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Recent Changes to the Section 8 Voucher Renewal Funding Formula

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January 29, 2008

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Prepared for Members and Committees of Congress

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Summary

Changes enacted by Congress during the appropriations process in each of the past several years have significantly altered the way that public housing authorities (PHAs) receive funding to administer the Section 8 Housing Choice Voucher program. Prior to FY2003, PHAs received funding for each voucher they were authorized to administer, based on their average costs from the previous year, plus inflation. Most PHAs were not using all of their vouchers, and each year the Department of Housing and Urban Development (HUD) was able to recapture unspent funds. Some Members of Congress expressed concern about the underutilization of vouchers and the amount of recaptures.

Beginning in FY2003 and culminating in FY2006, Congress fundamentally changed the way PHAs received voucher funding. The changes were designed to limit the amount of unspent funds held by PHAs and limit the cost of vouchers, which had begun to grow rapidly, due in part to market changes and in part to policy changes. In FY2006, PHAs were funded based on what they had received in the previous year (regardless of changes in their costs and utilization), plus an inflation adjustment, prorated to fit within the amount appropriated. Under this formula, the funding needs of the program became more predictable, but some agencies received more funding than they were legally permitted to spend, while other agencies did not receive enough funding for all of the vouchers they were authorized to administer. The Administration supported this conversion to a "budget-based" formula and requested that Congress enact permanent reforms to complement the new funding method. Low-income housing advocates and PHA industry groups generally opposed both the funding changes and the Administration's proposed policy reforms.

In FY2007, Congress again changed the voucher funding formula through the appropriations process. PHAs were made eligible to receive funding based on what they were spending in the previous year (rather than what they had been allocated in the previous year). As a result, PHAs that had not been spending all of their funding in FY2006 saw a reduction in funding in FY2007. Nonetheless, the funding provided was sufficient so that all PHAs received more than 100% of their 2006 costs and utilization. In FY2008, Congress adopted a cost and utilization based formula similar to FY2007, but with a reduction in funding for agencies with excess reserves.

The Section 8 voucher renewal funding formula may again be a focus of debate as Congress considers the FY2009 budget. Further, Section 8 reform legislation that has been approved by the House contains statutory formula changes closely aligned with those included in the FY2007 and FY2008 funding acts.

This report describes changes in the formula included in appropriations bills for FY2003 through FY2008. For more information on Section 8, see CRS Report RL32284, *An Overview of the Section 8 Housing Programs*, and CRS Report RL34022, *Section 8 Housing Choice Voucher Program: Issues and Reform Proposals in the 110th Congress.*

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Introduction

Each year, Congress provides funding to the Department of Housing and Urban Development (HUD) to renew the more than 2.1 million Section 8 vouchers — also called Housing Choice Vouchers — authorized by Congress (see **Table 1** below). The Section 8 voucher program is federally funded and governed by federal rules, but is administered at the local level by quasi-governmental public housing authorities (PHAs). Section 8 vouchers are rental subsidies that low-income families use in the private market to help make up the difference between their rent and their expected contribution toward that rent (30% of adjusted income). The cost of a voucher to a PHA is the difference between the lesser of a tenant's actual rent or the maximum subsidy level set by the PHA — called a payment standard — and 30% of a tenant's income. That cost increases or decreases with changes in tenant incomes and changes in rents and payment standards. (For more information on Section 8 voucher reform proposals, see CRS Report RL34022, *Section 8 Housing Choice Voucher Program: Issues and Reform Proposals in the 110th Congress,* by Maggie McCarty.)

In recent years, Congress has enacted, and HUD has implemented, a series of changes in the way that voucher renewal funding is distributed to local PHAs. These changes have led to funding uncertainty for many PHAs, and has put pressure on Congress to adopt a permanent funding formula, possibly through enactment of Section 8 voucher reform legislation.

This report discusses the renewal funding formula changes that Congress has enacted as a part of the annual appropriations process, starting in FY2003, and concludes with a discussion of their impact.

Table 1. Section 8 Voucher Renewal Funding, FY2003-FY2008
(in millions of dollars)

	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Renewal Funding	11,259	12,721	13,355	13,949	14,436	13,971[a]

Source: Table prepared by CRS. Figures are derived from HUD budget documents. For more details, see CRS Appropriations Reports. Central Reserve funding is included.

a. The FY2008 appropriations act provided $14,695 million for renewal funding in FY2008, but also rescinded $723 million in renewal funding available for FY2008. The amount shown here is reduced for the rescission.

Pre-FY2003 Funding

Prior to FY2003,[1] PHAs administering the voucher program were funded based on their average annual per-voucher cost from the previous year, adjusted by an inflation factor and multiplied by the number of vouchers that the PHA was authorized to lease.[2] In the event that a PHA's voucher costs increased faster than the inflation factor established by HUD, HUD maintained a reserve equal to one month of voucher funding on behalf of each PHA. Despite the fact that they received full funding, few PHAs were able to lease 100% of their authorized vouchers. In fact, low utilization rates were a major concern of Congress for several years.[3] While PHAs are expected to have utilization rates of at least 95%[4], in FY2000 and FY2001, national voucher utilization rates were just over 91%.[5] Since PHAs were not utilizing all of their vouchers, they typically had more money in their budgets than they needed, and they rarely had to dip into their one-month program reserves, even if their costs rose significantly. At the end of the year, HUD and each PHA would reconcile their budgets, and HUD was typically able to recapture excess funds from PHAs' reserves.[6]

HUD generally used this same formula — last year's actual costs, plus an inflation, times the number of authorized vouchers — each year to determine how much funding to request from Congress for the renewal of tenant-based Section 8 vouchers. HUD would also make available to Congress for rescission those unused funds that the agency had recaptured from PHAs. The end result of this system *for PHAs* was that their funding increased along with their costs. If their costs dropped, they were permitted to use some of their excess funds to create new vouchers, a process called maximized leasing. The end result of this system *for Congress* was

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[1] The formula in place prior to FY2003 was authorized by the Quality Housing and Work Opportunity Reconciliation Act of 1998 (P.L. 105-276, codified at 42 USC 1437f(dd)).

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

[3] Voucher utilization was the topic of Congressional hearings; an Appropriations subcommittee staff report on the topic was developed in the Senate (Empty Promises — Subcommittee Staff Report on HUD's Failing Grade on the Utilization of Section 8 Vouchers, September 12, 2000); and in the FY2001 appropriations law, Congress included language permitting PHAs to increase their payment standards to help increase utilization.

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

[5] Hearing before the House Subcommittee on VA, HUD and Independent Agencies, Hearing on the FY2003 HUD budget, 107th Congress, 2nd Session, March 19, 2002, document Part 6.

[6] HUD had the authority to permanently reallocate vouchers (and their accompanying funding) from PHAs that were not using all of their vouchers (and had surplus funding) to those PHAs that were using all of their vouchers and had excess demand. The Department published a notice in the Federal Register in November 2001 explaining the reallocation process, however, HUD never implemented the process or made any reallocations.

that each year it provided more funds for voucher renewals than PHAs could reasonably be expected to use, and then recaptured those unused funds the following year to offset the cost of that year's appropriation.

FY2003 Funding Changes

In FY2003, Congress changed the way PHAs were funded in an attempt to limit recaptures of unspent funds and provide funding levels that better reflected actual use. HUD was directed in the annual appropriations bill to fund PHAs based on their average annual per-voucher cost from the previous year, increased by the inflation factor, and multiplied by the number of vouchers the PHA could *reasonably be expected to lease in that year* (rather than the larger number of *authorized* vouchers). Specifically, the law stated,

> The Secretary shall renew expiring section 8 tenant-based annual contributions contracts for each public housing agency ... based on the total number of unit months which were under lease as reported on the most recent end-of-year financial statement submitted by the public housing agency to the Department, adjusted by such additional information submitted by the public housing agency ... regarding the total number of unit months under lease at the time of renewal of the annual contributions contract, and by applying an inflation factor based on local or regional factors to the actual per-unit cost as reported on such statement. (P.L. 108-7, Title II, Section (1))

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

> Renewal calculations under the [Federal Fiscal Year] 2003 Appropriation will be based on the total number of unit months under lease and actual cost data, as reported on the PHA's most recent year-end settlement or as subsequently submitted to HUD by the PHA. Actual costs will be adjusted by applying the [Annual Adjustment Factors]. Expiring voucher funding increments will generally be renewed for terms of three months. The use of the most recent leasing and cost data and the short renewal terms will enable HUD to calculate funding more accurately than previous procedures allowed. (HUD Notice PIH 2003-23, Issued September 22, 2003)

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

> The Secretary may use amounts made available in such fund, as necessary, for contract amendments resulting from a significant increase in the per-unit cost of vouchers or an increase in the total number of unit months under lease as compared to the per-unit cost or the total number of unit months provided for by the annual contributions contract. (P.L. 108-7, Title II, Section (2))

Finally, the bill instituted restrictions on maximized leasing, stating that none of the funds provided in the act could be used to support more vouchers than a PHA was authorized to lease in a year. This presented problems for PHAs who were overleased. Many had to refrain from reissuing vouchers once families left the program in order to get their leasing back to their authorized level.

FY2004 Funding Changes

The FY2004 appropriations law continued in the direction of the FY2003 law, instructing HUD to fund PHAs based on actual utilization of vouchers — rather than on the total number of vouchers they were authorized to lease — and restricting the use of funds for maximized leasing. Moreover, the conference report that accompanied the FY2004 appropriations law stated that the conferees were concerned about "spiraling" cost increases in the voucher program and that they expected the Secretary to control costs.[7] As stated in the conference report:

> The conferees are aware that the Secretary has the administrative authority to control the rapidly rising costs of renewing expiring annual contributions contracts (ACC), including the budget-based[8] practice of renewing expiring ACCs, and expect the Secretary to utilize these tools. (H.Rept. 108-235, Title II)

The FY2004 appropriations language was changed from FY2003 to state:

> The Secretary shall renew expiring section 8 tenant based annual contributions contracts for each public housing agency ... based on the total number of unit months which were under lease as reported on the most recent end-of-year financial statement submitted by the public housing agency to the Department, or as adjusted by such additional information submitted by the public housing agency to the Secretary as of August 1, 2003 (subject to verification), and by applying an inflation factor based on local or regional factors to the actual per-unit cost. (P.L. 108-199, Title II, Section (1))

The FY2004 language also varied from the FY2003 language in terms of how the Central Reserve fund could be used: In FY2003, the Central Reserve fund could be used to replenish PHA reserves that had been depleted due to either increased utilization rates or increased costs. In FY2004, the Secretary could use Central

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[7] The Government Accountability Office (GAO) estimated that, between 1998 and 2004, per voucher costs grew 42% in nominal dollars (25% in real dollars). The highest rate of growth happened between 2002 and 2003 and between 2003 and 2004 at 11% per year. There were a number of factors driving this cost growth, ranging from changes in the way the program was administered to changing market conditions. For more information, see GAO report 06-405, *Policy Decisions and Market Factors Explain Changes in the Costs of the Section 8 Programs*. See also, CRS Congressional Distribution Memo, *Factors behind cost increases in the Section 8 Housing Choice Voucher Program, FY2000-FY2004*, by Maggie McCarty (available from the author).

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

Reserve funds only to replenish reserves depleted because of increased utilization, *not* increased costs:

> Language proposed by the House and Senate is not included to allow the Central Fund to also be used for increased per-unit costs as such costs have been reflected in the amount provided for renewals. (H.Rept. 108-401, Division G, Title II)

HUD issued a notice on April 22, 2004 (PIH 2004-7) implementing the FY2004 appropriations law. According to the notice, PHAs' budgets would be based on their utilization rates from their end-of-the-year statements, or more recent data if available, and costs as reported on their end-of-the-year statements as of August 1, 2003, adjusted by the annual adjustment factor (AAF), *but not adjusted by more recent data, even if available.* The notice stated that PHAs could appeal to the Secretary only if they could document that *rental* costs in their areas had risen higher than the inflation factor adopted by HUD. The notice proved controversial. Some housing advocates contended that Congress gave HUD the authority to use a broader measure of inflation than the AAF, taking into account not just rental costs but also other changes in PHAs' costs, such as utility costs and changes in their tenant populations. The notice was not modified, and on August 31, 2004, HUD granted the appeals requests of 380 agencies out of approximately 400 that applied, distributing a total of $160 million from the Central Reserve. However, HUD did not necessarily provide the full level requested in each appeal.

FY2005 Funding Changes

The final FY2005 Consolidated Appropriations Act (P.L. 108-447) moved the program further in the direction of budget-based funding. It directed the Secretary to fund PHAs based on their voucher costs and utilization rates as of May-July 2004 plus the HUD-published AAF, adjusted for new tenant protection vouchers.[9] If a PHA's May-July data were not available, HUD was directed to fund the agency based on February-April 2004 data, or if these data were not available, to fund the PHA based on its most recently submitted year-end financial statement, as of March 31, 2004. If the amount provided in the law was insufficient to fund all PHA budgets under this formula, then the Secretary was directed to prorate agency budgets. According to the conference report (H.Rept. 108-792), PHAs were expected to manage their voucher programs within their budgets for FY2005, regardless of their actual costs. The report also stated that "HUD shall provide agencies with flexibility to adjust payment standards and portability policies as necessary to manage within their 2005 budgets." Agency reserves were reduced from the one-month to the one-week level and no Central Reserve was provided to replenish depleted reserves. Finally, the act continued the prohibition on maximized leasing.

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[9] Tenant protection vouchers are given to families being displaced from other HUD assistance programs (such as public housing). PHAs' costs may increase from one year to the next because of an increase in the number of tenant protection vouchers they are administering.

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

According to CRS analysis of HUD funding data, the median change in PHA renewal budgets from FY2004 to FY2005 was an increase of 0.17%. This number hides a wide variance; the change at the fifth percentile was a decrease of 12% and the change at the 95th percentile was an increase of 14%. On February 25, 2005, HUD published Notice PIH 2005-9, entitled "[PHA] Flexibility to Manage the Housing Choice Voucher Program in 2005." It identified administrative options available to PHAs to lower their costs in 2005. Suggestions included lowering payment standards; reducing utility assistance to families; restricting portability;[10] reviewing rents to ensure they are reasonable in the market; suspending the reissuance of vouchers when families leave the program; restricting bedroom sizes; instituting minimum rents; monitoring income eligibility more strictly; and terminating assistance to families due to insufficient funds.

FY2006 Funding Formula

The FY2006 HUD Appropriations Act (P.L. 109-115) distributed renewal funding using roughly the same formula as FY2005. HUD allocated renewal funds to PHAs based on the amount they were eligible to receive in FY2005 (prior to proration), plus inflation (using the AAF), adjusted for additional tenant protection vouchers or vouchers that were reserved for project-based use,[11] and prorated to fit within the amount appropriated. The act provided the Secretary with $45 million to adjust the budgets of agencies in two categories: (1) those for whom the May-July period used as the basis for FY2005 funding represented unusually low leasing or costs and who applied to the Secretary for an adjustment; and (2) those whose costs had risen due to unforeseen circumstances or portability billings. The prohibition on maximized leasing was retained in FY2006. HUD issued projected funding letters to all PHAs on January 19, 2006; PHAs were directed to respond with concerns by

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[10] Vouchers are nationally portable, meaning that if a family moves from the jurisdiction of one PHA to another, the family retains its assistance. However, if the new jurisdiction does not wish to permanently accept the new voucher (a process called absorption), the new jurisdiction can bill the old jurisdiction. This can present budget problems for the old jurisdiction if rents are significantly higher in the new jurisdiction.

[11] Vouchers are project-based when they are set aside for use in a particular unit of housing. This adjustment is provided for PHAs who had artificially low utilization rates in May-July 2004 because they had reserved vouchers for new units that were under construction.

February 3, 2006. Again, the amount provided by Congress was insufficient to fund PHAs at their full FY2006 formula eligibility, so PHAs were funded at about 94% of their eligibility.

The changes enacted up through FY2006 gave incentives to PHAs to reduce their costs. Those changes, partnered with a cooled rental housing market,[12] worked together to reverse the "spiraling" cost growth trend seen in 2003. According to CRS analysis of data provided by the Congressional Budget Office, average annual per voucher costs remained flat from calendar year 2004 to calendar year 2005 and declined by about 1.5% from calendar year 2005 through September 2006. Utilization also declined, from a peak of over 98% in 2004 to around 90% as of September 2006.[13] Most PHAs were not spending all of their funding and therefore had accumulated some reserve funds. CRS analysis of HUD data indicate that PHAs had accumulated, on average, unspent balances of 10% of their budget authority from January 2005 though September 2006.

FY2007 Funding Formula

For FY2007, the President requested that Congress continue to fund the voucher program using a budget-based formula similar to the one adopted in FY2005 and FY2006. The President's budget also requested that Congress lift the prohibition on maximized leasing, noting that, in a budget-based funding environment, some PHAs may be receiving more funding than they are permitted to use. According to CRS analysis of HUD data, as of the end of September 2006, 168 PHAs (or about 7% of all PHAs), were at their cap on authorized vouchers.

The final FY2007 appropriations law (P.L. 110-5) reversed the recent trends by adopting a formula based on how much funding PHAs were using (similar to the formula enacted in FY2004), rather than a formula based on how much funding PHAs had received in the previous year. Specifically, in FY2007, PHAs received funding based on their leasing and cost data from their most recent 12 months of reported data, adjusted for the first time renewal of tenant protection and HOPE VI vouchers and vouchers reserved for project-based contracts, inflated by the AAF, and prorated to fit within the amount appropriated. The law included a central reserve fund which the Secretary could use (1) for adjustments for PHAs that experienced a significant increase in renewal costs resulting from unforeseen circumstances or from voucher portability; and (2) for adjustments for public housing agencies experiencing a significant decrease in voucher funding, due to the formula shift, that could result in a loss of voucher units. The act continued the prohibition on over-leasing.

P.L. 110-28 later amended the formula to provide exceptions for three categories of PHAs. First, certain Katrina-affected agencies were funded on the basis of the

[12] Rental markets began softening in 2002 and 2003 and remained flat in 2004.

[13] Utilization rates for 2004 come from HUD's 2004 Performance and Accountability Report; utilization rates for 2006 come from CRS analysis of currently unpublished HUD data.

higher of what they would have received under the FY2007 formula or what they received in FY2006. Second, agencies that would have lost funding under the FY2007 formula and had been placed under receivership within the prior 24 months were funded on the basis of the higher amount they received in FY2006. Third, agencies that spent more in FY2006 than their FY2006 allocations plus their unspent voucher and administrative fee balances were funded on the basis of what they received in FY2006.

Under the FY2007 formula change, PHAs (except for those noted above) were funded based on the amount of funding they were *using* in FY2006, rather than the amount of funding they *received* in FY2006. Those PHAs with higher costs and utilization rates relative to their FY2006 budgets did better under the FY2007 enacted formula than they would have done under the President's proposed formula; those PHAs with lower costs and utilization relative to their FY2006 budgets did worse. However, the funding provided was sufficient to fund all PHAs at more than 105% of their eligibility.[14]

The FY2008 Funding Formula

The President's FY2008 budget request again included a proposal for a voucher funding formula similar to the one requested in FY2007 and in place for FY2005 and FY2006. The accompanying text indicated that the President would seek to re-benchmark the formula using more recent cost and utilization data in the future, possibly in FY2009, as a part of a larger reform proposal.

The FY2008 Consolidated Appropriations Act (P.L. 110-161) adopted a funding formula similar to the one adopted in FY2007. However, it reduced each agency's funding level by the amount by which their unusable reserves exceeded 7% of the total they received in FY2007. Unusable reserves are reserves in excess of what agencies need to reach 100% leasing, and, because the prohibition on maximized leasing (or over-leasing) has been maintained, PHAs are legally unable to use those reserves to lease additional vouchers. The FY2008 Act also rescinded $723 million in FY2008 renewal funding, which is the amount estimated that PHAs had in unusable reserves above 7% of their funding.

Legislative Reforms

In recent years, some Members of Congress from both parties have introduced voucher reform legislation containing a statutory change to the voucher renewal funding formula. Most recently, in the 110th Congress, the Section 8 Voucher Reform Act of 2007 (H.R. 1851) would adopt a new funding formula similar to the formula in place prior to FY2005 and included in the FY2007 and FY2008 appropriations acts. It would require HUD to use leasing and cost data for allocating

[14] Based on data from HUD's website, available at [https://www.hud.gov/offices/pih/programs/hcv/forums/fund.ppt#261,8,HAP Funding Higlights].

funds, eliminate the prohibition on maximized leasing, provide PHAs with reserves, provide HUD with a mechanism for reallocating unused funds, and permit PHAs to take advances against their next year's funding.[15] H.R. 1851 was approved by the House on July 16, 2007.

Conclusion

Prior to FY2003, the Section 8 voucher program was funded much like an entitlement program; the amount provided by Congress was largely determined by a formula, limiting Congress's ability to constrain funding without facing the prospect of reducing the number of vouchers and providing little incentive for PHAs to restrain costs. The final result of the funding changes, beginning with those enacted for FY2003, had been a conversion of the program's funding structure into one more similar to other discretionary programs, in which grantees receive an annual fixed sum of money, regardless of changes in their costs or the number of people served. While these changes gave Congress greater control over the program's budget, many PHAs argued the changes made the program more difficult to administer. PHAs have only limited control over their costs since the value of the subsidies provided to families are statutorily set (as roughly the difference between rent and 30% of income).

In areas where they did have control, such as in setting payment standards, selecting families from the waiting list, and issuing vouchers, many PHAs made changes. Some lowered their payment standards from 110% to 100% or less of local fair market rents. Since changes in payment standards only affect future families in the program, some PHAs undertook rent reasonableness reviews and reduced rents paid to landlords, some of whom accepted the cut, others of whom chose to no longer participate in the program. PHAs had the option of selecting higher-income families from their waiting lists (for whom subsidy costs are lower), although PHAs were still constrained by a requirement that 75% of all vouchers be targeted to the lowest-income families. Many PHAs intentionally reduced their utilization rates by not reissuing vouchers when families left the program. Agencies that intentionally lowered their utilization rates in order to save money in FY2004 likely encountered problems in FY2005, as their budgets were capped at their costs *and* utilization rates as of the third quarter of FY2004. It is likely that, at least for some PHAs whose costs had risen faster than their funding under the new formula, these changes resulted in fewer households receiving vouchers.

Data from HUD indicate that voucher costs leveled off and utilization rates declined from 2005 to 2006. According to CRS analysis of HUD data, average voucher costs declined by around 1.5% and average utilization declined by over 2% during that period. At the same time, some agencies were receiving more money than they were legally permitted to spend. Under the budget-based funding formulas in place in FY2005 and FY2006, PHAs' funding did not necessarily decrease if their costs decreased (for example, due to changes in the types of families they are

[15] For more details, see CRS Report RL34022, *Section 8 Housing Choice Voucher Program: Issues and Reform Proposals in the 110th Congress*, by Maggie McCarty.

serving). Since maximized leasing was prohibited, some PHAs had funds that they were unable to spend, even if there were waiting lists for vouchers in their communities (7% of all PHAs, as of September, 2006, according to CRS analysis).

The budget-based formula in place for FY2005 and FY2006 was advocated by the President in each of his annual budget requests. The President has also requested that Congress enact program reforms that would complement a budget-based funding structure, ranging from lifting the prohibition on maximized leasing (therefore permitting PHAs to use surplus funds to serve additional families) to fundamentally restructuring the voucher program to eliminate the current payment standard and tenant contribution structure.

The budget-based funding formula changes enacted through FY2006 proved controversial with low-income housing advocates and PHA industry groups. Most low-income housing advocates called for a return to an actual-cost and unit-based formula. PHA advocacy groups were vocal about the difficult predicament they felt that the current formula put them in, given the statutory constraints under which they must run their programs.

The FY2007 funding bill reversed recent trends by enacting a voucher renewal funding formula similar to the one that was in place in FY2004. In FY2007, PHAs were funded based on the amount of funding *they were using* in the previous year, rather than the amount of money *they had received* in the previous year. As a result, PHAs that had large funding surpluses were eligible for less funding in FY2007, although funding for the program was sufficient to provide all PHAs with over 105% of their formula eligibility. The FY2008 formula followed the FY2007 formula closely, although it made reductions to the budgets of agencies that had more reserve funding than they were legally permitted to spend.

The funding formula may again be a focus of debate as Congress considers the FY2009 HUD budget. Further, Section 8 reform legislation approved by the House contains founding formula changes more closely aligned with those included in the FY2007 and FY2008 funding acts. However, even if a new statutory formula is adopted, Congress may choose to continue to override the statutory formula in the appropriations bill.