data from HUDCAPS and PAS.

Table 10: Estimated Impact of Policy Decisions and Other Factors on the Change in Outlays for the Voucher and Project-Based Programs in Inflation-Adjusted Dollars from 1998 through 2004

Dollars in millions

	Estimated change in outlays	
Factors	**Vouchers**	**Project-based**
Change in the number of assisted households/units	$3,053	-$369
Change in rental subsidy per household[a]	2,742	-302
Change in other program costs[b]	282	172
Total	**$6,077**	**-$499**

Source: GAO analysis of HUD data.

[a]This amount represents the difference between the (1) total outlays for the period and (2) individual changes in outlays due to the other two factors.

[b]This amount comprises increases in the administrative fee for vouchers and the cost of Performance-Based Contract Administrators for the project-based program. Limitations in the data did not allow us to identify other program costs.

Description of the Econometric Analysis of Rental Subsidy Costs per Household for the Voucher Program

This appendix provides an overview of the econometric analysis we used to investigate trends in Section 8 rental subsidies per household (housing assistance payments, or HAP) between 1999 and 2004 for the voucher program. These subsidies, which make up the difference between households' payments (usually 30 percent of adjusted income) and the actual unit rent, are limited by the payment standards set by local public housing agencies. PHAs set these payment standards based in part on fair market rents (FMR) that the Department of Housing and Urban Development (HUD) establishes for individual housing markets, generally at the 40th percentile (in some cases 50th percentile) of the distribution of rents. Raising the payment standard relative to the FMR can provide assisted households with a wider choice of housing, but renting more expensive units raises both the cost of the subsidies and thus of the Section 8 programs.

Because of the potential influence on program costs, we wanted to investigate the role of HUD and PHA policies in setting payment standards. Since 1998, PHAs have had more leeway than they did previously to increase (or decrease) payment standards relative to the FMR. According to HUD, this authority has been exercised too generously and is a major cause of the recent increase in HAPs.

Model and Data

We developed a pooled cross-section time-series model explaining monthly HAPs as depending on a variety of housing market, program, and household characteristics. The results and descriptive statistics are based on a 10 percent sample of voucher (and certificate) household records obtained from HUD's Public and Indian Housing Information Center files. These files provide snapshots of the program as of the end of each calendar year from 1998 through 2004 and provide information on HAPs, gross rents, FMRs, and payment standards as well as household income and other characteristics. The information in a file on a particular assisted household is current as of a point in time—for instance, the date of a program action, usually the date of an annual recertification for program eligibility. HUD's Office of Policy Development and Research worked with the underlying administrative files to (1) correct various coding errors and inconsistencies, (2) identify the census tract of each household based on tenants' addresses, and (3) add information of analytical interest that was not necessarily required for program administration.[1] The date of admission to the program and the date of the program action were used to measure how long the household had been in the program, and other fields were used to indicate any change in the household's rental unit and whether the household left the program. We used information on the household's census tract to identify neighborhood characteristics. We also used the census tract information to develop an indicator of neighborhood quality by determining whether the voucher household's census tract was a HUD-designated qualifying census tract (QCT).[2]

We excluded observations with extreme or missing values for key variables, and we excluded duplicate observations in the latest record and the record from the previous year. We also excluded households that appeared to have entered or left the program more than once.

We placed each household in one of four categories, based on demographic and labor market characteristics: single female-headed households with children (nonelderly, nondisabled), elderly (including elderly disabled), nonelderly disabled, and all other.[3] Because groups could face different housing and labor market conditions and the variables in our model could have different effects on the level of HAP in each group, we estimated the same model separately for each of the four categories. For instance, disabled households are typically smaller than other households but may require housing with features not commonly available in the general rental stock. Families with children may be larger than other families, and thus require larger units, and may also experience changes in labor market incomes.

The purpose of the model is to explain monthly HAPs using an estimating equation that is based on a variety of household, housing, neighborhood, and policy factors. HAPs range from close to zero to the thousands of dollars, with variations in each cross section and over time. In the model, HAPs are explained by the general level of market rents, tenant incomes, a

[1]We did not have access to individual addresses or other identifying information.

[2]QCTs are census tracts in which at least 50 percent of households have incomes at or below 60 percent of the area median income or which have a poverty rate of at least 25 percent.

[3]Elderly households are those with a head of household or spouse who is 62 years or older. Disabled households are those with a head of household or spouse who is disabled but not elderly.

measure of neighborhood quality, time period, and a measure of PHA payment standard policy. We also included in our model a series of explanatory dummy variables for household size, duration in program, termination and moves, and metropolitan areas. All dollar amounts (e.g., HAP, market rents, adjusted income) are expressed in 2004:Q4 terms using the price index for Personal Consumption Expenditures from the Bureau of Economic Analysis.

Because gross rents are important in defining the level of HAPs, we control for the general level of market rents in order to examine the effects of other variables. We use the FMR for this purpose because it provides considerable variation within cross sections and across time.[4] The level of income is also important in determining the level of HAPs, and we used adjusted income as reported in the file. This choice is potentially problematic, as the level of HAPs may influence income by encouraging program participants to seek work or not. However, this problem is somewhat mitigated by the fact that adjusted income is a predetermined rather than an actual amount. Specifically, the adjusted income reported in the file is the PHA's projection of a household's income in the upcoming year based on income information from the previous year, taking into account expected changes in hours, wages, and labor force status. Finally, the file did not include information concerning household characteristics, such as occupation, education, and experience, that would help explain variations in assistance payments at the individual household level.

The policy variable of interest relates to the way PHAs set payment standards (relative to the FMR). We define a ratio variable to measure this policy by calculating the average payment standard and average FMR by year and bedroom size for each PHA and then calculate the ratio (1 = 100) of the year-specific, PHA-specific payment standard to the FMR. Missing payment standard information were set equal to the FMR for a value of 100.[5] (To limit the effects of outliers, we excluded from the analysis those

[4]We use the bedroom-specific FMR and do not use a further bedroom size control. While for most housing market areas, the FMR is calculated to represent the 40th percentile rent, for some areas in some years, the FMR is calculated to represent the 50th percentile rent. For those areas and years, HUD provided an estimate of the 40th percentile FMR as well, and we use that measure for this purpose.

[5]Missing information on payment standards was applicable mainly to households that received assistance under the certificate program, a predecessor to the current voucher program (see app. III), because payment standards were not used to compute HAP under the older program.

households with payment standard ratios of less than 75 and more than 120.) The baseline specification uses the year-specific, PHA-specific payment standard to FMR ratio as a continuous variable (also truncated at 75 and 120).

Neighborhood quality is measured in two ways, both of them based on the household's census tract. Our base specifications use HUD-designated QCTs, which are in less desirable neighborhoods than other tracts. Thus rents and HAPs should be lower in those neighborhoods, given that the market rent variable distinguishes higher-rent markets from lower-rent markets.

Because the same households are in the data set for many years, up to as many as six times, the error terms are not likely to be independent from each other to the extent that unobserved characteristics may make the error terms for each household correlated with each other. However, to the extent that this presents a problem with the confidence intervals around a coefficient estimate (rather than a point) estimate, we believe that this is mitigated to a large extent by the large sample sizes used in the estimation. Table 11 shows the mean values of the variables included in our statistical model for the whole period from 1999 through 2004.

Table 11: Average Values of Voucher Household Groups from 1999 through 2004

	Household group			
Variable	**Single female-headed with children**	**Nonelderly disabled**	**Elderly**	**All others**
Monthly HAP	552.871	430.302	400.898	497.301
Qualified census tract	0.270	0.248	0.219	0.268
Local market rent	857.948	700.366	690.228	822.026
Adjusted income	9980.614	9360.595	9690.530	10819.378
Payment standard ratio	99.109	99.385	99.168	99.324
Duration dummy variables				
1 year	0.218	0.190	0.122	0.258
2 years	0.191	0.167	0.116	0.189
3 years	0.144	0.135	0.106	0.128
4 years	0.103	0.102	0.086	0.083
5 years	0.073	0.076	0.070	0.058
6 years	0.056	0.059	0.062	0.047

(Continued From Previous Page)

	Household group			
Variable	**Single female-headed with children**	**Nonelderly disabled**	**Elderly**	**All others**
7 years	0.043	0.046	0.052	0.039
8 years	0.033	0.038	0.044	0.031
9 years	0.028	0.031	0.040	0.026
10 years	0.023	0.027	0.038	0.023
11 years	0.019	0.022	0.034	0.020
12 or more years	0.015	0.019	0.032	0.017
Participation status dummy variables				
Mover household	0.059	0.058	0.033	0.045
Household assistance terminated	0.097	0.076	0.075	0.115
Household size dummy variables				
1 person	N/A	0.558	0.751	0.415
2 persons	0.299	0.209	0.187	0.068
3 persons	0.336	0.113	0.036	0.111
4 persons	0.218	0.065	0.015	0.149
5 or more persons	0.095	0.032	0.007	0.123
Year and quarter dummy variables				
1999:2	0.031	0.029	0.034	0.031
1999:3	0.042	0.035	0.038	0.039
1999:4	0.040	0.033	0.035	0.037
2000:1	0.026	0.025	0.030	0.025
2000:2	0.034	0.033	0.040	0.033
2000:3	0.046	0.042	0.044	0.042
2000:4	0.057	0.048	0.047	0.053
2001:1	0.041	0.038	0.042	0.041
2001:2	0.041	0.038	0.042	0.040
2001:3	0.030	0.031	0.031	0.028
2001:4	0.038	0.037	0.033	0.036
2002:1	0.020	0.021	0.021	0.021
2002:2	0.037	0.042	0.043	0.039
2002:3	0.044	0.047	0.045	0.045
2002:4	0.061	0.058	0.052	0.060
2003:1	0.029	0.034	0.034	0.031
2003:2	0.044	0.051	0.051	0.049
2003:3	0.058	0.061	0.056	0.060
2003:4	0.069	0.065	0.059	0.071

(Continued From Previous Page)

	Household group			
Variable	Single female-headed with children	Nonelderly disabled	Elderly	All others
2004:1	0.029	0.034	0.033	0.030
2004:2	0.043	0.051	0.051	0.046
2004:3	0.055	0.061	0.056	0.059
2004:4	0.066	0.067	0.059	0.068

Source: GAO analysis of data from PIC.

Results

The results of our regressions are reported in table 12. Unless reported separately in parentheses, all P-values are less than 0.0001.

Table 12: Regression Results

	Coefficient			
	Household group			
Variable	Single female-headed with children	Nonelderly disabled	Elderly	All others
Intercept	-240.552	-168.373	-115.147	-292.440
Qualified census tract	-28.283	-18.869	-25.689	-34.603
Local market rent	0.649	0.691	0.633	0.660
Adjusted household income	-0.022	-0.022	-0.021	-0.022
Payment standard ratio	3.866	3.398	3.418	4.237
Duration dummy variables				
1 year	46.034	23.026	33.999	53.647
2 years	35.756	18.196	24.746	44.206
3 years	29.083	13.634	18.374	33.276
4 years	25.382	8.878	15.256	29.547
5 years	23.069	7.110	17.204	28.888
6 years	21.209	6.446	15.695	29.878
7 years	20.167	5.282	13.495	21.174
8 years	19.276	6.233	13.291	20.160
9 years	13.259	6.013	13.024	19.785
10 years	9.483	4.646	14.813	16.343
11 years	11.401	6.443	16.090	17.874
12 or more years	7.772	4.026	10.311	19.456

(Continued From Previous Page)

	Coefficient			
	Household group			
Variable	**Single female-headed with children**	**Nonelderly disabled**	**Elderly**	**All others**
Participation status dummy variables				
Mover household	41.479	27.219	24.174	31.057
Household assistance terminated	-27.264	-22.529	-20.597	-26.525
Household size dummy variables				
1 person	N/A	-100.261	-138.022	-95.574
2 persons	-71.769	-67.421	-105.279	-71.650
3 persons	-53.702	-47.023	-73.181	-58.171
4 persons	-37.119	-32.854	-55.639	-44.040
5 or more persons	-22.759	-19.995	-20.483	-27.020
Year and quarter dummy variables				
1999:2	-0.257 (.89)	1.863 (.42)	2.465 (.40)	2.120 (.61)
1999:3	2.704 (.11)	5.671 (.01)	5.199 (.07)	3.722 (.35)
1999:4	-1.691 (.33)	-3.055 (.17)	0.294 (.92)	4.068 (.31)
2000:1	18.328	13.973	12.736	15.781
2000:2	25.116	20.466	16.514	25.087
2000:3	32.275	27.919	25.471	29.245
2000:4	13.081	9.142	10.418	14.786
2001:1	20.595	18.043	23.518	21.154
2001:2	29.780	22.617	26.271	32.555
2001:3	29.524	26.093	16.319	28.751
2001:4	15.548	9.251	2.708 (.35)	19.327
2002:1	9.472	7.623	2.221 (.49)	10.239 (.02)
2002:2	17.449	13.194	8.509	14.673
2002:3	16.950	11.318	5.394 (.05)	16.654
2002:4	12.098	5.315 (.01)	-5.070 (.06)	12.949
2003:1	36.467	8.982	2.196 (.46)	28.221
2003:2	42.401	14.587	2.684 (.33)	27.116

(Continued From Previous Page)

	Coefficient			
	Household group			
Variable	Single female-headed with children	Nonelderly disabled	Elderly	All others
2003:3	46.316	17.019	8.263	32.605
2003:4	44.151	14.244	4.514 (.09)	36.258
2004:1	57.448	21.379	7.499 (.06)	43.155
2004:2	55.581	19.587	2.651 (.34)	32.373
2004:3	53.379	16.720	9.975	42.051
2004:4	52.209	13.051	6.428 (.02)	39.735
Sample size	375,753	187,216	131,693	93,536
R^2	0.83	0.81	0.71	0.81

Source: GAO analysis of data from PIC.

In general, the results are consistent with our general expectations. For example,

- HAPs increase with market rent levels and decrease with adjusted incomes.
- Households in less desirable neighborhoods, as measured by the QCT variable, are about $20 to $30 per month less ($240 to $360 annually), depending on the group.
- Smaller households receive smaller HAPs, and those in the program longer receive smaller HAPs.
- Those that ultimately leave the program receive smaller HAPs, in some cases because incomes may have increased to the point that the households are no longer eligible.
- Households that move to a new unit tend to receive higher HAPs.
- HAPs increase as the payment standard increases relative to the FMR.

The time period dummy variables used in our model suggest that, at least for households that are neither elderly nor disabled, HAPs were approximately $40 to $50 per month ($480 to $600 annually) higher in 2004 than in 1999, even after controlling for changes in market rent levels and payment standards.

To present the results in terms of trends, we focused on those variables for which the average values changed significantly over the time period. Table 13 presents averages of selected variables—HAP, market rents, adjusted income, and payment standard ratio—for the largest group (single female-headed households with children).

Table 13: Averages for Selected Variables, 1998-2004

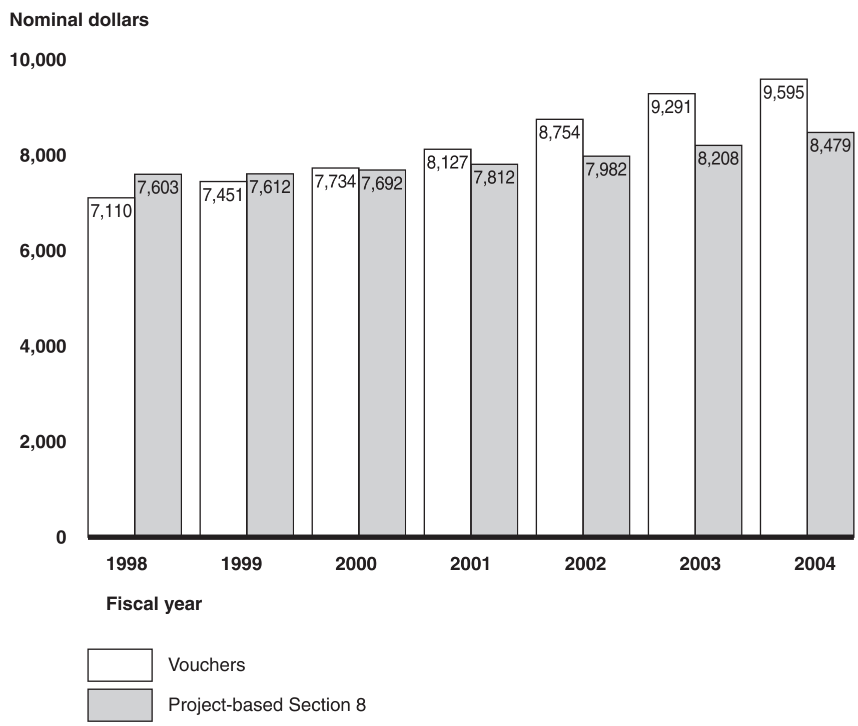
	Year					
Variable	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Monthly HAP	$487.0	$492.5	$509.7	$558.7	$612.9	$615.8
Market rents	$803.4	$805.0	$824.4	$880.1	$907.1	$896.9
Adjusted income	$9,619	$10,064	$10,136	$10,002	$9,970	$10,031
Payment standard ratio	96.1	94.3	95.9	100.4	102.5	103.1

Source: GAO analysis of data from PIC.

Trends in Rents and Household Payments for the Voucher and Project-Based Programs

The rental subsidy per household of both Section 8 programs is the difference between a household's payment and the lesser of either the payment standard or the unit's gross rent. Trends in rents and household payments, therefore, drive changes in the rental subsidy per household. For the voucher program, average rents grew by 35 percent from 1998 through 2004 (fig. 12). The average annual increase in voucher rents was 5 percent during this period, ranging from a low of 3 percent in 2004 to 8 percent in 2002. Average project-based rents grew by 12 percent over this period, an average annual rate of 2 percent. Rents in the voucher program grew almost three times faster than those in the project-based program (35 percent versus 12 percent) over this period. A major reason for this difference is that voucher rents are determined by the private market, while project-based rents are adjusted annually using a HUD-determined operating cost factor.

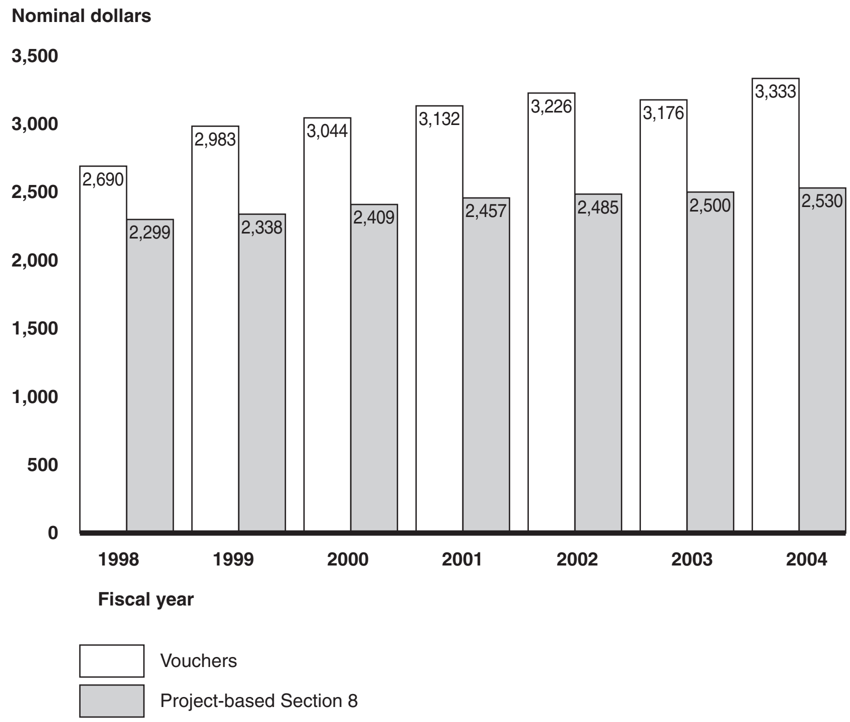
Figure 12: Average Annual Rents for the Voucher and Project-Based Programs, 1998-2004



Source: HUD data from the Public and Indian Housing Information Center (PIC) and the Tenant Rental Assistance Certification System (TRACS), 1998-2004.

Annual increases in household payments did not keep pace with the increases in voucher rents. Specifically, the average household payment by voucher households rose by 24 percent over this period and grew at an average annual rate of 4 percent (fig. 13). The disparity in the rates of increase between rents and household payments accelerated the growth in the average per household subsidy for vouchers. In contrast, the annual rate of increase in the average project-based rent was similar to that of household payments. As a result, growth in the average per household subsidy kept pace with rents and household payments in the project-based program.

Figure 13: Average Annual Household Payment for the Voucher and Project-Based Programs, 1998-2004



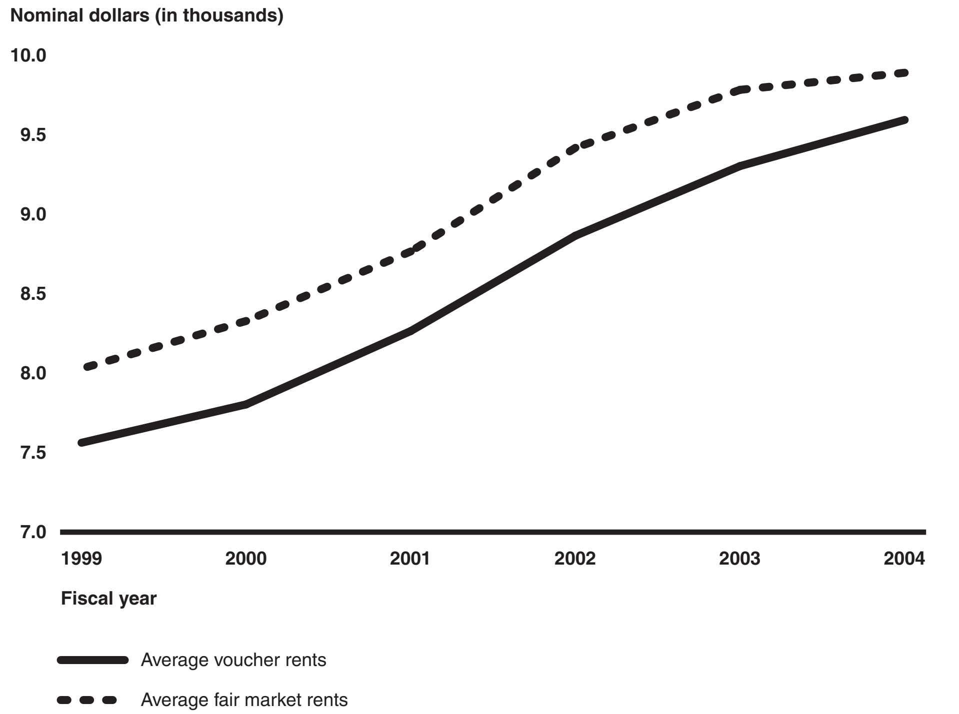
Source: HUD data from PIC and TRACS, 1998-2004.

Annual Increases in Voucher Rents and Fair Market Rents Were Similar

Although the average voucher rent grew dramatically from 1998 through 2004, our analysis found that this increase was consistent with the growth in the average fair market rent. Fair market rents, which HUD sets for each locality, reflect the cost of modest, standard-quality housing.[1] We created a fair market rent index, weighted by the proportion of voucher households in each locality, and compared it to the average rent for vouchers, which was similarly weighted, in order to assess the change in the average rent for vouchers over time. From 1999 through 2004 (the only years for which complete data on fair market rents and voucher holders were available), the average rent in the voucher program grew by 27 percent, while the average fair market rent grew by 23 percent (fig. 14). Starting in 2003, the average voucher rent increased at a faster rate than the average fair market rent—5 percent versus 4 percent, respectively, in 2003, and 3 percent versus 1 percent, respectively, in 2004—thus narrowing the gap between them.

[1]More specifically, fair market rents are generally equal to the 40th percentile of the market rents (including utilities) paid by recent movers for standard-quality units. However, in 39 localities, the fair market rents are equal to the 50th percentile. In March 2005, we reported on the accuracy of HUD's fair market rents. See GAO, *Rental Housing: HUD Can Improve Its Process for Estimating Fair Market Rents*, GAO-05-342 (Washington, D.C.: Mar. 31, 2005).

Figure 14: Average Voucher Rents and Fair Market Rents, 1999-2004



Source: GAO analysis of HUD data from PIC, 1999-2004

Note: Data on the fair market rent associated with the individual household were not available for 1998.

A major reason for the trend in the growth in the average voucher rent was PHAs' authority to set their payment standard above the applicable fair market rent. As previously noted, each PHA sets a local payment standard up to 110 percent of the fair market rent for their area. The average payment standard as a percentage of the fair market rent has steadily increased, from about 96 percent in 1999 to 103 percent in 2004. Accordingly, the average voucher rent as a percentage of the fair market rent also increased, from about 94 percent in 1999 to 97 percent in 2004.

Comments from the Department of Housing and Urban Development

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-3000

OFFICE OF THE CHIEF FINANCIAL OFFICER

APR 10 [illegible]

David G. Wood, Director
Financial Markets and Community Investment Team
Government Accountability Office
441 G Street, NW, Room 2440B
Washington, DC 20548

Dear Director Wood,

I want to thank you for the opportunity to provide comments on the draft GAO report, "Rental Housing Assistance: Policy Decisions and Market Factors Explain Changes in the Costs of the Section 8 Programs". The cost of the Section 8 programs is a very high priority for the Department and the Congress. We are pleased that you cite recent HUD and Congressional efforts to control costs on page 1 of your letter to Chairman Ney; however, we would further recommend a specific reference to the Department's very significant legislative proposal in this area, the "State and Local Housing Flexibility Act." We also believe that a reference to this legislation is appropriate in the bottom paragraph discussion on page 36 that references how Congress and HUD are responding to cost issues in the Section 8 program. In addition, we suggest the following comments to improve the clarity of the report:

- Page 4, Results in Brief: We suggest a rewrite of this section. As currently written, the reader could be led to believe that the full increase in authorized vouchers—from about 1.60 million in 1998 to 2.09 million in 2004—was due to "tenant protection" vouchers, i.e., vouchers issued to households in project-based units for which contracts were not renewed to allow the households to continue receiving rental assistance. Table 1 on page 13 makes it clear that among the total 490,944 new vouchers, there were actually 276,981 incremental vouchers and only 205,853 tenant protection vouchers (information on voucher type was not available for 8,110 vouchers).

- Page 7: The statement, "To be eligible for assistance, households must have very low incomes—less than or equal to 50 percent of area median income (AMI) as determined by HUD" is incorrect. It should read "… households must have **low** incomes—less than or equal to **80** percent of area median income…

- Page 12: The text should note that the Welfare to Work Vouchers were issued as a one-time demonstration program.

- Page 14: The report cites that "During 2001, new budget authority grew by 22 percent, the largest single-year increase during this period". This increase is somewhat explained by footnote 2 on page15, but probably deserves to be explained in the text itself.

- Page 14: "1989" appears to be a typo for "1998".

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2

- Page 26, First paragraph: The report currently omits mention of the single most important reason that the lower cost per unit in project-based programs does not imply greater cost effectiveness. The report should be revised to reflect the fact that tenant-based units, on average, have more bedrooms and serve larger households.

Again, we appreciate this opportunity to comment on the draft report and are available for any further discussions that might be warranted.

Sincerely,

James M. Martin
Acting Deputy Chief Financial Officer

GAO Contact and Staff Acknowledgments

GAO Contact

David G. Wood, (202) 512-8678 or WoodD@gao.gov

Acknowledgments

In addition to the contact named above, Steve Westley, Assistant Director; Stephen Brown; Emily Chalmers; Mark Egger; Daniel Garcia-Diaz; John T. McGrail; Marc W. Molino; Rose Schuville; and William Sparling made key contributions to this report.

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