The Evolution of Funding Policy in the Housing Choice Voucher Program

Barbara Sard
Housing Policy Consultant

Abstract

Concerns about Housing Choice Voucher program funding often center around whether the U.S. Congress will provide sufficient funding to cover vouchers currently in use or increase the number of families benefiting from rental subsidies. These issues are important, and Congress has frequently failed on both measures. Indeed, only about 1 million more families received housing voucher assistance in 2023 than 30 years earlier, and most of that increase replaced other types of rental assistance. Efforts to limit the overall amount of federal spending drove the reduction in new vouchers and major changes in funding policy that are the focus of this article. Congress shifted from multiyear to annual funding of housing vouchers in the mid-1990s. Aware of the challenges this shift posed for local program administration, Congress required the U.S. Department of Housing and Urban Development (HUD) to negotiate a new renewal funding rule with stakeholders but then overrode most of the rule's key components. As a result, more than 250,000 vouchers are no longer funded, about one in four public housing agencies lack the funding reserves necessary to withstand unpredictable changes in program costs, and the program is more challenging to manage. The article concludes with recommendations to better achieve the program's goals and serve more people.

Introduction

By the end of its first 2 decades in 1994, the Housing Choice Voucher (HCV) program could provide rental subsidies for about 1.4 million families (HUD, 2000).[1,2] The multiyear funding for these vouchers began to expire in the early 1990s, the same period that the U.S. Congress first imposed caps on the overall amount of federal discretionary spending (in contrast to programs like Social Security that are not subject to annual appropriations). To reduce annual funding needs,

[1] For simplicity, this article uses the current HCV program name for the predecessor housing certificate and voucher programs that began in 1974 and 1983, respectively, and were merged into the current HCV program by the Quality Housing and Work Responsibility Act of 1998.

[2] The term "families" in this article includes all types of households, consistent with HUD's terminology.

by the mid-1990s, Congress shifted to renewing vouchers for only a year at a time and sharply reduced the number of new vouchers authorized. Beginning in 2003, Congress also drastically altered renewal funding policy and failed to fully fund the evolving renewal policy in many years.

As a result, in 2023, only about 2.4 million families nationally received rental assistance through federal housing vouchers,[3] and three out of four low-income households with housing needs receive no federal housing assistance to help pay rent (Gartland, 2022). The reduction in the number and changes in the types of new vouchers funded affected their geographic distribution, leaving states with greater population growth in recent decades with fewer vouchers (and other federal rental assistance) per needy family. The targeting of most incremental vouchers after 2002 to people with disabilities and veterans also sharply reduced the share of vouchers assisting families with children (Greenlee and McClure, 2024).

After directing HUD to develop a new regulation through a negotiated rulemaking process with key stakeholders to guide annual renewal funding for expiring vouchers beginning in 2000, Congress began overriding key aspects of the new policy within a few years. Most significantly, Congress required HUD to renew funding only for vouchers in use in the previous year, rather than all vouchers previously allocated, and forced HUD to reduce sharply the amount of funds state and local administering agencies could draw on to meet cost increases. These policy changes, combined with severe renewal funding shortfalls in the mid-2000s and again in 2013 and 2017, caused the loss of funding for more than 250,000 vouchers by 2023.

The renewal funding policy changes, combined with funding instability, also made the HCV program more challenging to administer. Persistent shortfalls in funding for administrative costs and congressional opposition to HUD's proposal to base the formula to allocate administrative fees on objective, evidence-based factors that drive administrative cost differences among public housing agencies (PHAs) have compounded these difficulties.

Understanding how funding is currently provided for the major components of the HCV program and how these policies have evolved, plus the risks to program stability and growth from reliance on annual discretionary appropriations, is important to guide effective future policies to sustain, improve, and expand the HCV program. This article first compares current policy governing the allocation of annual renewal funding for existing housing vouchers, and how it evolved, with the renewal policy in HUD regulations that resulted from the congressionally mandated negotiated rulemaking. In addition, the article discusses key features of the history of funding policy for the other two major HCV program components—administrative costs and new vouchers. It then highlights the challenges and risks posed to the program by reliance on annual discretionary funding and outlines recommendations for future improvements in each program component.

[3] HUD data indicate that 2.3 million vouchers in the regular HCV program (including project-based vouchers), plus another 56,000 vouchers for people with disabilities under the Mainstream voucher program (note 31), were leased in November 2023, and 61,500 Emergency Housing Vouchers (EHVs; note 32 and related text) were in use as of December 11, 2023. HUD's HCV and EHV Data Dashboards are at https://www.hud.gov/program_offices/public_indian_housing/programs/hcv/dashboard and https://www.hud.gov/program_offices/public_indian_housing/ehv/dashboard.

Current Housing Choice Voucher Funding

Beginning in 2003, Congress provided annual funding for the HCV program primarily through three separate streams of funds:

1. *Renewal funds* for existing vouchers (those allocated in prior years) to pay subsidies for rental costs to landlords (and sometimes utility companies) on behalf of low-income families participating in the HCV program.

2. *Administrative fees* to enable state and local PHAs to cover the costs of issuing vouchers to new families, contracting with landlords, and ensuring that families and landlords comply with program requirements.

3. First year costs of *newly authorized vouchers*.

HUD provides each of the more than 2,000 PHAs that administer the HCV program with amounts for renewal funds and administrative fees primarily based on formulas that divide the funds Congress appropriates for these purposes each year. If an appropriations act provides funding for new vouchers, HUD awards the new vouchers to selected PHAs and allocates funds to cover subsidy costs for the initial year the vouchers are in use. Along with specifying annual funding amounts for the components of the HCV program, each year's appropriations law has included policies that at times were highly controversial guiding how these funds are allocated to PHAs.[4]

Evolution of Voucher Renewal Funding Policy

For the initial decades after Congress authorized Section 8 tenant-based rental assistance in 1974, it provided long-term funding (typically 15 years) for any new rental subsidies and related administrative costs included in HUD's annual appropriations act.[5] After selecting the PHAs to receive a portion of the newly authorized vouchers, HUD calculated the amount of budget authority committed to each PHA for the duration of the contract for the new vouchers, using assumptions that built in flexibility for cost increases during the period of the funding commitment.[6]

As a result, PHAs—as well as landlords and participating families—could rely on funding remaining available for many years to continue to pay rental subsidies, without the risks inherent in reliance on congressional action. In addition, as participating families left the program, PHAs could reissue the subsidies to new families using the already committed funds, thereby maintaining the number of families assisted.

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[4] The Appendix of Annual HUD Appropriations Laws, 1990–2023, has citations and links to each year's law.

[5] See HUD Handbook 7420.3, chapter 6, section 6-2(b)(4), effective July 1979, https://www.hud.gov/sites/documents/74203C6PIHH.PDF.

[6] For these early long-term contracts, HUD calculated the amount of budget authority (defined at 24 C.F.R. 982.4(b)) to commit based on its Fair Market Rents for the area (or higher HUD-approved amount). HUD Handbook 7420.3, chapter 3, section 8(a)(1)(a), effective July 1979, https://www.hud.gov/sites/documents/74203C3PIHH.PDF. Because families are required to contribute a share of income toward rent and utility costs (initially 25 percent and later 30 percent), HUD's methodology intentionally built in extra budget authority that could cover unanticipated increases in prevailing rents and fluctuating tenant incomes. Consistent with recent appropriations bills, this article uses the term "authorized" vouchers as equivalent to HUD's terminology of "Annual Contributions Contract (ACC) units," "reserved units," and "adjusted baseline vouchers."

As these long-term contracts between HUD and PHAs began to expire in the early 1990s, Congress provided additional funding for the already authorized vouchers. Early renewal contracts were for 5 years. By the mid-1990s, renewal funding was provided a year at a time. HUD calculated each PHA's annual renewal funding need based on the estimated cost in the funding year of the PHA's authorized vouchers for which funding commitments would expire.

This shift to shorter, and then annual, renewal funding contracts coincided with the imposition of enforceable statutory caps on total "discretionary" funding for the first time beginning in 1991.[7] Congress made the net cost of renewal funding more affordable within the constraints of the budget caps by shortening the duration of renewal contracts and also by recapturing and rescinding unspent budget authority that had been committed to the initial long-term contracts. Such cancellation of previously appropriated budget authority counted as an offsetting savings.[8]

1999 Negotiated Rulemaking on Housing Choice Voucher Renewal Funding

In the midst of the shift toward annual HCV renewal funding in the mid-1990s, Congress was working to enact major legislation to improve the management of public housing and merge the housing certificate and voucher forms of tenant-based assistance into a single program. Rather than specifying a renewal policy in the Quality Housing and Work Responsibility Act of 1998 (QHWRA), Congress required HUD to set a renewal policy through negotiated rulemaking involving key stakeholders.[9]

During the months of discussion among stakeholders and HUD in 1999 as part of the negotiated rulemaking process, the central dispute was whether to retain the key feature of the prevailing renewal policy: funding all expiring authorized vouchers at the best available estimate of their cost in the coming year (a so-called "unit-based" funding policy). Proponents argued that only such a policy would avoid funding shortfalls and encourage PHAs to serve additional families up to the

[7] "Discretionary" funding is that made available in congressional appropriations acts other than "direct spending," which includes funding provided as an ongoing entitlement and budget authority provided by laws other than appropriations acts. The Balanced Budget and Emergency Deficit Control Act of 1985, as amended, sections 250(c)(7) and (8), 2 U.S.C. §900(c)(7) and (8). The first enforceable caps on discretionary funding were enacted in the Budget Enforcement Act of 1990 and became effective in fiscal year 1991. These enforceable caps were extended through 2002 in subsequent laws. Notes 42 and 43 and the related text discuss later laws capping discretionary spending.

[8] If multiple years of funding were to be appropriated for long-term renewal contracts, the cost in the initial year of the contract renewal would be much greater than for a single year of funding, potentially endangering the ability to fund other popular programs within the limit the discretionary caps set.

[9] Section 556 of QHWRA, P. L. 105-276, 112 STAT. 2613, has two parts. Subsection (a) inserted Section 8(dd) of the U.S. Housing Act, 42 U.S.C. §1437f(dd), which requires HUD to renew expiring contracts beginning in fiscal year 1999 by inflating an "allocation baseline" using local or regional data. At a minimum, the allocation baseline for a PHA had to be sufficient to assist the actual number of families assisted on October 1, 1997. HUD defined the "baseline" units to be renewed as the higher of the number of authorized vouchers or leased units as of October 1, 1997, plus any additional vouchers awarded to a PHA during federal fiscal year 1998. See Notice PIH 98-65, 64 Federal Register (FR) 8188, February 18, 1999. HUD's inclusion of all authorized vouchers was a more generous policy than the leasing-focused measure Congress set as a minimum. In subsection 556(b), Congress directed HUD to issue final regulations governing voucher renewal policy within 1 year, developed using federal procedures for negotiated rulemaking. HUD announced the establishment of the Negotiated Rulemaking Advisory Committee on Section 8 Tenant-Based Contract Renewal Allocation by notice published at 64 FR 20232, April 26, 1999. The stakeholders on the advisory committee included 20 PHAs of various sizes from around the country, three national PHA organizations, and four public interest groups, including the Center on Budget and Policy Priorities (which the author represented in the process), the Disability Rights Action Coalition, and the New Orleans Section 8 Resident Council. 64 FR 56882, October 21, 1999.

level Congress had previously authorized. In addition, some of the stakeholders—particularly those from tenant organizations and the Center on Budget and Policy Priorities (CBPP)—argued that unless the funding policy supported the higher per-voucher costs PHAs incurred to assist the neediest families or enable voucher holders to afford rental costs of units in well-resourced communities, key program goals could not be achieved.

HUD staff argued for shifting to a "dollar-based" policy. Such a policy "would fund PHAs … without considering how many units were rented through the program in the previous year."[10] It also would disregard changes in actual subsidy costs due to reductions in tenant incomes and lock in low voucher utilization rates at agencies not using all their vouchers when the policy was initially implemented or that later used fewer vouchers. Fluctuations in PHAs' annual HCV leasing rates are common (Finkel et al., 2003). Despite these drawbacks, many PHA representatives initially thought a "dollar-based" policy would be simpler for them to administer, because they would be able easily to predict the amount of funding they would be eligible to receive in future years.

Ultimately, the consensus was in support of continuing a unit-based policy designed to provide sufficient funding for all authorized vouchers.[11] Data analyses demonstrating that the most reliable predictor of future renewal costs was the change in total subsidy costs in the year prior to the funding year, not simply the types of changes for which an inflation factor could adjust, such as changes in local market rents or the gap between tenant incomes and rents, were key to achieving this consensus. A metric of changes in total subsidy costs reflects the number of vouchers used and the cost effects of various policies, some mandatory (such as income targeting of most new admissions) and some in PHAs' discretion (such as the percentage of the HUD Fair Market Rent set as the maximum voucher subsidy), in addition to changes in rents.

In addition to supporting the continuation of annual renewal funding for all authorized vouchers at their likely cost in the funding year, the committee agreed that to help address the unmet need for rental assistance, the renewal policy should include other components to encourage the use of more vouchers. The three most important complementary policies were—

- **Substantial, Reimbursable Reserves.** HUD agreed to maintain a reserve account for each PHA with up to one-sixth (16.67 percent, or about 2 months) of the PHA's projected expenditures in the coming year. PHAs could access up to one-half of these funds to meet cost increases above the HUD inflation factor or to increase the number of families they assisted up to the authorized level. If PHAs depleted their reserves for these reasons, restoration of their reserve account would be added to their renewal funding eligibility in the subsequent

[10] "Renewal of Expiring Annual Contributions Contracts in the Tenant-Based Section 8 Program; Formula for Allocation of Housing Assistance," 64 FR 56883.

[11] 64 FR 56883 and 24 C.F.R. §982.102.

year. This reserve policy was more limited than the one then in effect but consistent with prior policy goals and continuing statutory requirements.[12]

- **Approval of Temporary "Overleasing."** The committee recognized that PHAs typically must issue more vouchers than the authorized level to fully use all authorized vouchers, because some families will not succeed in leasing up. However, PHAs would be unlikely to overissue if they were penalized for temporarily exceeding the authorized level. To eliminate this disincentive, the committee recommended and HUD issued guidance clarifying that overleasing was permitted, and allowing PHAs to access reserve funds if needed temporarily to support the cost of vouchers above the authorized level.[13]

- **Reallocation Authority.** To increase voucher utilization, the negotiated rule allows HUD to reduce the number of vouchers a PHA is authorized to administer if the PHA failed to adequately lease vouchers and reallocate some of the unused vouchers and the related funding to other agencies.[14] This reallocation policy, called "use it or lose it," was intended as a powerful prod to PHAs to improve their program management sufficiently to avoid losing resources, while also ensuring that at least a portion of the unused vouchers would benefit other families (Sard, 2001).[15] HUD published the criteria and procedures to reduce some PHAs' vouchers and reallocate them to other PHAs, but it appears that little reallocation occurred under the regulatory policy, perhaps because Congress indicated in 2003 that it did not approve of the policy (Sard, 2003).[16]

Subsequent Evolution of Renewal Funding Policy, 2002–23

Use of the renewal funding policy established through the congressionally mandated negotiated rulemaking was short-lived. Congress directed HUD to reduce PHAs' voucher program reserves

[12] See 65 FR 21088, April 19, 2000. Previous HUD policy required HUD to establish a project reserve for each PHA's tenant-based rental assistance program "to assure that housing assistance payments are increased on a timely basis to cover increases in monthly rents or decreases in family income. The Department is required to amend ACCs to replenish the project reserve so that sufficient annual contributions are available for the number of units authorized in the ACC for the remaining ACC term. *PHAs must not be placed in the position of refusing to issue certificates or to renew contracts because needed amendment authority is not identified and provided in a timely manner.*" Chapter 8.2(c) of HUD Handbook 7420.3, Section 8 Housing Assistance Payments Program, Existing Housing and Moderate Rehabilitation Processing Handbook, issued April 1990 (emphasis added). HUD based this policy on what is now section 8(c)(5) of the U.S. Housing Act, 42 U.S.C. 1437f(c)(5).

[13] 65 FR 21090–21091.

[14] 24 C.F.R. 982.102(i), 64 FR 56888.

[15] PHAs increased voucher utilization from 92 to an estimated 96 percent of authorized vouchers from 2000 to 2004, in part due to the incentive to avoid permanent loss of vouchers through reallocation (Sard, 2003).

[16] HUD published the criteria for PHAs subject to reallocation at 65 FR 21091-2 (April 19, 2000), and for PHAs it would select to receive reallocated units at 66 FR 55523 (November 1, 2021). In January 2003, the Senate directed HUD to proceed with reallocation pursuant to the 2021 notice within 150 days. That directive was not included in the final 2003 appropriations bill, likely due to cost concerns. The conference report indicated it had been rejected (H. Rept. 108-10 at 1370).

from 2 months to 1 month in 2002.[17] Beginning in 2003, the HUD appropriations act required HUD to cease providing renewal funding for all *authorized* vouchers and, instead, base PHAs' funding on the actual cost of *leased* vouchers in the prior year, adjusted for inflation (McCarty, 2005).[18]

From 2004 through 2006, the Bush Administration, together with the Republican-controlled Congress, made a series of changes in voucher renewal policy. Combined with funding levels insufficient to fund all vouchers eligible for renewal, these changes caused the loss of voucher assistance for about 150,000 families by early 2007 compared with early 2004 (Sard and Rice, 2007). The motivation behind these changes appeared to be to control rising spending to meet increasing rental costs to keep a lid on the HUD budget at the same time the Administration was seeking congressional approval to cut taxes and enact a new Medicare prescription drug program (CBPP, 2019; Sard and Fischer, 2004a).

The Administration's fiscal years 2004–06 budget proposals, congressional appropriations bill language, and HUD's implementation decisions shifted toward the dollar-based renewal funding policy that the negotiated rulemaking committee had rejected. As implemented, renewal funding amounts were based on just 3 months of data on leasing and costs in middle of the prior year (or even 2 years earlier) rather than 12 months of data.[19] In addition, the 2004 and 2005 appropriations acts reduced and then eliminated supplemental funds to help PHAs cover cost or leasing increases not reflected in the renewal formula, and the 2005 act directed HUD to reduce PHA reserves to no more than 1 week. In both 2005 and 2006, Congress short-funded the revised renewal policy by more than 4 percent.[20]

[17] The fiscal year 2002 appropriations act directed HUD to reduce allowable reserves to the 1-month level and to recapture $640 million in PHAs' reserves above this level. According to HUD's implementing notice, PIH 2002-6, the conference report also directed HUD to ensure that PHAs have the funds to administer all section 8 contracts in a normal manner. Consequently, HUD policy in implementing the bill was "to fully fund a one month reserve and to provide enough additional funds for high utilizing PHAs to lease up their number of units reserved." PIH 2002-6, #3. HUD's website at https://www.hud.gov/program_offices/public_indian_housing/publications/notices allows the public to find notices relevant to the HCV program and its predecessors back to 1994, although some notices from the earlier years are missing.

[18] Both the Senate and House 2003 funding bills included policies to limit renewal funding to leased rather than all authorized vouchers and additional funds that PHAs could request to meet leasing or cost increases. The House bill (H.R. 5605) included a *finite* amount in a HUD central fund, although the Senate bill provided an *indefinite* amount ("such sums as may be necessary") for the central fund to ensure PHAs had sufficient funds available. This language for a current indefinite appropriation was not included in the final bill (H. Rept. 108-10 at 1370, February 13, 2003; Sard and Fischer, 2003).

[19] In 2004, HUD adopted a more stringent policy than the final appropriations bill appeared to require, basing PHAs' renewal funding on their leasing and cost data from May to July 2003. CBPP estimated that PHAs received sufficient funding for only about 95 percent of expiring authorized vouchers in 2004, whether or not leased at some point during the prior year (Sard, Lawrence, and Fischer, 2005: Technical Appendix). Despite the apparent severe funding cut, HUD administrative data show no proration in renewal funding for 2004, likely because HUD determines the extent of any proration based on the funds PHAs were eligible to receive under its interpretation of the renewal policy. As a practical matter, many PHAs experienced severe and unanticipated funding cuts in 2004 (Sard and Fischer, 2004b). The 2005 appropriations act based renewal funding on leasing and cost data for 3 months in the middle of 2004, and the 2006 appropriations act directed HUD to base 2006 funding on PHAs' funding eligibility in 2005 with minor adjustments, meaning that the "baseline" in 2006 remained PHAs' HCV subsidy spending in mid-2004. See PIH 2006-5.

[20] Prorations are from HUD administrative data. CBPP estimated that the 2005 proration would cut funding for about 83,000 vouchers in use in mid-2004 (Sard, Lawrence, and Fischer, 2005). The conference committee report on the 2005 final act directed HUD to reduce PHA reserves to 1 week to meet the act's required rescission of $1.55 billion, which helped offset the cost of the entire act. PIH 2005-1, paragraph 8.

Coinciding with these changes in renewal policy in annual appropriations acts, the Bush Administration sought congressional approval to change the U.S. Housing Act to eliminate entirely the unit basis of voucher funding and convert funding to a dollar-based block grant with additional significant HCV policy changes (McCarty, 2005). However, Republican-led authorizing committees rejected the proposals to convert the HCV program into a block grant divorced from actual voucher costs (Sard and Fischer, 2005, 2006).

After the return of Democratic control of the House in the 2006 election, Congress revised the voucher renewal policy to return to basing funding on actual leasing and costs in the prior 12-month period and increased the funding level for fiscal year 2007 to restore some of the vouchers cut in the 2004–06 period. In most years since then, Congress has claimed that its goal was to provide at least the amount of funding needed to prevent terminating assistance to any families currently relying on voucher subsidies (CRS, 2019: 12). Often the stated goal has been to fund all vouchers in use in the prior year, thereby allowing the HCV program to continue to serve the same number of families.

Renewal Funding Policy in 2023 Is Substantially Different From the 1999 Negotiated Rule

In 2023, renewal funding is unit-based, as the negotiated rule required, and tied to PHAs' actual average cost of the number of voucher subsidies paid in the prior calendar year, capped at the number of authorized vouchers and adjusted for inflation.[21] However, through detailed provisions in annual appropriations acts, Congress has changed every other significant component of renewal funding policy in the negotiated rule, which nonetheless remains unchanged in HUD regulations at 24 C.F.R. 982.201. The major changes include—

- **Leased, Not Authorized Vouchers.** The core of the negotiated renewal rule was a commitment to fund all *authorized* vouchers. The current renewal funding formula is based on vouchers *leased* in the prior year, adjusted for recently allocated vouchers that were not in use for the prior 12 months. This fundamental policy shift has contributed to the loss of funding for more than 250,000 authorized housing vouchers.[22]

- **Reduced Reserves.** Rather than being able to draw on substantial funding reserves to meet voucher costs that rise more than anticipated in the renewal policy and to increase authorized vouchers in use, protected reserves now are reduced from 16.7 to 4.0 percent for PHAs

[21] Improvements in HUD's data systems have made it possible to base calendar year funding on expenditures in the immediately prior calendar year.

[22] HUD data show that in September 2023, PHAs not participating in the Moving to Work (MTW) demonstration had 261,653 authorized vouchers that were unleased and unfunded. In addition, MTW PHAs had 66,523 unused authorized vouchers, but HUD does not provide data necessary to determine whether these agencies had uncommitted funds available that could support any of these authorized vouchers (HUD HCV Data Dashboard). In August 2023, for the first time, HUD awarded $113 million to 118 PHAs to restore about 9,500 authorized vouchers to use. HUD Press Release No. 23-186, August 31, 2023, https://www.hud.gov/press/press_releases_media_advisories/HUD_No_23_186. It is not clear whether the September 2023 data reflect this funding.

administering the large majority of vouchers.[23] PHAs are not entitled to any additional federal funds to replenish reserves. Beginning in 2006, however, Congress has often included in the annual appropriations act up to $200 million in adjustment funds for varying specified purposes. However, most PHAs do not benefit from these additional funds and cannot rely on receiving them due to the limited amount and HUD's application process.

- **Prohibition on "Overleasing."** To encourage PHAs to use all their authorized vouchers, the negotiated rule made clear that a PHA could lawfully issue more than its authorized number of vouchers to aim to achieve 100 percent leasing and allow all families issued vouchers who find an eligible unit to enter into an HCV-supported lease, even if that puts the PHA over its authorized voucher cap (hence, the term overleasing). In every year from 2003 through 2023, however, Congress prohibited the use of renewal funds to support overleasing for the calendar year. HUD implements this prohibition by requiring any PHAs that overleased to restore the inappropriately used funds to their reserve account.[24] This stiff sanction likely discourages PHAs from aggressive efforts to increase leasing up to the authorized level, given the inevitable risk that more families than anticipated may succeed in using vouchers, or fewer current families may exit the program.

- **No Ability to Serve More Families by Reallocating Unused Authorized Vouchers.** Unlike the "use it or lose it" policy described previously, HUD has no authority under the specific language of recent annual appropriations acts to reallocate persistently unused vouchers to other PHAs with records demonstrating they are likely to use the already-authorized vouchers to serve more families.

Administrative Funding

Congress provides funds annually for PHAs to administer the HCV program.[25] For 2023, 10 percent of the total funding Congress made available for the HCV program was for PHAs' administrative costs. PHAs earn administrative "fees" based on the number of vouchers leased, meaning that a contract exists between the PHA and a landlord to pay a rental subsidy on behalf of the resident family. Tying administrative fees to leased vouchers, not just the number of vouchers a PHA is authorized or funded to administer, is an important financial incentive for PHAs to use as many vouchers as they have funds to support.

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[23] Current HUD policy considers reserves as "excess" if they exceed 4 percent of renewal funding—about one-half of a month's costs—for PHAs with 500 or more authorized vouchers. For PHAs that administer fewer vouchers, the threshold is increased to 6 percent for PHAs with 250 to 499 vouchers and to 12 percent of renewal funding for the smallest PHAs, those with fewer than 250 authorized vouchers. The 126 PHAs in the MTW demonstration are subject to somewhat different renewal and reserve offset policies. PIH Notice 2023-07, revised October 26, 2023, page 35 and Appendix B, page 44. PHAs' HCV reserves are also referred to as "net restricted assets accounts" and include HUD-held programmatic reserves.

[24] PIH Notice 2023-07 paragraph 21, page 36.

[25] Key administrative functions include maintaining a waiting list, issuing vouchers to eligible families, verifying families' income to determine eligibility and how much they are required to contribute toward housing costs, and making subsidy payments to landlords. In addition, PHAs are responsible for ensuring that families' homes meet program safety and quality standards and that the requested rent is "reasonable." In addition to these time-consuming activities required by federal law, PHAs set discretionary policies and may offer services, such as assistance with recruiting landlords to participate in the program and to help families find housing.

As part of the congressional effort to manage spending in the HCV program that began in earnest in the 2003 appropriations law, Congress set maximum limits on the total amounts HUD could allocate for administrative fees and that PHAs could retain for fee reserves. In 2004, Congress restricted how PHAs could use administrative fees, primarily to prevent PHAs from shifting funds to supplement their public housing budgets. These 2003 and 2004 policy changes ensured that funding for housing assistance payments (rent subsidies) would never be used to cover administrative costs, and funding for administrative fees generally could be used only for administrative and other expenses in administering HCVs. Similar policies continue to be in effect.[26]

Although these constraints protect the use of funds for rental subsidies, the separation of administrative funding from renewal funds has facilitated Congress' underfunding administrative fees to a greater extent than rental subsidy funds, because ensuring that voucher holders do not lose their homes is a more compelling use of scarce funds than program administration. In every year beginning in 2008, Congress has funded administrative fees below the level needed to fully fund the current fee formula (explained in the following text). In 12 of the 16 years from 2008 through 2023, fees have been reduced by more than 10 percent below formula eligibility. In 4 of those years—2013, 2014, 2017, and 2019—fees were cut by more than 20 percent, according to HUD administrative data.

Congress requires HUD to distribute by formula nearly all the funds it provides annually for HCV administration. For each month a voucher is leased, a PHA is eligible to receive an amount based primarily on local rent costs as reflected in HUD's Fair Market Rents in the area for two-bedroom units *in 1993 or 1994*, multiplied by an inflation factor that captures the increase in local wage rates over time. The actual fee paid is reduced by any proration due to insufficient funding (Turnham et al., 2015). PHAs with smaller voucher programs receive a somewhat higher fee per voucher.[27]

The consensus is that basing the fee formula primarily on Fair Market Rents "does not have a strong theoretical link to administrative costs" (Turnham et al., 2015: xiv).[28] For this reason, and perhaps to have a more empirically sound basis to persuade Congress to fully fund a fee formula, HUD commissioned a major study designed to determine what characteristics of well-managed

[26] See PIH Notices 2015-17, "Use and Reporting of Administrative Fee Reserves," and 2004-7 paragraph 4. PHAs may use prior year administrative funds in their reserve account for rent subsidy expenses if HCV renewal funds are insufficient. In 2022, HUD issued guidance that somewhat expanded the use of current year fees and fee reserves, based on the longstanding appropriations language that fees are "available for administrative *and other* expenses" in administering the HCV program. This notice made clear that PHAs could use current year fees and not just fee reserves for expenses such as security deposits or landlord incentive payments to facilitate families renting units with their vouchers. PIH Notice 2022-18, "Use of Housing Choice Voucher (HCV) and Mainstream Voucher Administrative Fees for Other Expenses to Assist Families to Lease Units," supersedes the 2015 notice in part.

[27] HUD establishes two different fee rates for each PHA each year. The higher rate ("column A") applies to the first 600 vouchers leased annually (7,200 unit months). The lower rate ("column B") applies to additional leased vouchers. This policy makes the per-voucher average fee for PHAs leasing 600 or fewer vouchers higher than the overall average fee earned by PHAs leasing more than 600 vouchers. See https://www.hud.gov/sites/dfiles/PIH/documents/CY_2023_AdminFeeRateDescription_May2023.pdf.

[28] See also the Foreword to the Turnham et al. (2015: viii) report by then Assistant Secretary Katherine O'Regan: "Since the beginning of the Housing Choice Voucher (HCV) program in the mid-1970s, the formula for allocating administrative fees has largely relied on differences in Fair Market Rents (FMRs) for determining administrative fee allocations, with agencies in areas with high FMRs getting higher fees per voucher than agencies with lower FMRs. This allocation is based on the weak theory that FMRs correlate with wage rates and other costs of operation."

HCV programs best accounted for the differences in their administrative costs and to propose an evidence-based revision of the fee formula. The HUD study, based on data collected primarily in 2013, found a number of potentially significant cost drivers that do not correlate with relative area rents (Turnham et al., 2015).

In 2016, HUD proposed a new fee formula based on the research findings and subsequent public comments.[29] It would have changed the share of administrative funding many PHAs received, with some receiving increases and others suffering reductions, depending in part on whether Congress fully funded the new formula. Members of the appropriations subcommittees with jurisdiction over HUD funding indicated their opposition to the proposed changes (likely due to local impacts), and HUD has not proceeded with the proposed formula change.

The status quo on administrative fees is unsatisfactory. The combination of a poorly designed fee formula and persistent congressional underfunding of that formula makes it challenging for many PHAs to carry out required activities, let alone undertake additional efforts such as expanding housing choices for families or partnering with other state and local organizations to reduce homelessness. Even if HUD does not revise the current formula, it may be able to make other modifications to fee policy that would have beneficial effects, as discussed in the final section of this article.

Funding for "New" Vouchers

The third category of HCV program funding that Congress provides in some years is for "new" vouchers. This apparently simple term encompasses two broad categories.

1. *Incremental* vouchers add to the number of authorized vouchers that HUD has allocated to PHAs and increase the overall number of HUD-assisted rental units because they were not issued to replace other HUD-assisted units. About 1.83 to 2.0 million of the 2.69 million vouchers HUD reported as authorized in November 2023 are in this category.[30] In addition, Congress has provided 71,217 "Mainstream" vouchers for people with disabilities that are now renewed as part of the HCV program.[31] Beginning in 2021, Congress authorized and funded some 70,000 *temporary* incremental vouchers, called Emergency Housing Vouchers (EHVs), primarily to assist households that were homeless or at risk of homelessness.[32]

[29] HUD, "Housing Choice Voucher Program – New Administrative Fee Formula," 81 Fed. Reg. 44100, July 6, 2016, https://www.govinfo.gov/content/pkg/FR-2016-07-06/pdf/2016-15682.pdf.

[30] The estimated range of incremental vouchers is based on HUD (2000) for the years from 1975 to 2000 and CBPP calculations from HUD data and Federal Register notices for the remaining years through 2023. The total of incremental vouchers includes about 210,000 "special purpose" vouchers that are restricted to specified demographic groups. The total number of authorized vouchers is from HUD's HCV Data Dashboard (note 3).

[31] HUD does not include Mainstream vouchers in the number of authorized vouchers in the HCV Data Dashboard, and they do not count to determine the number of vouchers a PHA may project-base, which is based on the number of vouchers under the regular HCV ACC. Until 2011, Mainstream vouchers were funded under the Section 811 Supportive Housing for People with Disabilities program, 42 U.S.C. §8013(d)(4). The Frank Melville Supportive Housing Investment Act of 2010, P.L. 111-374, §2, directed that all Mainstream vouchers were to be funded like regular housing vouchers. HUD requested this change as part of then-Secretary Donovan's initiative to streamline HUD rental assistance programs.

[32] EHVs were funded in the American Rescue Plan Act of 2021 (ARP), P.L. 117-2. Funding for these vouchers expires at the end of federal fiscal year 2030, or when fully expended if earlier. Reissuance of EHVs to new households has not been permitted since September 30, 2023. Id., §3202. See PIH Notices 2021-15 and 2023-14 for HUD's relevant policy guidance.

2. *Tenant protection* vouchers also add to the number of authorized vouchers that HUD has allocated to PHAs. Unlike incremental vouchers, tenant protection vouchers do not increase the total number of HUD-assisted rental units, because they replace units previously assisted under other HUD programs (primarily public housing and Section 8 project-based rental assistance). Roughly 689,000 of the 2.69 million authorized vouchers originated as tenant protection vouchers.[33] Most of these vouchers can be reissued to any type of eligible family on public housing agencies' waiting lists after the initial families leave the HCV program.[34] Beginning in 2015, however, Congress has restricted some tenant protection vouchers for use only by the family originally issued the voucher, meaning that these designated "relocation" vouchers cannot be reissued to other families and do not permanently increase the number of authorized vouchers. The rationale for this policy change is that replacement vouchers, which can be reissued, are not needed if the unit the family had been living in is being rehabilitated or rebuilt and will be available to eligible families at the completion of construction.[35]

Funding for Incremental HCVs Declined Sharply Starting in 1995

In the first 20 years of what is now the HCV program, Congress added incremental certificates or vouchers every year. By 1994, 1,390,005 incremental vouchers had been authorized and funded (HUD, 2000: 9). In 1995, the newly Republican-controlled Congress rescinded more than $3 billion in funding for incremental vouchers that Congress had previously enacted and provided no funding for incremental vouchers for the next 3 years.[36] For the 3 years from 1999 to 2001, then-Secretary Cuomo persuaded Congress to add 189,000 incremental vouchers, and Congress funded about 18,000 incremental vouchers in 2002, bringing the total number of incremental vouchers funded through 2002 to about 1.6 million (Khadduri, 2015).

After 2002, Congress provided few incremental vouchers until fiscal year 2022, with the exception of the 70,000 EHVs that rely on mandatory funding. The only incremental vouchers funded in the appropriations acts for 2003 through 2021 were about 200,000 special purpose vouchers, nearly all for people with disabilities and homeless veterans.[37] In the fiscal year 2022 and 2023 appropriations acts, in addition to about 8,000 special purpose vouchers, Congress provided

[33] CBPP staff and the author calculated that 689,401 tenant protection vouchers (TPVs) were issued in the 30 years from 1994 through 2023, using a variety of HUD data sources, primarily Federal Register notices beginning in 1994 and Rental Assistance Demonstration program data on public housing units approved for conversion to project-based vouchers, and estimated the number of TPVs funded in 2020 and 2023 based on the congressional appropriation because HUD has not published data for those years. A larger number of current authorized vouchers may have originated as TPVs than publicly available data indicate.

[34] Project-based TPVs that preserve "hard" affordable units are an exception. Families moving into such units must qualify for the unit's number of bedrooms and meet other applicable criteria. For background on project-based vouchers, see Sard (2023).

[35] P.L. 113–235, 128 STAT. 2731. HUD has not published data on the number of TPVs designated as relocation-only since 2015, but if the original families who received the vouchers had exited the program before the end of November 2023, their vouchers presumably would no longer be included in the HUD data on authorized vouchers.

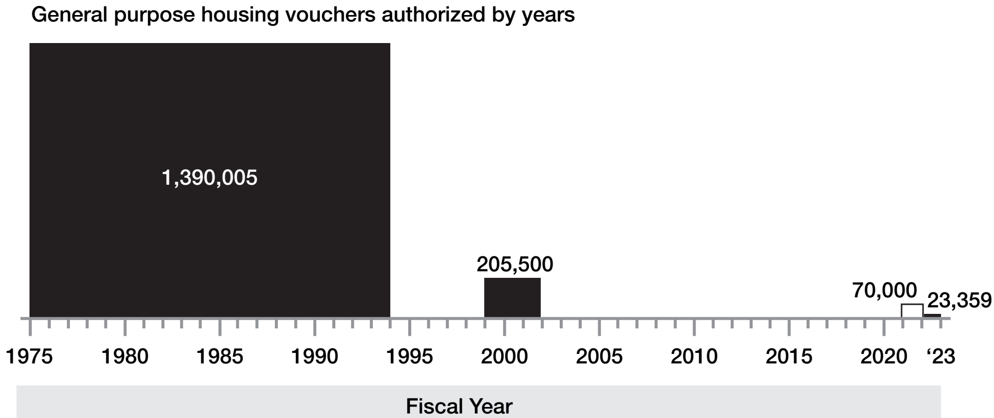
[36] P.L. 104-19, 109 STAT. 232, 233 (July 27, 1995); HUD (2000).

[37] CBPP staff calculations. Some of these were Mainstream vouchers funded in the past decade that HUD's total authorized voucher figure may not include.

funding for more than 23,000 general purpose "fair share" vouchers, the first such awards in 2 decades.[38] Exhibit 1 shows these allocations.

Exhibit 1

Incremental Vouchers Decreased Sharply After First 20 Years



Notes: Incremental vouchers funded in annual appropriations acts remain available only if the U.S. Congress continues to renew funding. In 2021, Congress funded 70,000 Emergency Housing Vouchers for up to 10 years. Data do not include the more than 280,000 special purpose vouchers restricted to particular demographic groups and the estimated 690,000 nonincremental tenant protection vouchers that Congress has funded beginning in the early 1990s.

Sources: Fiscal years 1975–2000 data—HUD (2000); later years—congressional reports, HUD documents, and analyses by Center on Budget and Policy Priorities staff and the author

The sharp decline in new incremental vouchers after 1994 exacerbated the increase in "worst case" housing needs in the ensuing decades (Alvarez and Steffen, 2023: ES-1). More nuanced effects have also prevailed. For example, because most new vouchers after 2002 were reserved for people with disabilities and homeless veterans, the share of vouchers housing families with children declined significantly. At the same time, the share of vouchers received by seniors and people with disabilities without children increased (Mazzara, Sard, and Rice, 2016).

In addition, the geographic distribution of vouchers has been significantly affected, stemming from two aspects of the history of the allocation of new vouchers. First, the large majority of new vouchers allocated based on relative need—fair share vouchers—were funded before 2003. In the years when most of these vouchers were allocated, HUD had selection policies in place that disadvantaged PHAs in large urban areas relative to suburban areas (Sard, 1995). Second, about 25 percent of current authorized vouchers have been issued to replace subsidies that HUD committed primarily before 1990 through the public housing and privately owned, project-based assisted housing programs. Places that received more of these early allocations tend to have been relatively more populated in the latter half of the 20th century than in the 21st century.

[38] HUD allocates "fair share" vouchers based on relative need for rental assistance in different states and smaller geographic areas if funds permit. See 24 C.F.R. 982.101(b)(2)(iii). Within the allocation areas, funds typically have been awarded competitively to PHAs. To allocate the 2022 and 2023 fair share vouchers, HUD modified the selection criteria and process somewhat pursuant to the congressional authorization and added PHA capacity criteria in 2023. See PIH Notices 2023-21 and 2022-29.

As a result, many rural areas, plus states in the East and Midwest, have a higher ratio of federal rental assistance, including housing vouchers, relative to current need than places that grew substantially in the 21st century. For example, Alabama has sufficient federal rental assistance to serve nearly one-half of the state's families in greatest need of rental subsidies, and Illinois can provide federal rental assistance to about one in three of its neediest families, whereas California can serve only about one in four families, and Arizona has federal rental assistance for less than one in five similar families.[39] Taken together, these historic factors make it even more difficult for places in the West and Southwest, as well as large cities in other areas, to address their disproportionately high rates of homelessness.

Funding the HCV Program Annually Through the Discretionary Budget Is Harmful to Families and Challenging for PHAs to Administer

Since 2003, when Congress began basing renewal funding primarily on voucher leasing and costs in the prior year—on top of earlier decisions to provide only single-year rather than multiyear funding commitments for all program components—the HCV program has been more challenging for PHAs to administer. Predicting future subsidy costs or voucher turnover rates with a high degree of accuracy is inherently difficult for HUD, Congress, and PHAs. Consequently, HUD and Congress may err in the amount of renewal funding requested or provided, and PHAs may be too cautious or too generous in setting maximum voucher subsidies or in deciding how many vouchers to issue to families on their waiting lists. Any of these judgment errors could prevent PHAs from maintaining the number of families their HCV programs assist.

Voucher costs may increase due to many factors. Factors largely outside of PHAs' control or ability to predict include increasing local market rents, declining family incomes, larger families admitted to the program that qualify for larger (and, therefore, more expensive) units, more families searching for new rentals succeeding in securing units, and more participating families moving to neighborhoods with higher rents. If more families leave the program than had been typical, costs also are likely to increase (unless the vouchers are not reissued) for two reasons: the newly admitted replacement families are likely to have lower incomes, and the rent for newly occupied units will be higher in a rising market. Taken together, these factors will increase the rental subsidy replacement families receive.

Better data, analytic tools, and technical assistance to help PHAs predict future leasing and costs more accurately have helped PHAs manage the challenges inherent in annual renewal funding. However, if predictions about cost-drivers turn out to be wrong, and HUD's inflation factor is not sufficient to meet the current year's actual costs, PHAs need access to additional funds—through

[39] Author's calculation of Center on Budget and Policy Priorities estimates of households receiving housing voucher subsidies and other units of federal rental assistance in 2011 or 2012 compared with estimated unmet rental housing needs by state (Sard and Fischer, 2013: Appendix 3b).

their reserves or receipt of supplemental funding—to avoid having to reduce the number of families they serve or increase the share of housing costs that families are required to pay, or both.[40]

In the worst case, PHAs may have to terminate the subsidies of currently participating families, resulting in loss of housing and possible homelessness. Terminating subsidy contracts with landlords—or unilaterally reducing subsidy payments—undermines landlords' willingness to participate in the program (Sard, 2004). Furthermore, if PHAs use fewer vouchers in a year than usual or otherwise spend less on voucher subsidies, their next year's renewal funding will be reduced, locking in a loss of HCV subsidies unless the PHAs can increase the rent subsidies they provide by drawing on reserves or other supplemental funds.

These risks exist even if Congress fully funds the renewal formula, particularly if the formula does not rely on recent calendar year data (as was the case in 2004–06), the inflation factor does not keep pace with rapidly rising rents, reserves are low, or supplemental funding is inadequate. In the best of cases under recent renewal policy, fully funding the renewal formula only allows PHAs to continue to assist the same number of families, without the means to lease up more than 250,000 vouchers that are authorized but unfunded in 2023 (note 22).

In all but 6 years in the period from 2005 to 2023, however, Congress provided less than the amount of funding needed to fully fund that year's renewal policy. In 4 years—2005, 2006, 2013, and 2017—voucher renewal funding levels were so inadequate that many PHAs were forced to reduce the number of families receiving vouchers or take other measures harmful to families and the program's reputation (Rice, 2013; Rice, 2017a; Sard and Rice, 2007).[41]

To restore more vouchers to use after some of these severe cutbacks, Congress made additional renewal funding, above the level needed to fully fund the renewal policy, available in the 2007, 2008, and 2015 appropriations acts. These funds also may have enabled some PHAs to add to their reserves. Despite these brief remedial efforts, periodic funding shortfalls and the effect on PHA management have caused fewer vouchers to be available in many communities. For example, due to the funding cuts in 2013, about 100,000 fewer families received HCV assistance, only about one-half of which were restored by the end of 2015 (Rice, 2016).

The steepest proration in the history of the HCV program (below 94 percent) was in 2013, largely due to the "sequestration" cut of nearly $1 billion from the HCV program that the caps on discretionary spending agreed to in the 2011 Budget Control Act (BCA) required (Reich, 2015; Rice, 2013). Despite Congress moderating the BCA caps somewhat after 2013, housing assistance funding overall was 4.6 percent less in 2016 than in 2010, adjusted for inflation (Rice, 2016). The

[40] HCV families who rent units costing more than the maximum subsidy a PHA provides have to pay the remaining rent cost in addition to 30 percent of income.

[41] According to HUD administrative data, the renewal formula was fully funded in 2007, 2008, 2015, and 2021–23. The prorations in the 4 years of deep cuts were 2005: 0.95917; 2006: 0.958351792; 2013 (for all but vouchers for homeless veterans under the Veterans Affairs Supportive Housing program): 0.93976; and 2017: 0.97000. In the other 9 years, the gap was less than 1 percent, and HUD may have been able to narrow or close the gap with other funds, including reducing funding awarded to PHAs with "excess" reserves.

budget caps, not hostility to HUD programs generally, drove these cuts (Rice, 2017b).[42] Funding for the HCV program was reduced by less in dollar terms—and much less proportionally—than other HUD programs such as public housing, the HOME block grant, and housing for elderly people and people with disabilities (Rice, 2016). The new nondefense discretionary caps that apply in 2024 and 2025, which do not allow for inflation-related increases, may again drive shortfalls in funding for voucher renewals or in other HUD programs to enable HCV funding to be increased enough to cover the steep increase in rental costs that began during the pandemic (Reich, 2023).[43]

Programs that Congress funds annually make up only a small share (14 percent) of the federal budget, but they are the programs that Congress can control most directly and, therefore, are most likely to be the focus of policymakers looking to cut spending (CBPP, 2023). Discretionary programs are also at risk of funding delays and gaps due to Congress's failure to timely enact annual appropriations. Since 2005, when Congress shifted renewal funding to a calendar year basis for all PHAs, Congress has failed in 9 years (through 2023) to enact HUD's annual appropriations law until after the calendar funding year began (Appendix: Annual HUD Appropriations Laws, 1990–2023).

Nondefense discretionary spending has been declining as a share of the economy since 2010, with the exception of COVID-19-related spending in 2020 (CBPP, 2023). As the largest single component of the HUD budget—and one that often requires funding increases just to assist the same number of families due to the growing gap between rents and tenant incomes—the HCV program is vulnerable to policymakers' recurring efforts to "control" spending. As long as the HCV program is funded entirely through annual appropriations bills, funding for voucher renewals and administrative fees may be shortchanged. Systemic pressures to control nondefense discretionary spending also make the prospects dim for the needed major increase in the number of families receiving rental assistance.

Lessons for the Future

The history of the key changes in funding of the three components of the HCV program—voucher renewals, administrative costs, and new vouchers—reveals areas for possible future improvements to enable the program to better achieve its goals and serve more households.

Voucher Renewal Policy Recommendations

At least in the near term, it is unlikely that there will be the political will to make funding of voucher renewals and related administrative costs more reliable by returning to multiyear funding commitments or shifting this spending from the discretionary to the mandatory side of the budget.

[42] Comparing final appropriations for 2017 to 2010, the year prior to the enactment of the BCA, CBPP found that Congress reduced HUD program funding (adjusted for inflation) by 9 percent, while cutting nondefense discretionary programs overall by 13.4 percent (Rice, 2017b).

[43] The Fiscal Responsibility Act of 2023 (also known as "the debt limit deal") established enforceable discretionary spending caps for fiscal years 2024 and 2025. P. L. 118-5, §101(a), 2 U.S.C. §901(c)(9) and (10). CBPP estimated that the Senate and House fiscal year 2024 HUD appropriations bills would leave 80,000 to 112,000 housing vouchers in use in 2023 unfunded, respectively (Acosta, 2024). The compromise final bill appears to have increased voucher renewal funding to the level needed to maintain the number of funded vouchers or at least prevent cuts of this magnitude but reduced funding for many other HUD programs (Parrott, 2024).

Funding designated as mandatory—such as Social Security, Medicare, or the Supplemental Nutrition Assistance Program—recurs consistent with the specified policies, independent of annual appropriations acts, unless Congress changes the particular laws or a "sequester" reduces the amount of funding made available under particular mandatory programs (CBPP, 2022).

However, Congress could include in annual discretionary appropriations bills the following changes in HCV renewal policy to promote the efficient utilization of available funds, modestly increase the number of families receiving HCV assistance, and give PHAs the greater financial security they need to take the steps necessary to accomplish these and other program goals, such as expanding families' housing choices.

Enable Eligible Families to Use Authorized but Unfunded Vouchers

Nearly 400,000 authorized vouchers (out of nearly 2.7 million) were not in use to pay rent subsidies as of November 2023. HUD estimates that PHAs do not have funds available to support at least 250,000 of these unused vouchers, as discussed previously.

One way to put more of the unfunded authorized vouchers to use would be to reallocate them to PHAs that use all or nearly all their authorized vouchers. As of the end of September 2023, more than 130 non-Moving to Work agencies were leasing 98 percent or more of their authorized vouchers and have little or no ability to serve more families without an increase in the number of authorized vouchers as a result.[44] If Congress does not provide additional funds for the initial cost of these vouchers, excess reserves that HUD recaptures and reallocates could fund them. HUD requested similar reallocation authority in the fiscal year 2023 budget, but Congress did not approve it.[45] Such a policy would restore a key element of the negotiated rule on renewal funding policy HUD issued in 1999 discussed previously, which was designed to use more already authorized vouchers and give PHAs an incentive to increase their voucher utilization or risk loss of future leasing capacity.

In addition, Congress could allow HUD to provide additional funds to PHAs that effectively use available voucher renewal funds but have numerous authorized vouchers that they cannot use due to lack of funding. Two options to provide such funds are to make it an eligible use of excess reserve funds shifted from other PHAs or to make it an eligible category of uses of the supplemental funds set aside within the renewal amount, or both.[46]

[44] CBPP calculation of HUD data.

[45] HUD requested authority to reallocate authorized vouchers from PHAs with a history of significant underutilization of funded vouchers to PHAs that have high HCV utilization rates, are leasing all or nearly all their authorized vouchers, and have demonstrated capacity to serve additional families. President's Budget for Fiscal Year 2023, page 559, https://www.whitehouse.gov/wp-content/uploads/2022/03/hud_fy2023.pdf. Although Congress did not include general HCV reallocation authority in the fiscal year 2023 HUD appropriations act, it has given HUD authority to reallocate unused vouchers for foster youth in recent years (P.L. 117-103, 136 STAT. 732) and unleased EHVs and associated funds (ARP §3202(b)(4)(B), 135 STAT. 59).

[46] HUD requested this authority in the fiscal year 2023 budget. HUD, "Tenant-based Rental Assistance Congressional Justifications 2023," pages 6–12, https://www.hud.gov/sites/dfiles/CFO/documents/2023HUDCongressionalJustificationsFINALelectronicversion.pdf. The final 2023 appropriations act did not include it.

Allow PHAs to Use More Than the Authorized Number of Vouchers

It is common for PHAs to issue vouchers to more families than the number who succeed in leasing up. For PHAs near their authorized cap, however, this strategy is risky under current policy. If more families than expected enter into HCV rental agreements, the PHAs may be required to repay HUD the amount of rent subsidies provided during the year for more than the number of authorized vouchers. Congress could eliminate the prohibition in appropriations laws on leasing more than the authorized number of vouchers—and its deterrent effect—while still controlling costs by continuing to base renewal funding on the cost of leasing authorized vouchers but eliminating the requirement to pay HUD back for the cost of subsidies provided to families above the authorized cap.

Provide Funding, Above the Amount to Fully Fund the Renewal Formula, to Restore PHA Reserves to the HUD-Determined Reasonable Level

Given the uncertainty of congressional funding levels and in voucher costs from year to year, having sufficient reserves is essential to PHAs' willingness to administer their HCV programs in ways that would maximize the benefit of existing funding. For example, PHAs that increase the number of vouchers in use during the year, or increase payment standards to reduce families' rent burdens and enable families to access costlier units in neighborhoods with more opportunities, are taking the risk that they will have sufficient funds to sustain these policies in subsequent years. Even if fully funded, the renewal formula used in recent appropriations acts would cover only average costs in the prior year plus inflation. Higher leasing rates or payment standards in the latter part of the year can only be sustained in the following year by drawing on reserves. Even if Congress gives HUD authority to provide supplemental funds for these purposes, receipt by any particular PHA is not guaranteed given the many claims on such funds.

At the end of 2022, nearly 500 PHAs—close to 1 of every 4 PHAs administering vouchers—had lower reserve levels than HUD considers reasonable for their program size and, therefore, could be constrained from adopting policies that would increase the effectiveness of their HCV programs.[47] Once PHAs have reduced their reserves below the reasonable level, they are on their own to build up reserves. HUD has no authority or funding to fill this gap. To do so, PHAs generally must "save" some of their annual renewal funding by serving fewer families or reducing per-voucher costs by reducing payment standards or altering other discretionary policies. Particularly when the problem stems directly from underfunding of voucher renewals in appropriations legislation, Congress should aim to compensate by providing additional funding in subsequent years to restore reserves, in addition to providing full renewal funding under the formula. Alternatively, Congress could give HUD authority to restore reserves using funds recaptured from excess PHA reserves and other HUD programs.

Incorporate Voucher Renewal Funding Policy in Authorizing Law, Including Using Mandatory Funding to Prevent Prorations

As discussed previously, in every year beginning in 2003, annual HUD appropriations bills have overridden the congressionally mandated negotiated rule on voucher renewal policy, often with new changes in HCV renewal policy. Congress has never incorporated an updated voucher renewal

[47] Author's calculations from HUD data.

funding policy into the U.S. Housing Act, and the 1999 negotiated rule is still in HUD's regulations (24 C.F.R. 982.102). The flexibility to rewrite voucher renewal policy annually in appropriations acts helped improve the calamitous policy changes from 2003 to 2006. By now, however, plenty of time has passed to learn from experience, and PHAs would greatly benefit from the security of having renewal policy incorporated into the Housing Act. Congress is less likely to ignore or override policies included in authorizing laws approved by a current or prior Congress, rather than just in agency regulations, so such a change would bring more predictability to voucher renewal funding. The legislation could allow HUD to continue to develop policy in some areas through notice or new regulations.

As part of such an amendment to the Housing Act, Congress could include a provision requiring the U.S. Department of the Treasury to provide additional funds to HUD if an annual appropriations act is insufficient to fully fund voucher renewal needs. Such a provision, called a permanent indefinite appropriation, would effectively eliminate the risk of annual appropriations bills underfunding the renewal policy required by the act. The additional funds would be considered "mandatory" and, therefore, would not count against any applicable discretionary cap.[48]

Administrative Funding Improvements

Improving the adequacy of administrative fees requires revamping the formula for allocating funds based on evidence of key cost-drivers, and not just fully funding the current irrational policy that is largely based on rent costs 30 years ago, as discussed previously. If opposition from key members of Congress continues to make it impractical for HUD to attempt to revise the formula, HUD could nonetheless take some important steps to encourage PHAs to implement discretionary policies that entail additional administrative costs. By regulation or notice, HUD could establish supplemental or bonus fees for PHAs that adopt particular policies or initiatives. For example, PHAs that increase the share of vouchers used in low-poverty (or otherwise higher-opportunity) areas could be eligible for additional fees. To have flexible funds available to use for such bonuses, it may be necessary for HUD to request—and Congress approve—a higher amount of administrative funding that HUD may distribute separately from the fee formula.[49]

Mandatory Funding for Additional Incremental Vouchers

A major expansion of the number of incremental vouchers Congress funds is essential to make significant progress in reducing severe rent burdens, housing instability, and homelessness, which all have worsened considerably during the past 2 decades (Alvarez and Steffen, 2023; de Sousa et

[48] Congress included a similar provision in section 3202(a)(4) of the ARP, but it applied only to funding shortfalls for particular reasons in fiscal year 2021 and, therefore, was a "current indefinite" provision, not the proposed permanent indefinite authorization.

[49] In the 2023 appropriations act, Congress gave HUD discretion over the allocation of only $30 million, about 1 percent of the $2.78 billion provided for "administrative and other expenses of public housing agencies in administering the section 8 tenant-based rental assistance program." P.L. 117-328, 136 STAT. 5144.

al., 2023; JCHS, 2024).[50] However, the lesson of the past 30 years is that a substantial increase in spending for new housing vouchers is unlikely as part of the discretionary budget due to caps on discretionary spending and the greater vulnerability of discretionary programs to funding cuts.[51]

To establish precedent of authorizing mandatory funding for additional permanent housing vouchers, it makes sense to start with proposals to increase vouchers for politically popular groups that also have severe housing needs. That approach has gained some traction in recent years. The President's fiscal year 2024 budget request included two such proposals, one that would make 50,000 new vouchers available for extremely low-income veterans with severe housing needs (an estimated 450,000 households once fully implemented) and the other to guarantee housing vouchers to all youth aging out of foster care (about 20,000 per year). As proposed, mandatory funding for these new vouchers would be provided for 10 years, with the expectation that the funding would be extended, thereby allowing the vouchers to be reissued to qualifying families.[52] This is the first time that a President has included such mandatory funding proposals for additional vouchers as part of the annual budget.

Congress has shown some willingness to provide new funding for housing vouchers through the mandatory rather than discretionary budget. As noted previously, Congress provided mandatory funding for about 70,000 EHVs in 2021 to provide up to 10 years of rental subsidies for people who otherwise would be homeless or at risk of homelessness. Also in 2021, the House of Representatives approved a proposal for mandatory funding for an estimated 300,000 incremental vouchers and their renewal for no more than 10 years, including related administrative costs (Fischer, 2022).[53] Taken together, these congressional actions and recent administration proposals are a foundation on which a future Congress, with both houses supporting a substantial increase in housing vouchers, could build.

[50] Nearly two-thirds of households earning less than $30,000 paid more than one-half their incomes in rent in 2022, and these households are far more likely than higher-income households to experience homelessness and other housing-related hardship (JCHS, 2024). HUD's most recent analysis of "worst-case" housing needs found that 8.5 million unassisted households with incomes at or below 50 percent of local median income paid more than one-half their incomes for rent or lived in severely inadequate housing in 2021, up from 5.0 million in 2001 (Alvarez and Steffen, 2023).

[51] It makes sense to continue to rely on discretionary funding for the initial year of the relatively small and changeable number of new tenant protection vouchers needed each year due to multifamily owners' decisions not to renew their contracts with HUD, or public housing conversion or reconstruction. If Congress does not enact legislation to substantially expand the availability of housing vouchers with mandatory funding, then it should provide additional discretionary funding for incremental vouchers.

[52] HUD, "2024 Congressional Justifications, Mandatory Affordable Housing Programs," pages 2-1 through 2-4, https://www.hud.gov/sites/dfiles/CFO/documents/2024-HUD-Congressional-Justifications.pdf. Congress has not advanced these proposals.

[53] "Build Back Better Act," H.R. 5376, section 40009, November 18, 2021. The Senate never formally considered the House Build Back Better bill because it did not have sufficient support to pass.

Appendix

Exhibit A1

Annual HUD Appropriations Laws, 1990–2023 (1 of 2)

Fiscal Year	Citation	Link
1990	P.L. 101-144, 103 STAT. 839, 844* (Nov. 9, 1989)	https://www.congress.gov/101/statute/STATUTE-103/STATUTE-103-Pg839.pdf
1991	P.L. 101-507, 104 STAT. 1351, 1356 (Nov. 5, 1990)	https://www.congress.gov/101/statute/STATUTE-104/STATUTE-104-Pg1351.pdf
1992	P.L. 102-139, 105 STAT. 736,743 (Oct. 18, 1991)	https://www.congress.gov/102/statute/STATUTE-105/STATUTE-105-Pg736.pdf
1993	P.L. 102-389, 106 STAT. 1571, 1579 (Oct. 6, 1992)	https://www.congress.gov/102/statute/STATUTE-106/STATUTE-106-Pg1571.pdf
1994	P.L. 103-124, 107 STAT. 1275, 1282 (Oct. 28, 1993)	https://www.congress.gov/103/statute/STATUTE-107/STATUTE-107-Pg1275.pdf
1995	P.L. 103-327, 108 STAT. 2298, 2305 (Sept. 28, 1994)	https://www.congress.gov/103/statute/STATUTE-108/STATUTE-108-Pg2298.pdf
1996	P.L. 104-134, 110 STAT. 1321-266 (Apr. 26, 1996)	https://www.govinfo.gov/content/pkg/STATUTE-110/pdf/STATUTE-110-Pg1321.pdf
1997	P.L. 104-204, 110 STAT. 2874, 2882 (Sept. 26, 1996)	https://www.congress.gov/104/plaws/publ204/PLAW-104publ204.pdf
1998	P.L. 105-65, 111 STAT. 1344, 1351 (Oct. 27, 1997)	https://www.congress.gov/105/plaws/publ65/PLAW-105publ65.pdf
1999	P.L. 105-276, 112 STAT. 2461, 2469 (Oct. 21, 2998)	https://www.congress.gov/105/plaws/publ276/PLAW-105publ276.pdf
2000	P.L. 106-74, 113 STAT. 1047, 1055 (Oct. 20, 1999)	https://www.congress.gov/106/plaws/publ74/PLAW-106publ74.pdf
2001	P.L. 106-377, 114 STAT. 1441, 1441A-11 (Oct. 27, 2000)	https://www.congress.gov/106/plaws/publ377/PLAW-106publ377.pdf
2002	P.L. 107-73, 115 STAT. 651, 659 (Nov. 26, 2001)	https://www.congress.gov/107/plaws/publ73/PLAW-107publ73.pdf
2003	P.L. 108–7, Div. K, Title II; 117 STAT. 11, 483 (Feb. 20, 2003)	https://www.congress.gov/108/plaws/publ7/PLAW-108publ7.pdf
2004	P.L. 108-199, Div. G, Title II; 118 STAT. 3, 371 (Jan. 23, 2004)	https://www.congress.gov/108/plaws/publ199/PLAW-108publ199.pdf
2005	P.L. 108-447, Div. I, Title II; 118 STAT. 2809, 3295 (Dec. 8, 2004)	https://www.congress.gov/108/plaws/publ447/PLAW-108publ447.pdf
2006	P.L. 109-115, Div. A, Title II; 119 STAT. 2396, 2440 (Nov. 30, 2005)	https://www.congress.gov/109/plaws/publ115/PLAW-109publ115.pdf
2007	P.L. 110-5, Sec. 21033, 121 STAT. 8, 51 (Feb. 15, 2007)	https://www.congress.gov/110/statute/STATUTE-121/STATUTE-121-Pg8.pdf
2008	P.L. 110-161, Div. K, Title II; 121 STAT. 1844, 2412 (Dec. 26, 2007)	https://www.congress.gov/110/statute/STATUTE-121/STATUTE-121-Pg1844.pdf
2009	P.L. 111-8, Div. I, Title II; 123 STAT. 524, 950 (Mar, 11, 2009)	https://www.congress.gov/111/plaws/publ8/PLAW-111publ8.pdf
2010	P.L. 111-117, Div. A, Title II; 123 STAT. 3034, 3074 (Dec. 16, 2009)	https://www.congress.gov/111/plaws/publ117/PLAW-111publ117.pdf
2011	P.L. 112-10, Div. B, Sec. 2235; 125 STAT. 38, 195 (Apr. 15, 2011)	https://www.govinfo.gov/content/pkg/PLAW-112publ10/pdf/PLAW-112publ10.pdf

Exhibit A1

Annual HUD Appropriations Laws, 1990–2023 (2 of 2)

Fiscal Year	Citation	Link
2012	P.L. 112-55, Div. C, Title II; 125 STAT. 552, 672 (Nov. 18, 2011)	https://www.govinfo.gov/content/pkg/PLAW-112publ55/pdf/PLAW-112publ55.pdf
2013	P.L. 113-6, Div. F, Title VIII, Sec. 1807; 127 STAT. 198, 434 (Mar. 26, 2013)	https://www.congress.gov/113/plaws/publ6/PLAW-113publ6.pdf
2014	P.L. 113-76, Div. L, Title II; 128 STAT. 5, 604 (Jan. 17, 2014)	https://www.govinfo.gov/content/pkg/PLAW-113publ76/pdf/PLAW-113publ76.pdf
2015	P.L. 113–235, Div. K, Title II; 128 STAT. 2130, 2727 (Dec. 16, 2014)	https://www.govinfo.gov/content/pkg/PLAW-113publ235/pdf/PLAW-113publ235.pdf
2016	P.L. 114-113, Div. L, Title II; 129 STAT. 2242, 2866 (Dec. 18, 2015)	https://www.govinfo.gov/content/pkg/PLAW-114publ113/pdf/PLAW-114publ113.pdf
2017	P.L. 115-31, Div. K, Title II; 131 STAT. 135, 756 (May 5, 2017)	https://www.govinfo.gov/content/pkg/PLAW-115publ31/pdf/PLAW-115publ31.pdf
2018	P.L. 115-141, Div. L, Title II; 132 STAT. 348, 1005 (Mar. 23, 2018)	https://www.congress.gov/115/plaws/publ141/PLAW-115publ141.pdf
2019	P.L. 116-6, Div. G, Title II; 133 STAT. 13, 431 (Feb. 15, 2019)	https://www.congress.gov/116/plaws/publ6/PLAW-116publ6.pdf
2020	P.L. 116-94, Div. H, Title II; 133 STAT. 2534, 2973 (Dec. 20, 2019)	https://www.congress.gov/116/plaws/publ94/PLAW-116publ94.pdf
2021	P.L. 116-260, Div. L, Title II; 134 STAT. 1182, 1865 (Dec. 27, 2020)	https://www.congress.gov/116/plaws/publ260/PLAW-116publ260.pdf
2022	P.L. 117-103, Div. L, Title II; 136 STAT. 49, 725 (Mar. 15, 2022)	https://www.congress.gov/117/plaws/publ103/PLAW-117publ103.pdf
2023	P.L. 117-328, Div. L, 136 STAT. 4459, 5139 (Dec. 29, 2022)	https://www.congress.gov/117/plaws/publ328/PLAW-117publ328.pdf

**The second page in the "STAT." component of the citation is the page on which text begins relating to HUD appropriations. Provisions relating to the Housing Choice Voucher program are usually at or near the beginning of the HUD section.*

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Author

Barbara Sard is a consultant on housing policy. Until 2019, she led Housing work at the Center on Budget and Policy Priorities for more than 20 years. From 2009 to 2011, she was the Senior Advisor for Rental Assistance to HUD Secretary Shaun Donovan.

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