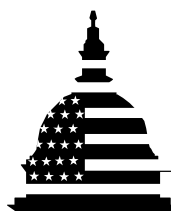


March 2012

HOUSING CHOICE VOUCHERS

Options Exist to Increase Program Efficiencies



G A O

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Why GAO Did This Study

The Department of Housing and Urban Development's (HUD) Housing Choice Voucher (voucher) program subsidizes private-market rents for approximately 2 million low-income households. HUD pays a subsidy that generally is equal to the difference between the unit's rent and 30 percent of the household's income. HUD also pays an administrative fee, based on a formula, to more than 2,400 local housing agencies to manage the program. Over time, program expenditures steadily have risen, causing some to question how well HUD managed costs and used program resources. This report (1) discusses the key drivers of cost growth in the voucher program and the actions taken to control this growth and (2) analyzes various options to cut costs or create efficiencies. For this report, GAO analyzed HUD data; reviewed budget documents, program laws and regulations, guidance, academic and industry studies, and GAO reports; and interviewed officials from HUD, industry groups, and 93 housing agencies.

What GAO Recommends

GAO identifies options for increasing efficiencies and recommends that HUD (1) determine what level of reserve funding housing agencies should maintain and reduce future budget requests by the amount of excess reserves and (2) consider proposing options for simplifying program administration and changes to the administrative fee formula. HUD did not agree or disagree with the recommendations. While it noted that the draft provided an accurate assessment, it offered some clarifications and responses.

View [GAO-12-300](#). For more information, contact Mathew J. Scire` at (202) 512-8678 or sciremj@gao.gov.

HOUSING CHOICE VOUCHERS

Options Exist to Increase Program Efficiencies

What GAO Found

Several factors—including rising rents, declining household incomes, and decisions to expand the number of assisted households—were key drivers of the approximately 29 percent increase (before inflation) in housing agencies' expenditures for the voucher program between 2003 and 2010. Congress and HUD have taken steps to limit cost increases while maintaining assistance for existing program participants. For example, Congress moved away from providing funding to housing agencies based on the number of voucher-assisted households they were authorized to subsidize and instead provided funding based on the generally lower number of voucher-assisted households housing agencies actually subsidized in the prior year. Further, HUD has proposed administrative relief and program flexibility for housing agencies, including streamlining program requirements and reducing subsidies paid.

GAO identified several additional options that, if implemented effectively, could substantially reduce the need for new appropriations, cut costs (expenditures), or increase the number of households assisted.

- **Reduce housing agencies subsidy reserves.** Housing agencies have accumulated approximately \$1.8 billion in subsidy reserves (unspent funds). They can hold the funds in reserve or spend them on authorized program expenses in future years. Over time, large sums can accumulate. Although HUD has sought the authority to offset (reduce) its future budget requests by the amount of "excess" subsidy reserves, it has not provided Congress with complete or consistent information on how much of these reserve funds housing agencies should retain for contingencies. GAO has highlighted the importance of providing clear and consistent information on housing agencies' reserves to Congress so it can make informed funding decisions.
- **Implement administrative reform.** HUD officials have noted that certain requirements for administering the voucher program are burdensome and costly and could be streamlined. In addition, the formula HUD uses to pay administrative fees to housing agencies is not tied to current administrative costs or requirements. HUD has an administrative fee study underway, which intends to identify specific reforms to ease administrative burden, increase efficiencies, and suggest ways to align the administrative fee formula with the functions housing agencies perform. Without this information, Congress may not have the information necessary to make fully informed policy and funding decisions related to the voucher program.
- **Implement rent reform and consolidate voucher administration.** Rent reform (for example, reducing subsidies by requiring households to pay more toward rent) and consolidation of program administration under fewer housing agencies could yield substantial cost savings—approaching \$2 billion—or allow housing agencies to serve additional households, provided annual savings were reinvested in the program. However, while these options may have some advantages over the current program structure, they would require policymakers to consider some potential trade-offs, including increased rent burdens for low-income households, increased concentration of assisted households in high poverty areas, and more limited local control over voucher programs.

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Abbreviations

GPRA	Government Performance and Results Act of 1993
GPRAMA	Government Performance and Results Modernization Act of 2010
HUD	Department of Housing and Urban Development
HUDCAPS	HUD Central Accounting and Program System
MTW	Moving to Work
NRA	Net Restricted Assets
PIC	Public and Indian Housing Information System
VASH	Veteran Affairs Supportive Housing
VMS	Voucher Management System

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United States Government Accountability Office
Washington, DC 20548

March 19, 2012

Congressional Requesters

Annually from fiscal years 2003 through 2010, the Department of Housing and Urban Development's (HUD) Housing Choice Voucher (voucher) program helped provide affordable rental housing to approximately 2 million households with very or extremely low incomes.¹ In the same period, program expenditures grew at an average annual rate of about 4 percent from \$11.7 billion to \$15.1 billion. The voucher program is unique among HUD's rental assistance programs in paying subsidies to landlords to help households rent units (apartments or houses) on the private market. The amount of subsidy HUD pays generally is equal to the difference between the unit's rent and 30 percent of the household's income. While Congress and HUD have supported and enacted changes to the voucher program designed to limit growth in appropriations without reducing the number of households that received assistance, they also added new vouchers targeted at homeless veterans, nonelderly disabled households, and others. In the current constrained economic and budget environment, policymakers have questioned the consistent growth in voucher program costs and whether HUD and public housing agencies that administer the program adequately managed costs.

In response to your request, this report discusses the factors that have affected costs in the voucher program from 2003 through 2011 and the actions Congress and HUD took to manage these costs. The report also identifies additional steps that could be taken to limit cost growth in the voucher program or more efficiently provide decent, safe, and affordable housing.

To determine the factors that have affected costs in the voucher program from 2003 to 2011 and the actions Congress and HUD took to manage these costs, we reviewed and analyzed appropriations legislation, budget documents, and HUD's annual guidance on the allocation of the program's appropriation to housing agencies. The start year for our

¹The voucher program is authorized under Section 8 of the United States Housing Act of 1937, as amended. Very low-income households are those with incomes at or below 50 percent of the area median income; extremely low-income households are those with incomes at or below 30 percent of the area median income.

analysis reflects the year when Congress began changing the voucher program's funding formula.² We analyzed program data that HUD prepared using information derived from multiple HUD systems including the Central Accounting and Program System (HUDCAPS) and Voucher Management System (VMS) to determine how much housing agencies' expenditures changed from 2003 through 2010.³ We also reviewed prior work by GAO and others to describe what is known about the cost-effectiveness and characteristics of vouchers relative to other forms of rental housing assistance. To identify additional steps that could be taken to limit cost growth in the voucher program and more effectively provide decent, safe, and affordable housing, we identified and reviewed relevant legislation, draft legislation, and studies. We analyzed HUD's VMS data on the balances of Net Restricted Assets (NRA or subsidy reserves) for housing agencies as of September 30, 2011, to determine the extent of such reserves for housing agencies. In addition, using data from HUD's Public and Indian Housing Information System (PIC) on household characteristics, income, and rents, we evaluated the cost and policy implications of three types of programmatic reform options for the voucher program: increasing minimum rents, changing the percent of income tenants pay toward rent, and requiring tenants to pay a percentage of fair market rent. In identifying and assessing these programmatic reform options, we reviewed proposals included in draft legislation and in HUD, Congressional Budget Office, and housing industry group reports. We also considered reforms certain agencies have implemented. In conducting our work, we assessed the reliability of datasets that HUD provided, including data files derived from HUDCAPS, VMS, and PIC and determined that the data were sufficiently reliable for the purposes of this report. Finally, for all of our objectives, we interviewed HUD officials and consulted with an academic and officials from various housing groups. We also contacted or visited 62 housing agencies that administer the voucher program and 31 of the 35 housing agencies participating in the Moving to Work (MTW) demonstration program. See appendix I for a more detailed discussion of our scope and methodology.

²Funding for 2003 and 2004 was provided through the Housing Certificate Fund, which accounted for both the project-based Section 8 and the voucher programs. As a result, we were unable to determine the appropriated and outlay amounts for the programs for these years.

³Expenditure data for 2011 were not available at the time we conducted our analysis.

We conducted this performance audit from February 2011 through March 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The voucher program is not an entitlement program. As a result, the amount of budget authority HUD requests and Congress provides through the annual appropriations process limits the number of households that the program can assist.⁴ Historically, appropriations for the voucher program (or for other federal housing programs) have not been sufficient to assist all households that HUD has identified as having worst-case housing needs—that is, unassisted households with very low incomes that pay more than 50 percent of their incomes in rent, live in substandard housing, or both.⁵ In 2009, 41 percent of the more than 17 million very low-income renters had worst-case housing needs, according to HUD. The primary problem affecting these renters was rent burden—approximately 97 percent paid more than 50 percent of their incomes in rent.⁶

To be eligible for assistance, in general, households must have very-low incomes—not exceeding 50 percent of the area median income, as determined by HUD. Under the Quality Housing and Work Responsibility Act of 1998 (P.L. 105-276), at least 75 percent of new voucher program

⁴Budget authority is the authority federal law provides to enter into financial obligations that will result in immediate or future outlays involving federal government funds.

⁵HUD has standards for housing quality. For example, the voucher program regulations set basic housing quality standards that all units must meet (1) before assistance can be paid on behalf of a household, and (2) at least annually during the assisted tenancy. HUD housing quality standards include requirements for all unit types, including those in single-family and multifamily dwellings. See 24 C.F.R. § 982.401.

⁶See HUD, Office of Policy Development and Research, *Worst Case Housing Needs 2009: Report to Congress* (Washington, D.C.: February 2011). In 2009, more than 7 million renters had worst case housing needs, up 20 percent from 2007 levels and almost 42 percent from 2001 levels.

participants must have extremely low incomes—not exceeding 30 percent of the area median income.⁷

Under the voucher program, an assisted household pays 30 percent of its monthly adjusted income in rent; the remainder of the rent is paid through a HUD-subsidized “voucher,” which generally is equal to the difference between (1) the lesser of the unit’s gross rent (generally, rent plus utilities) or a local “payment standard” and (2) the household’s payment. The payment standard is based on the HUD-determined fair market rent for the locality, which generally equals the 40th percentile of market rents (including utilities) recent movers paid for standard-quality units. HUD annually estimates fair market rents for metropolitan and nonmetropolitan areas.⁸ Housing agencies—the state and local agencies that administer the voucher program on HUD’s behalf—can set payment standards (that is, pay subsidies) between 90 percent and 110 percent of the fair market rent for their areas. By determining fair market rents and setting payment standards at a rate sufficient to provide acceptable choices for voucher program participants, HUD and housing agencies essentially set the upper and lower bounds on the cost of typical, standard-quality units that voucher holders rent. Participants in the voucher program can choose to live in units with gross rents that are higher than the payment standard, but they must pay the full difference between the unit’s gross rent and the payment standard, plus 30 percent of their income.⁹

In 2011, more than 2,400 housing agencies administered more than 2.2 million vouchers—their programs ranged in size from more than 96,000 vouchers to fewer than 5. Housing agencies are responsible for inspecting units, ensuring that rents are reasonable, determining households’ eligibility, calculating and periodically re-determining households’ incomes and rental payments, and making subsidy payments

⁷See 42 U.S.C. 1437n (b)(1).

⁸Under 42 U.S.C. 1437f(c)(1), HUD annually must publish fair market rents for the voucher program. See related regulations at 24 C.F.R. Part 888.

⁹By law, whenever a household moves to a new unit where the gross rent exceeds the payment standard, the household may not pay more than 40 percent of its adjusted monthly income for rent.

to landlords.¹⁰ In addition, housing agencies perform basic program functions, such as establishing and maintaining a waiting list, processing tenant moves, conducting landlord and tenant outreach, and reporting to HUD. HUD disburses appropriated funds to housing agencies for subsidy payments to landlords and administrative expenses.

Each year, Congress appropriates funding for subsidies for renewal (existing) and incremental (new) vouchers and administrative expenses. As part of the appropriations process, Congress outlines a formula that determines the amount of renewal funding for which housing agencies are eligible (“eligible amount”). However, the amount Congress appropriates to the voucher program may not equal the total amount for which housing agencies are eligible under the formula. HUD is responsible for allocating program funding (“appropriated amount”) among housing agencies based on their eligible amounts. To the extent that the appropriated amount does not fully fund housing agencies at their eligible amounts, HUD reduces the funding housing agencies receive to fit within the appropriated amount. Housing agencies are expected to use all the subsidy funding HUD allocates for authorized program expenses (including subsidy and utility payments). However, if housing agencies’ allocated amounts exceed the total cost of their program expenses in a given year, they must maintain their unused subsidy funds in NRA (reserve) accounts. Housing agencies may use their NRA balances (subsidy reserves) to pay for authorized program activities in subsequent years.¹¹

¹⁰Laws and HUD regulations provide 44 different income exclusions and deductions: (1) HUD regulations cite 20 income sources to be excluded when determining households’ eligibility for assistance and calculating tenant rents. See 24 C.F.R. § 5.609. (2) Under various statutes, 19 other income sources qualify as exclusions. (3) In addition, program administrators (housing agencies) must apply 5 income deductions, which reduce the amount of income that can be considered in calculating tenant rents. See 24 C.F.R. § 5.611. Once program administrators have collected information from households on income and applicable exclusions and deductions, HUD policy requires that they independently verify this information (“third-party” verification). After verifying households’ income information, program administrators must compute the amounts the households will pay in rent. See 24 C.F.R. § 5.628.

¹¹Housing agencies report NRA (or subsidy reserves) under Housing Assistance Payment (HAP) Equity on their income statements. NRA is the amount of HAP Equity (subsidy) for the voucher program through the end of the housing agency’s fiscal year and equals total HAP revenues minus total HAP expenses for eligible unit months (or vouchers) leased on a calendar-year basis.

Incremental vouchers include various special-purpose vouchers. Congress appropriates funding for these vouchers in separate line items in the budget, which distinguish them from renewal vouchers. Housing agencies must apply to HUD to receive allocations of and funding for the special-purpose vouchers, which, as described in table 1, include Enhanced, Tenant Protection, Family Unification Program, Mainstream, Nonelderly Disabled, and Veteran Affairs Supportive Housing vouchers. These vouchers may have different or additional eligibility and operational requirements than renewal vouchers. After the first year, special-purpose vouchers generally become renewal vouchers for purposes of determining funding eligibility in the next year, but HUD may require that housing agencies separately track them as special-purpose vouchers.

Table 1: Primary Examples of Special-Purpose Vouchers

Type of special-purpose voucher	Description
Enhanced	Enhanced vouchers are available to tenants facing a housing conversion action, including owner opt-outs of Section 8 project-based contracts, mortgage prepayments, or voluntary terminations of the mortgage insurance associated with the preservation-eligible property. By statute, HUD must offer enhanced vouchers to families affected by housing conversions.
Tenant Protection	Tenant protection vouchers subsidize rents for tenants facing a housing conversion action or HUD enforcement actions against owners not covered by enhanced vouchers, including terminations or non-renewals of Section 8 project-based contracts, sales or foreclosures of HUD-subsidized mortgages, or demolitions/dispositions of public housing.
Family Unification Program	These vouchers are available to families for whom the lack of adequate housing is a primary factor in the separation, or threat of imminent separation of their children, or in the delay of the discharge of children to the family from out-of-home care. The vouchers also are available to youths aged 18 to 21 who left foster care at age 16 or older and who lack adequate housing.
Mainstream	Mainstream vouchers assist families that include a person with disabilities who faces difficulties in locating suitable and accessible housing in the private market.
Nonelderly Disabled	These vouchers are designed to provide choices to nonelderly disabled residents in their transition out of elderly-designated public housing or care-giving institutions or developments with preferences for elderly tenants.
Veteran Affairs Supportive Housing (VASH)	The VASH program combines HUD voucher rental assistance for homeless veterans with case management and clinical services from the Department of Veterans Affairs.

Source: HUD.

Congress appropriates funding for administrative fees, and the formula used to calculate the administrative fee generally is based on fair market rents, adjusted annually to reflect changes in wage rates. HUD pays fees to housing agencies based on the number of units leased (vouchers used) as of the first of each month. HUD pays one (higher) rate for the first 600 units under lease and a second (lower) rate for the remaining units. As with subsidy funding, if the appropriated amount does not fully

cover housing agencies' fees as determined by the formula, HUD will reduce the amount of funding each housing agency receives to fit within the appropriated amount. Since fiscal year 2006, administrative fees have accounted for less than 10 percent of total voucher program funding.

Some housing agencies that administer vouchers can participate in and receive funding under MTW, a demonstration program authorized by Congress in 1996 and implemented by HUD in 1999.¹² MTW allows participating housing agencies to test locally designed housing and self-sufficiency initiatives in the voucher and other federal housing programs. Housing agencies may waive certain statutes and HUD regulations to achieve three objectives: (1) reduce cost and achieve cost-effectiveness in federal expenditures; (2) give incentives to families with children whose heads of household are working, seeking work, or in job training, educational or other programs that assist in obtaining employment and becoming economically self-sufficient; and (3) increase housing choices for low-income families. MTW agencies also have "funding flexibility"—they may use their program-related funding (including voucher subsidy funding) and administrative fees for any purpose (programmatic or administrative).¹³ Currently, 35 housing agencies participate in MTW—according to HUD, they administer about 15 percent of all vouchers and account for approximately 16 percent of all subsidy and administrative fee funding on an annual basis. Congress and HUD fund MTW agencies pursuant to their MTW agreements; however, the agencies could have subsidies and administrative fees reduced if the amounts Congress appropriated were less than the housing agencies' eligible amounts under the formulas.

¹²See Omnibus Consolidated Rescissions and Appropriations Act of 1996 (P.L. 104-134, 110 Stat. 1321), April 26, 1996. In addition, GAO is reviewing the effectiveness of MTW, including assessing the steps HUD has taken to help ensure that participating agencies address statutory purposes and meet statutory requirements, and the potential benefits of and concerns about expanding the number of MTW agencies.

¹³This funding flexibility ("fungibility") only applies to MTW agencies' regular vouchers. Like regular housing agencies, MTW agencies separately must maintain allocated amounts that exceed the cost of their authorized special-purpose voucher program activities in reserve accounts and only may use those balances to pay for authorized program activities in subsequent years.

Several Factors Contributed to Cost Increases in the Voucher Program from 2003 through 2010, and Congress and HUD Made Efforts to Limit Them

Several factors affected voucher program costs (as measured through congressional appropriations, HUD outlays, and housing agencies' expenditures) and in some cases contributed to cost increases from 2003 through 2010, including: (1) increases in subsidy costs for existing vouchers, (2) subsidy costs for new vouchers, and (3) administrative fees paid to housing agencies. In addition to these factors, the design and goals of the voucher program, such as requirements to target assistance to certain households, contributed to overall program costs. Despite increases in the cost of the program from 2003 through 2010, our work and other published studies have found that vouchers generally have been more cost-effective in providing housing assistance than federal housing production programs designed to add to or rehabilitate the low-income housing stock. In addition, Congress and HUD have taken several steps to manage cost increases over the period.

Subsidies for Existing and New Vouchers and Increases in Administrative Fees Contributed to Cost Increases in the Voucher Program from 2003 through 2010

Several factors affected increases in congressional appropriations, HUD outlays, and housing agencies' expenditures in the voucher program from 2003 through 2010. As shown in table 2, from fiscal years 2005 through 2011, voucher program appropriations increased from approximately \$14.8 billion to \$18.4 billion (approximately 4 percent annually). Over the same period, outlays—funding HUD disburses to housing agencies for program expenses—increased from \$10 billion to \$18.6 billion (approximately 11 percent annually). Information on appropriations and outlays for the voucher program were not available for 2003 and 2004 because HUD did not report this information separately from other rental assistance programs.

Table 2: Annual Appropriations and HUD Outlays for the Voucher Program, from Fiscal Years 2005 through 2011

Fiscal year ^a	Appropriation ^b	HUD Outlay
2005	\$14.8 billion	\$10.0 billion
2006	15.4 billion	13.0 billion
2007	15.9 billion	16.0 billion
2008	16.4 billion	15.7 billion
2009	16.8 billion	16.0 billion
2010	18.2 billion	18.0 billion
2011	18.4 billion	18.6 billion

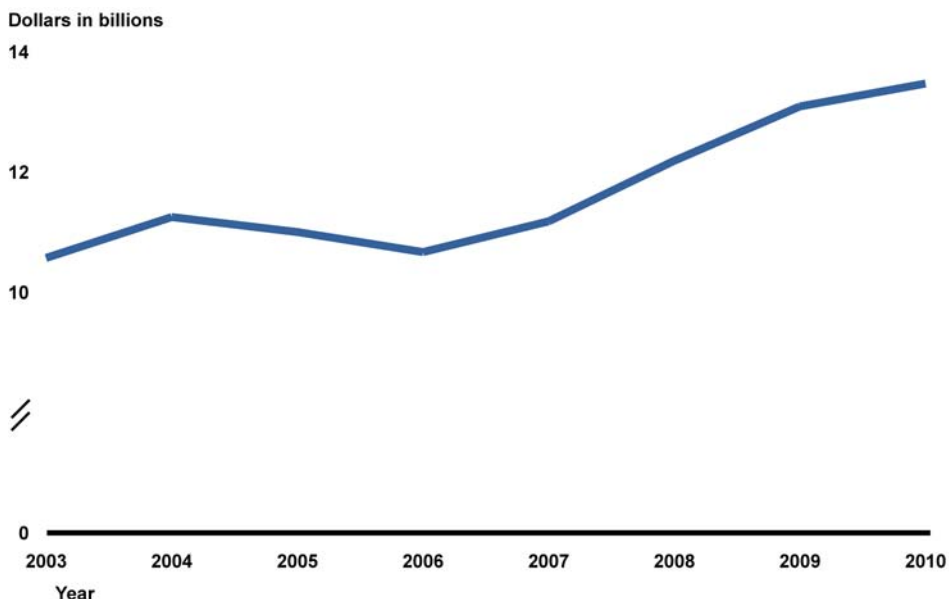
Source: GAO analysis of budget data.

^aIn 2005 Congress created a specific budget account (Tenant-based Rental Assistance) for the voucher program. Prior to this, Congress provided a combined appropriation for both the voucher and Project-based Section 8 programs through the Housing Certificate Fund. As a result, it is not possible to distinguish the voucher program's appropriations and outlays from those of the Project-based Section 8 programs prior to 2005.

^bAppropriations include supplemental funding, carryovers, and rescissions.

Once disbursed, housing agencies expend program funds on activities such as making subsidy payments to landlords and for administrative expenses. As shown in figure 1, from 2003 through 2010, housing agencies' expenditures increased from approximately \$11.7 billion to \$15.1 billion (about 4 percent annually). Expenditure data for 2011 were not available at the time we were conducting our review. HUD's outlays and housing agencies' expenditures can differ somewhat in any given year because of differences in the timing of payments and fluctuations in the rate of funding utilization—that is, some housing agencies may not use all of their apportioned funds and may build reserves. Later in this report we discuss the extent to which housing agencies have accumulated subsidy reserves and steps Congress and HUD could take to reduce future budget requests or reallocate the reserve funds.

Figure 1: Annual Expenditures of Disbursed Funds by Housing Agencies for the Voucher Program, from 2003 through 2010



Source: GAO analysis of HUD data.

Note: Expenditure data were not available for 2011.

As shown in table 3, housing agencies' expenditures increased by a total of about 28.9 percent in nominal dollars from 2003 through 2010. Once adjusted for inflation, housing agencies' expenditures increased by a smaller rate, approximately 8.8 percent. (We evaluated expenditure after adjusting for the general effects of inflation using a broad base index of price changes for all goods and services. We expressed expenditures in 2011 constant dollars, the latest year for which complete data on price changes are available.) In the sections below, we discuss how (1) increases in subsidy costs for existing vouchers, (2) subsidy costs for new vouchers, and (3) administrative fees paid each contributed to the nominal and constant dollar increases in voucher program costs from 2003 through 2010.

Table 3: Percentage of Expenditure Increases Resulting from Changes in Subsidy Costs for Existing Vouchers, Subsidy Costs for New Vouchers, and Administrative Fees, 2003 to 2010

Percentage change in expenditures due to:	Nominal dollar change	Constant dollar change
Total	28.9%	8.8%
Increases in subsidy costs for existing vouchers	19.5	2.4
Subsidy costs for new vouchers	5.3	4.4
Administrative fees paid	4.1	2.0

Source: GAO analysis of HUD data.

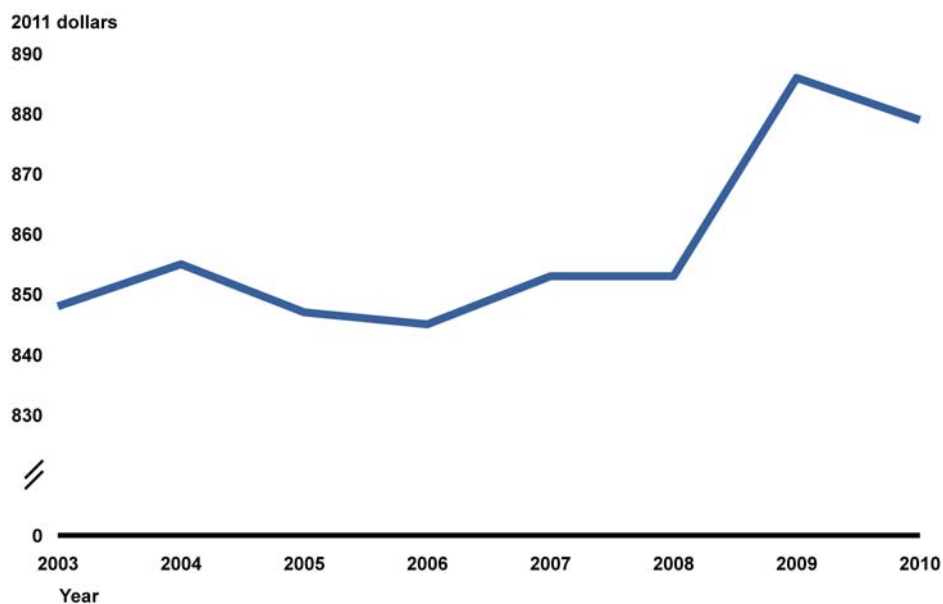
Note: Nominal 2003 and 2010 dollars were converted to 2011 constant dollars using the Bureau of Labor Statistics' Consumer Price Index—All Urban Consumers series.

Increases in Subsidy Costs for Existing Vouchers

As shown in table 3 above, in nominal terms, subsidy costs for existing vouchers grew by of 19.5 percent, accounting for a majority of the increase in housing agencies' expenditures from 2003 through 2010. After adjusting for inflation, subsidy costs for existing vouchers grew by a small amount (2.4 percent) and were a smaller contributor to the total increase in expenditures. Two factors generally explain the remaining increase in expenditures for existing vouchers after adjusting for inflation—changes in market rents and household incomes. As previously discussed, the subsidies HUD and housing agencies pay to landlords on behalf of assisted households are based on market rents and household incomes. As a result, changes in market rents and household incomes affect subsidy cost. As shown in figure 2, in 2011 constant dollars, median gross rents for voucher-assisted households increased from about \$850 to \$880 (or 4 percent) over the period. Growth in rents

outpaced the rate of general inflation. As rents increase, HUD and housing agencies must pay larger subsidies to cover the increases, assuming no changes to household incomes or contributions to rent.

Figure 2: Median Gross Rents (2011 Constant Dollars) for Units Leased by Voucher-Assisted Households, from 2003 through 2010



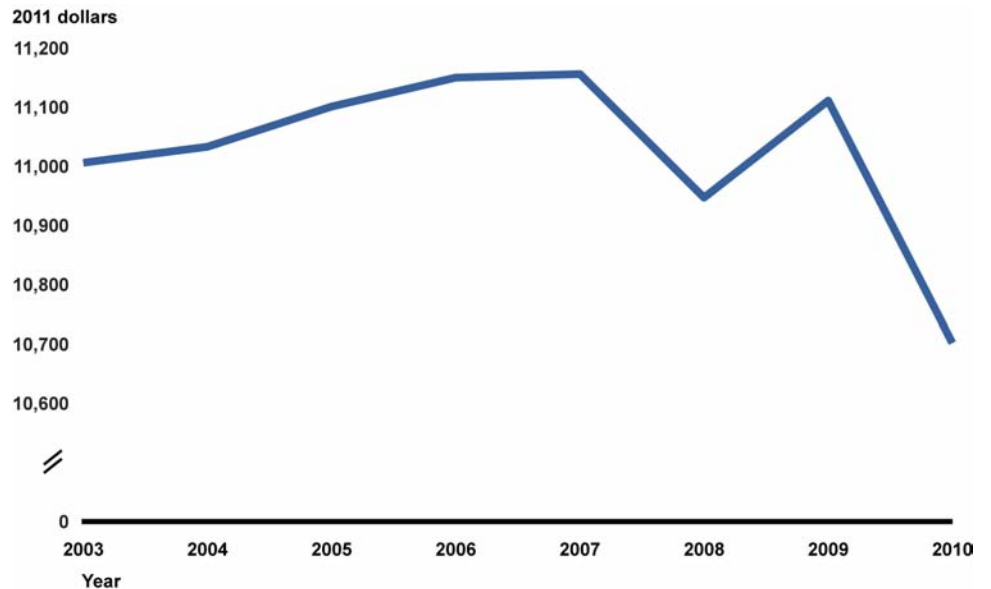
Source: GAO analysis of HUD data.

Note: Nominal dollars were converted to 2011 constant dollars using the Bureau of Labor Statistics' Consumer Price Index—All Urban Consumers series.

Housing agencies we contacted reported that this increase in rental prices can be explained, in part, by increased demand and competition for affordable housing—for example, some noted that the number of renters has increased as a result of an increase in the number of foreclosures in recent years. National vacancy rates—an indicator of the relative tightness of the rental market—decreased from 2009 to 2010.

Further, as figure 3 shows, in 2011 constant dollars, the median annual income of voucher-assisted households contracted from about \$11,000 to \$10,700 (a decrease of about 3 percent) from 2003 through 2010. Over the period, incomes of assisted households did not keep pace with the rate of general inflation. As incomes decline, voucher-assisted households are paying less towards rent, requiring larger subsidies to cover the difference between the rents and tenant payments.

Figure 3: Median Annual Household Income (2011 Constant Dollars) of Voucher-Assisted Households, from 2003 through 2010



Source: GAO analysis of HUD data.

Note: Nominal dollars were converted to 2011 constant dollars using the Bureau of Labor Statistics' Consumer Price Index—All Urban Consumers series.

More than half of the housing agencies we contacted reported that job loss and wage reductions contributed to in their subsidy costs over the period of our analysis. One housing agency in California we contacted also reported that state cuts to social welfare programs, including those that provide direct cash assistance, lowered incomes for some households and therefore have increased subsidy costs. HUD estimated that reductions in federal welfare and disability income payments have resulted in monthly subsidy payment increases of \$17 and \$5, respectively, for households that receive those forms of assistance.

Subsidy Costs for New Vouchers

The increase in the number of households assisted with vouchers (that is, subsidy costs for new vouchers) from 2003 through 2010 was another important contributor to the program's rising costs. As table 3 shows, in nominal dollars, subsidy costs for new vouchers grew by 5.3 percent over the period. After adjusting for inflation, the addition of new vouchers grew by 4.4 percent, accounting for half of the overall increase in housing agencies' expenditures over the period. Congress increased the size of the program through the addition of special-purpose vouchers such as Enhanced, Tenant Protection, Family Unification Program, Mainstream,

Nonelderly Disabled, and Veteran Affairs Supportive Housing (see table 1 for a description of each of these types of vouchers). HUD was unable to provide the data necessary to determine the extent to which each type of voucher contributed to the growth in program expenditures during this period.

Changes in Administrative Fees Paid to Housing Agencies

Finally, growth in the fees paid to housing agencies to administer the voucher program grew about 4.1 percent in nominal dollars from 2003 through 2010 (see table 3). In constant dollar terms, administrative fees grew by 2 percent over the period. The formula HUD uses to pay administrative fees to housing agencies is not directly tied to the cost of performing the administrative tasks the program requires. Moreover, the fees HUD has paid housing agencies in recent years have been less than the amount for which they were eligible under the formula because of reductions in appropriations. Housing agencies we contacted noted that the cost of doing business increased over the period of our analysis. For example, several noted that inspection costs have increased with the growing cost of gasoline, especially for housing agencies that administer vouchers over large geographic areas. Others noted that policies such as portability—the ability of voucher holders to use their vouchers outside of the jurisdiction of the housing agency that issued the voucher—increased staff costs because they have been increasingly complex and difficult to implement and monitor. Representatives of housing agencies with whom we spoke said that they have frozen salaries and hiring and increased staff hours, among other things, to cope with reductions in administrative fees.

Program Design and Goals Also Influence Program Costs

The design and goals of the voucher program contribute to the overall expense of the voucher program, although it is difficult to quantify how much of the cost increase from 2003 through 2010 was due to design issues. Specifically, the voucher program has various features that are intended to target or give priority to the poorest households, and serving these households requires greater subsidies. Long-standing federal policy generally has required household contributions to rent to be based on a fixed percentage of household income, which can be reduced through income exclusions and deductions for certain expenses, such as child

care and health services.¹⁴ Further, housing agencies are required to lease 75 percent of their new vouchers to extremely low-income households. In addition, housing agencies also may establish local preferences for selecting applicants from their waiting lists.¹⁵ Like the income standards and targeting requirements, these preferences have a direct impact on subsidy costs—for example, the Boston Housing Authority has established preferences designed to assist “hard-to-house” individuals and families, including those experiencing homelessness. According to housing agency officials, because these individuals and families have little to no income, the agency’s annual per-unit subsidy costs are higher than they would be absent the preferences. While these types of requirements help address Congress’s and HUD’s goal of serving the neediest households, HUD officials noted that such requirements make the program more expensive than it would otherwise be if housing agencies had more flexibility to serve households with a range of incomes.

Similarly, program goals, such as HUD’s deconcentration policy also can affect program costs. Specifically, this policy encourages assisted households to rent units in low-poverty neighborhoods, which typically are more expensive. According to HUD officials, the deconcentration goal increases subsidy costs for housing agencies and overall costs for the department because, as previously discussed, if rents increase, but household contributions to rent remain constant, HUD and housing agencies must make up for the increased rent burden in the form of higher subsidy payments.

¹⁴This “30-percent rule” has its origins in the “Brooke Amendment”—in 1969, then-Senator Edward Brooke of Massachusetts offered, and Congress passed, an amendment to the United States Housing Act of 1937, as amended, that mandated that no family would have to pay more than 25 percent of its income toward rent in federally assisted housing. In 1981, Congress increased the maximum to 30 percent.

¹⁵Housing agencies must establish an application and selection process that treats applicants for voucher assistance fairly and consistently and provides an effective method for determining eligibility. However, voucher program regulations provide flexibility for each housing agency to develop an application and selection process tailored to its particular circumstances, including the ability to establish local preferences for assistance. See 24 C.F.R. § 982.207.

Although Costs Have Risen, the Voucher Program Generally Has Been More Cost-Effective Than Other Types of Housing Assistance

Despite increases in the cost of the voucher program from 2003 through 2010, our work and other published studies consistently have found that vouchers generally have been more cost-effective in providing housing assistance than federal housing production programs designed to add to or rehabilitate the low-income housing stock.¹⁶ Our 2002 report provides the most recent original estimates of the cost differences between the voucher program and certain existing production programs.¹⁷ We estimated that, for units with the same number of bedrooms in the same general location, the production programs cost more than housing vouchers. In metropolitan areas, the average total 30-year costs of the production programs ranged from 8 to 19 percent greater for one-bedroom units. For two-bedroom units, the average total 30-year costs ranged from 6 percent to 14 percent greater.¹⁸ The cost advantage of the voucher over the production programs was likely understated because other subsidies—such as property tax abatements—and potential underfunding of reserves to cover expected capital improvements over the 30-year cost period were not reflected in the cost estimates for the production programs.

Much of the research over the past several decades reached similar conclusions. For example, in 2000, HUD found that average ongoing costs per occupied unit of public housing were 8 to 19 percent higher than voucher subsidy costs. In 1982, the President's Commission on Housing found that subsidy costs for new construction were almost twice as much as subsidy costs for existing housing.¹⁹ The commission's finding set the

¹⁶For a detailed discussion of the relevant literature, see Edgar O. Olsen, "The Cost-Effectiveness of Alternative Methods of Delivering Housing Subsidies," presentation at the thirty-first annual APPAM research conference (Charlottesville, Virginia: Oct. 30, 2009).

¹⁷See GAO, *Federal Housing Assistance: Comparing the Costs and Characteristics of Housing Programs*, [GAO-02-76](#) (Washington, D.C.: Jan. 31, 2002). We analyzed the characteristics and costs of the housing under six federal housing programs that continue to increase the number of assisted households: the voucher program, Low-income Housing Tax Credits, HOPE VI, Section 202, Section 811, and Section 515. With the exception of the voucher program, each of these programs is a production program.

¹⁸Because of data limitations, we used a different methodology to present total costs for the HOPE VI program—a HUD program to revitalize distressed public housing. We found that the total 30-year cost of a HOPE VI unit with an average size of 2.4 bedrooms was about 27 percent more expensive than vouchers.

¹⁹See HUD, Office of Policy Development and Research, *Economic Cost Analysis of Different Forms of Assisted Housing* (Washington, D.C.: December 2000) and The President's Commission on Housing, *The Report of the President's Commission on Housing* (Washington, D.C.: April 1982).

stage for the eventual shift from production programs to vouchers as the primary means through which the federal government provides rental housing assistance.

Notwithstanding the cost-effectiveness of vouchers relative to other forms of rental housing assistance, many of these studies noted the benefits that production programs can and have conferred on low-income households and communities such as supportive services for the elderly and persons with disabilities. The voucher program typically does not confer such benefits. In addition, research has indicated that some markets may have structural issues. For example, regulatory restrictions that reduce the supply of housing (and thus, opportunities for households to use vouchers) make production programs more effective tools for providing affordable housing than vouchers in those locations.²⁰ And our work found that voucher holders sometimes are unsuccessful in using their vouchers, either because they cannot find units that meet their needs or because landlords are unwilling to accept their vouchers. These households may benefit more from production programs, which can better guarantee access to affordable housing, than vouchers.

Congress and HUD Have Taken Steps to Limit Cost Increases in the Voucher Program

In light of increasing program costs, Congress and HUD have taken several steps to limit the extent of increases from fiscal years 2003 through 2011, while maintaining assistance for existing program participants. These steps include legislative changes to the formula HUD uses to calculate and distribute subsidy funding to housing agencies, as well as continued efforts to reduce improper rental assistance payments.

Congressional Actions

Before fiscal year 2003, Congress and HUD funded housing agencies' renewal needs based on their average per-voucher costs from the previous year, adjusted for inflation, and multiplied by the number of authorized vouchers.²¹ Meaning, housing agencies received funding for all of their authorized vouchers, regardless of whether they leased all of those vouchers. In addition, prior to 2003, HUD provided each housing agency with reserve funding equal to one month of its subsidy funding—

²⁰See HUD, Office of Policy Development and Research, *Targeting Housing Production Subsidies: Literature Review* (Washington, D.C.: December 2003).

²¹Authorized voucher leasing levels for housing agencies are outlined in their Annual Contributions Contracts with HUD.

housing agencies could use their reserves to fund new vouchers (a practiced called “maximized leasing”).²²

Beginning in fiscal year 2003, Congress changed the voucher program’s funding formula so that it would provide housing agencies with renewal funding that was tied to housing agencies’ actual costs and leasing rates rather than the number of authorized vouchers (whether used or unused).

- Starting in fiscal year 2003, Congress stopped providing funding for vouchers that housing agencies issued in excess of their authorized levels, thus prohibiting over- (or maximized) leasing.²³
- Congress generally based voucher program appropriations for fiscal year 2003 and thereafter on the number of leased vouchers (not to exceed authorized levels) and actual cost data that housing agencies reported to HUD.
- Congress discontinued the practice of providing reserve funding for housing agencies and instead started reserving a portion of renewal funding to make adjustments to housing agencies’ allocations for contingencies such as increased leasing rates or certain unforeseen costs.
- In more recent years, Congress has provided HUD appropriations that did not fully fund housing agencies at their eligible amounts under the funding formula.
- In every year since 2004, Congress has provided administrative fees that were at least 6 percent lower than the 2003 rate.
- Finally, as shown in table 4, in fiscal years 2008 and 2009, Congress rescinded a portion of housing agencies’ subsidy reserves and directed HUD, in total, to offset almost \$1.5 billion from 1,605 housing agencies).²⁴

²²HUD provided this reserve funding separately to the funding reserves (NRA) housing agencies can accumulate and to which we refer throughout this report.

²³Beginning in 2003, housing agencies were prohibited from leasing more vouchers than were authorized in their contracts.

²⁴Later in this report, we discuss how continued monitoring and reduction of housing agencies subsidy reserves could reduce the need for new appropriations for or increase the number of households assisted under the voucher program.

Table 4: Summary of Fiscal Year 2008 and 2009 Subsidy Reserve Rescissions and Offsets

Rescission and offset of excess subsidy reserves	Number of affected housing agencies	Dollar total
2008	1197	\$723,167,604
2009	975	\$750,000,000
Total	1605^a	\$1,473,167,604

Source: GAO analysis of HUD data.

^aOf these, 567 housing agencies faced rescissions and offsets in both 2008 and 2009.

HUD Actions on Improper Payments

HUD has taken steps to reduce improper payments in the voucher program. According to HUD reports, the department has reduced gross improper payments (subsidy over- and underpayments) resulting from program administrator errors (that is, a housing agency’s failure to properly apply income exclusions and deductions and correctly determine income, rent, and subsidy levels) by almost 60 percent, from \$1.1 billion in fiscal year 2000 to \$440 million in fiscal year 2009.²⁵

In addition, HUD has provided housing agencies with fraud detection tools—such as the Enterprise Income Verification system, which makes income and wage data available to housing agencies—and realized continued reductions in improper payments as a result of these tools. According to HUD, from fiscal year 2006 through 2009, the department reduced gross improper payments resulting from errors in reported tenant income—including the tenant’s failure to properly disclose all income sources—by approximately 37 percent, from \$193 million to \$121 million. These efforts do not necessarily reduce the cost of assisting households, but they help increase the program’s efficiency by helping ensure that an appropriate level of assistance is provided and potentially serving more households with appropriated funds.

HUD-Proposed Reforms and Additional Actions to Manage Costs

HUD has requested the authority to implement program reforms that could have had the potential to decrease voucher program subsidy costs, administrative costs, or both. For example, as shown in table 5, in its

²⁵See GAO, *HUD Rental Assistance: Progress and Challenges in Measuring and Reducing Improper Rent Subsidies*, [GAO-05-244](#) (Washington, D.C.: Feb. 18, 2005).

fiscal year 2012 budget request, HUD proposed implementing a rent demonstration to test alternatives to the current rent structure that could result in assisted households paying more in rent. As we discuss later in this report, changes to the way assisted household contributions to rent are calculated could result in cost savings to the program.

Table 5: HUD’s Proposed Voucher Program Reforms

Reform	Budget year(s)	Description
Rent demonstration ^a	2012	HUD sought the authority to test alternatives to the current rent structure with non-MTW agencies.
Increased time between re-certifications of tenant income	2012	HUD proposed extending the time between re-certifications of tenants with fixed incomes from 1 to 3 years.
Transforming Rental Assistance ^b	2011	HUD proposed streamlining and improving the delivery and oversight of rental assistance across all relevant HUD programs through the introduction of more efficient forms of administration such as consortiums, consolidation, and other locally designed structures. For example, a consortium of housing agencies could centralize administrative functions for a large area or for a state.
Flexible Voucher Program	2005, 2006, 2007	HUD proposed allowing state and local housing agencies to administer the voucher program and encouraging housing agencies with overlapping jurisdictions and those with small voucher programs to consolidate or enter cooperative agreements to promote administrative efficiencies and cut costs.
Housing Assistance for Needy Families	2004	Under this block grant, HUD proposed making state housing agencies responsible for the financial management and administration of the voucher program and giving states the option to directly administer the program or contract with local housing agencies or other public, nonprofit, or private entities to administer voucher assistance at the local level.

Source: GAO analysis of HUD budget documents.

^aOn December 6, 2011, HUD’s Policy Development and Research issued a request for proposal for a separate rent demonstration. According to the request, the demonstration will test alternatives to the current rent structure using a random assignment experimental model and most likely would be undertaken at select MTW agencies because these agencies already have the authority to request waivers of voucher program laws and regulations. HUD is funding the demonstration under its Transformation Initiative.

^bSubsequent versions of the Transforming Rental Assistance proposal did not include the administrative efficiencies discussed in the table.

Although Congress did not grant HUD the authority to implement these voucher-related initiatives, HUD recently initiated administrative changes to its housing agency consortium rule, a first step in the effort to encourage housing agencies to consolidate as envisioned by the department’s 2011 Transforming Rental Assistance proposal. The revised

rule would treat participating housing agencies in a consortium as one entity. HUD's current regulation requires that consortium members be treated separately for oversight, reporting—as a result, few housing agencies have formed consortiums since 1998.

Finally, in 2010, HUD began reviewing the administrative fee structure for the voucher program.²⁶ The study aims to ascertain how much it costs a housing agency to run an efficient voucher program. HUD plans to use the results to help develop a new formula for allocating administrative fees. Although not enough time has passed to determine whether HUD's findings will positively or negatively affect costs in the voucher program, this study represents a positive effort on HUD's part to more clearly understand administrative costs in the voucher program and identify ways to improve efficiency. According to HUD officials, HUD intends to use this study as a basis for future legislative proposals, which could have implications for the cost of administering the program.

Finally, in 2009, HUD developed a tool designed to help HUD staff and housing agencies forecast voucher and budget utilization (that is, the percentage of budget allocation and percentage of authorized vouchers they are using) for up to 3 years. Department officials credit the tool with increasing voucher program efficiency; however, HUD and housing agencies' use of the forecasting tool has not reduced overall costs in the voucher program.

Options Exist to Reduce Program Costs or Increase Efficiencies

We identified several options that if implemented effectively, could reduce voucher program costs (by approximately of \$2 billion annually, based on our estimates) or allow housing agencies to assist additional households if Congress chose to reinvest the costs savings in the program. First, improved information on the level of subsidy reserve funding housing agencies should maintain could aid budget decisions and reduce the need for new appropriations. ; Second, agency officials have noted that the voucher program's requirements are complex and burdensome and streamlining these requirements could reduce costs. Finally, changes to the calculation of voucher-assisted households' payments toward rent—known as rent reform—and consolidating voucher administration under

²⁶Later in this report, we discuss how HUD's administrative fee study could be used to streamline administrative requirements and reduce administrative costs.

fewer housing agencies' could also reduce program costs. Each of these options would require congressional action to implement, and we discuss below possible steps that HUD could take to facilitate the implementation of some of them. Rent reform and administrative consolidation also involve difficult policy decisions that will affect some of the most vulnerable members of the population and alter long-standing program priorities and practices.

Improved Information on Subsidy Reserves Could Aid Budget Decisions

Housing agencies have accumulated subsidy reserves (unspent funds) that Congress could use to (1) reduce program appropriations (through a rescission and offset) and potentially meet other federal needs or (2) direct HUD to assist additional households.²⁷ As previously discussed, HUD allocates subsidy funding to housing agencies based on the formula Congress establishes in annual appropriations legislation. In recent years, the formula has specified that HUD allocate funds based on housing agencies' leasing rates and subsidy costs from the prior year. In any given year, housing agencies may under-lease or receive more funding than they can spend. Unless these funds are rescinded and offset, housing agencies can keep their unused subsidy funding in reserve accounts and spend these funds on authorized program expenses (including rent subsidies and utility allowance payments) in future years. Over time, large sums of money can accumulate. As of September 30, 2011, 2,200 housing agencies had more than \$1.5 billion in subsidy reserves, which includes unspent subsidy funding from prior years and certain set-aside funding and funding for new vouchers where insufficient time has passed for expenditure.

In addition, beginning in 2012, HUD implemented changes to how it disburses subsidy funds to housing agencies. As a result of these changes, although housing agencies may continue to accumulate subsidy reserves, HUD, rather than the housing agencies, holds these reserves.

²⁷Because HUD has allocated subsidy reserve funds to housing agencies, congressional rescissions must be implemented through an offset, whereby Congress requires housing agencies to spend down their reserve funds in order to make up for reductions in the appropriated amount.

This change also will allow HUD to better determine the extent of the reserves housing agencies have accumulated.²⁸

HUD officials told us that the department believes that it requires specific authority from Congress to reduce (offset) future voucher program budget requests by all or a portion of housing agencies' subsidy reserves.²⁹ Although HUD provides quarterly reports to the Congressional Budget Office on the extent of housing agencies' reserves and has requested the authority to offset and in some cases, redistribute "excess" reserves (that is, reserves beyond what is needed to fund contingencies, such as cost increases from rising rental rates or falling tenant incomes, as defined by HUD), the department has not developed specific or consistent criteria defining what constitutes excess reserves or how it would redistribute funding among housing agencies. For example, in its fiscal year 2012 voucher program budget proposal, HUD requested the authority to offset excess reserves. According to the proposal, if given this authority, the department first would reallocate the funds to housing agencies to make up any difference between the appropriated amount and the total funding for which housing agencies were eligible based on the renewal formula and then redistribute any remaining funds to housing agencies based on "need and performance." However, the proposal did not specify how HUD would calculate excess subsidy reserves or a detailed methodology for redistributing the funds, and HUD officials acknowledged that redistributing excess funds among housing agencies will increase the size and the cost of the program over time because if housing agencies are able to lease more vouchers with these funds, Congress will have to appropriate more funding for renewal vouchers in subsequent years.

Furthermore, HUD's definition for what constitutes excess reserves has varied. For example, HUD officials told us that housing agencies should retain one month (approximately 8.5 percent) of their annual funding allocations in reserves. However, in its fiscal year 2010 and 2011 budget proposals, HUD defined excess reserves as those in excess of 4 and 6

²⁸See HUD, Notice PIH 2011-67, *Implementation of New Cash Management Requirements for the Housing Choice Voucher Program* (Dec. 9, 2011).

²⁹Because housing agencies' reserves are resources that HUD has disbursed and expended, HUD effectively recaptures any excess reserves by reducing or offsetting the housing agencies' funding allocation in another year.

percent, respectively, of housing agencies' allocated amounts.³⁰ Further, HUD generally has excluded housing agencies with 250 and fewer vouchers from its proposed offsets. HUD officials told us that they have been considering lowering this threshold or developing a sliding scale methodology (generally based on size) to determine the amount of reserves housing agencies should maintain and the amount of excess reserves that HUD would propose offsetting and redistributing.

In past work, we highlighted the importance of HUD's clearly identifying the existence and amount of unexpended subsidy funds (reserves) so that Congress could have confidence in the department's capacity to effectively manage the funding appropriated for the voucher program. We concluded that HUD should take steps to ensure that reserves did not reach unreasonable levels—that is, in excess of what is prudently needed to address contingencies.³¹ More recently, we stated that agency reporting about key areas such as financial management or program reforms should competently inform congressional decision making, and agencies should engage Congress about how to present this information.³²

While a reserve for contingencies is prudent, without clear and consistent criteria for determining what constitutes an appropriate level for housing agency reserves, it is difficult to judge how well HUD managed the

³⁰As previously discussed, Congress rescinded \$750 million from HUD's 2009 appropriation for the voucher program, and HUD offset this amount from housing agencies' reserve accounts. Similarly, in 2008, Congress rescinded the amount in the housing agencies' reserves accounts that exceeded 7 percent of the amount of the program's 2007 renewal funding (about \$723 million), and HUD offset this amount from housing agencies' reserve accounts. In 2005, Congress directed HUD to reduce the housing agencies' reserves account to no more than 1 week (approximately 2 percent) of subsidy funding. The Affordable Housing and Self-Sufficiency Improvement Act of 2012 (January 31, 2012, draft) would permit housing agencies to retain subsidy reserves in an amount equal to no less than 6 percent of their current year's annual budget authority. This amount would be exempt from any offsets imposed by HUD.

³¹GAO, *Section 8 Tenant-Based Housing Assistance: Opportunities to Improve HUD's Financial Management*, [GAO/RCED-98-47](#) (Washington, D.C.: Feb. 20, 1998). In this report we highlighted that the Office of Management and Budget guidance on budget formation instructs agencies to consider available funding on hand before requesting new funding.

³²GAO, *Government Performance: GPRM Modernization Act Provides Opportunities to Help Address Fiscal, Performance, and Management Challenges*, [GAO-11-466T](#) (Washington D.C., Mar. 16, 2011).

funding Congress has provided for the voucher program. For example, as previously discussed, in fiscal years 2008 and 2009 Congress rescinded and directed HUD to offset excess subsidy reserves. However, as shown in table 6, the 2009 rescission and offset were too large for 288 (about 18 percent) of the 1,605 housing agencies that were subject to the 2008 and 2009 rescissions and offsets to absorb. Congress had to provide these 288 and an additional 152 housing agencies with supplemental funding to prevent the termination of voucher assistance.

Table 6: Summary of Subsidy Reserve Rescissions and Offsets and the Allocation of Supplemental Funding, Fiscal Years 2008 and 2009

	Number of affected housing agencies	Dollar total
Housing agencies that had reserves rescinded and offset in 2008, 2009, or both years	1,605	\$1,473,167,604
Housing agencies that received supplemental funding in 2009	440	\$122,280,516
Housing agencies that had reserves rescinded and offset in 2008, 2009, or both years	288	\$96,684,883
Housing agencies that did not have reserves rescinded and offset in either 2008 or 2009	152	\$25,595,633

Source: GAO analysis of HUD data.

Note: Of the 1,605 housing agencies that had reserves rescinded and offset, 567 housing agencies were had reserves rescinded and offset in both 2008 and 2009.

Similarly, in the fiscal year 2012 budget, Congress rescinded and directed HUD to offset housing agencies' subsidy reserves by \$650 million. Based on our analysis, as of September 30, 2011, housing agencies had approximately \$606 million in excess reserves, approximately \$44 million short of the \$650 million rescission amount. Our analysis assumed that housing agencies retained in reserves the equivalent of one month or about 8.5 percent of their annual funding allocations—HUD's current thinking on the appropriate level of reserves—and also excluded certain set-aside funding and funding for new vouchers.³³ As a result, to meet the

³³Based on our analysis, MTW agencies had no excess (nonfungible) subsidy reserves.

\$650 million rescission goal, HUD would have to offset more funds from housing agencies' reserves than would be required under a one-month reserve criterion, potentially resulting in some housing agencies holding less than a one month reserve for contingencies.³⁴

Administrative Reforms Could Streamline Burdensome Requirements and Reduce Costs

HUD officials have noted that certain requirements for administering the voucher program have grown burdensome and costly and could be streamlined. In May 2010, the Secretary of HUD testified that the department's rental assistance programs "desperately need simplification." He further stated that HUD must streamline and simplify its programs so that they are easier for families to access, less costly to operate, and easier to administer at the local level.³⁵ For example, under current rules, housing agencies must re-examine household income and composition at least annually and adopt policies describing when interim re-examinations will be conducted.³⁶ HUD has expressed support for extending the time between re-examination of income for households on fixed incomes from 1 to 3 years and the time between unit inspections from 1 to 2 years³⁷—according to one program administrator that manages voucher programs for five housing agencies, annual re-examinations and inspections account for more than 50 percent of administrative costs in the voucher programs the agency administers.

³⁴According to HUD, to fund the rescission, the department will offset reserve balances that exceed approximately one month of housing agencies' 2012 eligible amounts. See HUD, Notice PIH 2012-9, *Implementation of the Federal Fiscal Year 2012 Funding Provisions for the Housing Choice Voucher Program* (Feb. 8, 2012). For housing agencies that administer 50 or fewer vouchers, the offset will equal that portion of the reserve balance that exceeds approximately 6 months of housing agencies' 2012 eligible amounts.

³⁵House Financial Services Committee, *Transforming Rental Assistance*, Testimony of Shaun Donovan Secretary of the Department of Housing and Urban Development, 111th Cong., 2nd sess., 2010.

³⁶See 24 C.F.R. §982.516.

³⁷Insurance, Housing, and Community Opportunity Subcommittee, House Financial Services Committee, *Legislative Proposals to Reform the Housing Choice Voucher Program*, Testimony of Sandra B. Henriquez, Assistant Secretary of the Department of Housing and Urban Development, 112th Cong., 1st sess., 2011. HUD's fiscal year 2012 budget request also proposed extending the time between re-certifications for households on fixed incomes.

However, overall data are not available on the actual costs of specific administrative activities, such as annual income re-examinations and inspections, and how they vary across housing agencies. To help address this lack of information, HUD has initiated a study to determine (1) what constitutes an efficient voucher program, (2) what a realistic expectation would be for what a housing agency should be doing to run an efficient program, (3) how much it costs to run an efficient program, and (4) what an appropriate formula would be for allocating administrative fees to housing agencies operating voucher programs.³⁸ According HUD, the study will allow the department to analyze all aspects of voucher program administration to reduce and simplify housing agencies' administrative responsibilities.³⁹ Such information will be important as congressional decision makers consider potential reforms of administrative requirements.

Although some of the changes needed to simplify and streamline the voucher program would require Congress to amend existing statutes, HUD's administrative fee study and the experiences of housing agencies participating in MTW may provide insight into specific reforms to ease housing agencies' reported administrative burden, as well as any potential cost savings resulting from these reforms. For example, according to a HUD report, while conclusive effects of many MTW reforms, particularly as they relate to assisted households, are not known, some of the demonstration's most compelling results to date are those related to housing agency operations.⁴⁰ As shown in table 7, many of the housing agencies that participate in the demonstration have implemented reforms that Congress has been considering through draft legislation, HUD has proposed in its fiscal year 2012 budget request, or both.⁴¹ According to the MTW agencies, many of these initiatives have resulted in both time and cost savings in their programs.

³⁸HUD, *Statement of Work: Housing Choice Voucher Program Administrative Fee Study*, Solicitation Number RCHI00992, (Washington, D.C.: Feb. 8, 2010).

³⁹Testimony of Sandra B. Henriquez, Assistant Secretary of the Department of Housing and Urban Development, 112th Cong., 1st sess., 2011.

⁴⁰HUD, Office of Public and Indian Housing and Office of Policy Research and Development, *Report to Congress Moving to Work: Interim Policy Applications and the Future of the Demonstration* (Washington, D.C.: August 2010).

⁴¹See Affordable Housing and Self-Sufficiency Improvement Act of 2012, discussion draft dated Jan. 31, 2012.

Table 7: Administrative Streamlining Efforts Implemented or Proposed at MTW Agencies

Administrative efficiency	Number of MTW agencies that implemented the (or a similar) efficiency
Allow housing agencies to make subsidy payments to landlords as they correct non-life-threatening conditions identified as part of an inspection.	5 ^a
Conduct biennial inspections	18 ^b
Allow inspections from alternate sources, including those conducted for other federal, state, and local housing assistance programs.	2
Conduct triennial re-examinations for households with fixed incomes.	26 ^c
Allow fixed-income households' incomes to be adjusted by applying an inflationary factor established by the Secretary in any year the housing agency does not conduct a review of income.	5
Allow housing agencies to conduct interim re-examinations only when a household's income or deductions change by an amount that is estimated to result in an increase of 10 percent or more in annual adjusted income.	6 ^d
Allow housing agencies to use households' prior-year income in determining income for annual reviews.	0
Allow housing agencies to rely on income determinations made for other federal, means-tested, public assistance programs.	2
Exclude from incomes imputed returns on net assets that do not exceed \$50,000.	20 ^e

Source: GAO analysis of draft legislation and interviews with MTW agencies.

^aAll housing agencies allow either the tenant or owner, or both to self-certify correction of non-life-threatening conditions.

^bMost of these housing agencies set criteria that need to be met before changing the inspection schedule of a unit. For example, some agencies specify that units must have passed one inspection before placing them on a biennial schedule.

^cThe majority of these housing agencies conduct biennial re-examinations of fixed-income households rather than triennial. In addition, 12 have an alternate re-examination schedule for other types of households.

^dThese housing agencies have made changes to their interim re-examination policies. For example, one of these agencies limits interim re-examinations based on a criteria that includes a decrease in adjusted income of 10 percent or more (elderly/disabled families are exempt).

^eThe amount of asset income excluded from income varies. For example, some set this amount at \$5,000 and others exclude asset income.

In addition, and as previously discussed, the existing administrative fee formula generally is linked to fair market rents that are adjusted annually to reflect changes in wage rates, and HUD pays fees to housing agencies based on the number of units leased (vouchers used) as of the first of each month. This formula is not tied to the program's current administrative costs or requirements. Further, housing agencies we contacted reported that the cost of administering the voucher program has been on the rise, with contributing factors including higher postage, fuel, and employee health care costs, as well as increased reporting and other requirements.

Without more specific information about potential reform options, policymakers will not be able to make an informed decision about how to reform the administrative fee formula and the activities required to administer an efficient voucher program. These efforts—using the administrative fee study to identify specific reforms and leveraging the experiences of MTW agencies—are in line with the goals of the Government Performance and Results Act of 1993 (GPRA), which Congress enacted, in part, to inform its decision making by helping to ensure that agencies provide objective information on the relative effectiveness and efficiency of their programs and spending.⁴² Whether HUD’s study will yield findings that eventually will result in measureable cost or time savings is not clear. While reforming administrative requirements for the voucher programs could lead to increased efficiencies and cost savings, the administrative fee paid to housing agencies is a relatively modest share of the program’s overall annual appropriations—approximately 9 percent in recent years. Nevertheless, such efforts will provide Congress with timely and meaningful information, which will enhance its ability to make decisions about funding for and requirements of the voucher program.

Rent Reform and Consolidation Could Result in Reduced Costs or More Households Served, but Both Involve Trade-offs

If implemented, rent reform (that is, changes to the calculation of households’ payment toward rent) and the consolidation of voucher administration under fewer housing agencies could yield substantial cost savings, allow housing agencies to serve additional households if Congress were to reinvest annual cost savings in the voucher program, or both.⁴³ Further, these reform options are not mutually exclusive; that is, cost savings or additional households served could be greater if both options were implemented. Further, implementation of these options may involve some trade-offs, including increased rent burdens for assisted households.

⁴²GPRA, §§ 2(a)(1), 2(b)(5). The GPRA Modernization Act of 2010 (GPRAMA) updated the federal government’s performance measurement framework established in GPRA.

⁴³For a detailed discussion of how we selected which rent reform options to include in our analysis, see the detailed scope and methodology in appendix I. Academics have advanced other rent reform options that we did not include in this report. For example, see Amy Crews Cutts and Edgar O. Olsen, “Are Section 8 Housing Subsidies Too High?” *Journal of Housing Economics*, vol.11 (2002): 214-243.

Rent Reform

As previously discussed, under current program rules, an assisted household generally must contribute the greater of 30 percent of its monthly adjusted income or the housing-agency established minimum rent—up to \$50—toward its monthly rent. HUD’s subsidy is the difference between (1) the lesser of the unit’s gross rent or the applicable payment standard and (2) the household’s rental payment. Therefore, as an assisted household’s income increases, HUD’s subsidy payment decreases, and vice versa. Under existing program rules, a household could pay no rent—if the household has no monthly income after adjustments, the housing agency from which the household receives assistance does not have a minimum rent, or the household obtained a hardship exemption.⁴⁴ However, such households make up a small share of all voucher-assisted households, with more than 99 percent making some dollar contributions to their rent.⁴⁵

Because about 90 percent of voucher program funds are used to pay subsidies, decreasing the level of subsidy for which households are eligible (or, alternatively stated, increasing the amount households must contribute toward rent) necessarily will yield the greatest costs savings for the program. We estimated the effect, both in terms of cost savings and additional households that could be served with those savings if Congress chose to reinvest the savings in the program, of several options including requiring assisted households to pay

- higher minimum rents;
- 35 percent of their adjusted income in rent;
- 30 percent of their gross income in rent (with no adjustments);⁴⁶ or
- a percentage of the applicable fair market rent.⁴⁷

⁴⁴If a housing agency adopts a minimum rent policy, the housing agency must grant exemptions from the requirement to any household that the housing agency determines is unable to pay the amount because of financial hardship, unless the hardship is temporary. See 24 CFR §5.630.

⁴⁵Our analysis showed that 0.5 percent of all assisted households pay no rent and 1.3 percent pay from \$0 to \$50.

⁴⁶A rent structure based on gross income would eliminate the deductions and exclusions to income that households currently may claim.

Using HUD data, we determined that each of these options could reduce the federal cost burden—in some cases, quite considerably—or if Congress chose to reinvest cost savings in the program, allow housing agencies to serve more households without additional funding. For example, as shown in table 8, increasing minimum rents to \$300 would yield the greatest cost savings on an annual basis—an estimated \$1.8 billion—or allow housing agencies to serve the greatest number of additional households—an estimated 287,000. Requiring assisted households to pay 30 percent of their gross income in rent would yield the least savings for the voucher program and serve the fewest additional households. Further, HUD operates a number of other rental assistance programs where household subsidies are based on the same calculations as those for the voucher program. Implementation of these rent reform options in its other rental assistance programs has the potential to create additional cost savings.

Table 8: Estimated Annual Effect of Selected Rent Reform Options on Program Costs and Number of Voucher-Assisted Households Served

Reform option	Estimated annual cost savings ^a	Estimated additional households served
Increase minimum rents to: ^{b, c}		
\$50 ^d	\$11 million	1,400
75	67 million	8,600
100	124 million	16,000
150	318 million	43,000
200	602 million	85,000
250	1.1 billion	167,000
300	1.8 billion	287,000
Require households to pay: ^e		
35 percent of adjusted income in rent	\$1.1 billion	164,000
30 percent of gross income in rent	513 million	76,000
35 percent of the fair market rent ^f	927 million	136,000

Source: GAO analysis of HUD data.

⁴⁷In past work we highlighted some of the limitations of HUD's process for estimating fair market rents and ways to improve the accuracy of these estimates. See GAO, *Rental Housing: HUD Can Improve Its Process for Estimating Fair Market Rents*, GAO-05-342 (Washington, D.C.: Mar. 31, 2005).

^aTo estimate the effect of these options on program costs and households assisted, we analyzed household characteristic and rent data as of December 2010. These estimates illustrate the relative effects of the options if fully implemented in one year. Actual implementation of such options likely would be done gradually and not all of the savings or efficiencies would be realized in the first year.

^bWe assumed that all households paid the greater of the minimum rent or 30 percent of adjusted income. Our minimum rent calculations did not take into account any payment households received for utility assistance.

^cOn January 31, 2012, the House Subcommittee on Insurance, Housing, and Community Opportunity released a revised draft of the Section 8 Savings Act entitled the Affordable Housing and Self-Sufficiency Improvement Act of 2012. The draft bill proposes implementing a minimum rent of at least \$69.45 (adjusted annually). We estimated that this increase would save approximately \$56 million annually or could be used to serve an additional 7,100 households if Congress chose to reinvest the savings.

^dWe assumed all applicable households paid \$50 in rent. As previously discussed, although housing agencies are permitted to set a minimum rent of up to \$50, not all do and many offer hardship exemptions from the requirement.

^eFor the adjusted and gross income options, we did not impose a minimum rent requirement.

^fFor this option, we evaluated the effect of requiring households to pay 12, 15, 20, 30, and 35 percent of the fair market rent and no minimum rent. Only the 35 percent option resulted in cost savings or additional households served on an annual basis—all other percentages resulted in cost increases and fewer households served.

These reform options could be implemented individually and some could be implemented together, depending on the objective policymakers were trying to achieve—such as maximizing cost savings, minimizing the impact on assisted households, or promoting work and self sufficiency among families with children (that is, nonelderly, nondisabled households).⁴⁸ To illustrate, one housing agency in the MTW program put in place a rent structure that gradually increases household rents—from 27 percent of gross income in years 1 and 2, to the greater of \$100 or 29 percent of gross income in years 3 and 4, and to the greater or \$200 or 31 percent of gross income in all subsequent years—to promote self-sufficiency among all assisted households. Under this approach, our analysis showed that households receive more subsidy in the first 2 years, but pay more rent over time than under the current rent structure.⁴⁹

In addition to estimating the cost savings that could result from each of these rent reform options, we evaluated each option in terms of its effect

⁴⁸Our analysis of current household characteristics showed that 81 percent of nonelderly, nondisabled households are comprised of at least one parent and one child. As a result, we refer to these households as “families with children” throughout this report.

⁴⁹Our analysis of current household characteristics and incomes showed that this approach would save approximately \$691 million annually.

on (1) changes in the rent paid by assisted households, (2) household attrition rates, (3) HUD's goals of encouraging households to move to the neighborhoods of their choice (mobility) and discouraging households from choosing communities that have higher levels of poverty (deconcentration), (4) incentives to seek work, (5) program administration, and (6) housing agency and industry support. While each of these options has advantages over the current rent structure—they could reduce costs or create administrative efficiencies—each also involves trade-offs.

Under each rent reform option, some households would have to pay more in rent than they currently pay. For example, as shown in table 9, if all households were required to pay at least \$50 in rent per month, an estimated 36,000 households (2 percent) would experience an average increase of \$31 in their monthly rent. HUD's fiscal year 2013 budget request proposes increasing the minimum rent to \$75 per month for all assisted household. Under this option, 207,000 households (11 percent) would experience an average increase of \$27. Table 9 also shows options that change the formula for calculating the households' payment toward rent. For example, setting the households rental payment to 30 percent of gross income (that is, without any deductions) would affect about 1,662,000 households (86 percent) and increase mean household rent by \$27.

Table 9: Estimated Number and Percentage of Voucher-Assisted Households for Which Rents Would Increase and the Average Monthly Increase, by Rent Reform Option

	Number of households experiencing an increase in their monthly payment ^a	Percentage of households experiencing an increase in their monthly payment	Mean change in monthly payment of affected households
Minimum rent^b			
\$50	36,000	2%	\$31
75 ^c	207,000	11	27
100	256,000	13	45
150	358,000	19	75
200	698,000	36	71
250	1,012,000	52	92
300	1,225,000	63	122
Household Rent Formula			
35% of adjusted income	1,751,000	92	\$50
30% of gross income	1,662,000	86	27
35% of fair market rent ^d	1,172,000	61	155

Source: GAO analysis of HUD data.

^aTo estimate the effect of each rent reform options on the number of households affected and their monthly payments, we analyzed household characteristic and rent data as of December 2010.

^bThe Affordable Housing and Self-Sufficiency Improvement Act of 2012proposes implementing a minimum rent of at least \$69.45 (adjusted annually). We estimated that, if implemented, approximately 198,000 households would experience an average increase of \$23 in their monthly payment.

^cHUD's fiscal year 2013 proposed budget proposes increasing the minimum rent to \$75 per month for all assisted households.

^dUnder this option, approximately 755,000 households would experience an average decrease of \$139 in their monthly payment.

Increasing minimum rents primarily would affect families with children that tend to report little or no income. Conversely, assisted elderly and disabled households almost always report income (most likely because they are on fixed incomes, like Social Security) and a large percentage of them already pay close to \$200 in rent.⁵⁰ On a programwide level, imposing minimum rents of \$200 or less does not change the amount these households pay in rent, when considering all assisted households. Figure 4 shows the mean change in all households' monthly rent resulting from each of these rent reform options. Increases in monthly rental payments for elderly and disabled households begin to increase more significantly with a \$200 minimum rent and under each of the rent formula changes. As a result, higher minimum rents or increases to the percentage of their incomes paid in rent will yield the greatest cost savings. For the rent formula change to 35 percent of adjusted income, the mean change in monthly rent generally would be similar across each household type.

⁵⁰We considered a household disabled if any member of the household had a disability.

Figure 4: Estimated Effect of Rent Reform Options on Monthly Rents of All Voucher-Assisted Households, by Household Type

Rent reform option		Mean change in monthly tenant payment (in dollars) by household type			
		Families with children	Disabled	Elderly	Elderly, disabled
Minimum rent	\$50	\$1	\$0	\$0	\$0
	\$75	6	0	0	0
	\$100	11	1	1	0
	\$150	27	2	2	0
	\$200	47	8	7	3
	\$250	71	30	23	22
	\$300	99	61	49	52
Household rent formula	35% adjusted income	44	47	49	48
	30% gross income	23	21	27	19
	35% fair market rent	61	23	8	22

Source: GAO analysis of HUD data.

Note: To estimate the effect each rent reform option on monthly household payments, we analyzed household characteristic and rent data as of December 2010. The Affordable Housing and Self-Sufficiency Improvement Act of 2012 proposes implementing a minimum rent of at least \$69.45 (adjusted annually). Under this change, only families with children would experience a change in rent (\$5 on average).

Figure 5 shows the mean change in monthly rent only for those households whose payments toward rent have changed as a result of each reform option. Among these affected households, changes in rental payments would be similar across household types for some of the rent structure options. For example, if households were required to pay a \$75 minimum rent, mean rental payments would increase by \$30 for disabled households (on the high end) and \$24 for elderly, disabled households (on the low end). However, if households were required to pay a \$200 or higher minimum rent, families with children again would experience higher mean changes in rent than disabled and elderly households.

Figure 5: Estimated Effect of Rent Reform Options on Monthly Rents of Affected Voucher-Assisted Households, by Household Type

Rent reform option		Mean change in monthly tenant payment (in dollars) by household type			
		Families with children	Disabled	Elderly	Elderly, disabled
Minimum rent	\$50	\$31	\$33	\$33	\$29
	\$75	27	30	25	24
	\$100	45	46	38	33
	\$150	77	63	51	39
	\$200	106	25	32	13
	\$250	135	55	52	44
	\$300	166	90	81	78
Household rent formula	35% adjusted income	53	47	50	48
	30% gross income	24	22	28	20
Household payment increases	35% fair market rent	196	113	125	110
	35% adjusted income	N/A	N/A	N/A	N/A
Household payment decreases	30% gross income	N/A	N/A	N/A	N/A
	35% fair market rent	-183	-106	-115	-96

Source: GAO analysis of HUD data.

Note: To estimate the effect each rent reform option on monthly household payments, we analyzed household characteristic and rent data as of December 2010. The Affordable Housing and Self-Sufficiency Improvement Act of 2012 proposes implementing a minimum rent of at least \$69.45 (adjusted annually). We estimated that, if implemented, mean rental payments would increase by \$23 for families with children; \$26 for disabled households; and \$21 for both elderly and elderly, disabled households.

Also as shown in figure 5, under the option where the rental payments are based on 35 percent of the fair market rent, some households will have to pay more in monthly rent, while others will pay less. Further, a higher proportion of affected households will see an increase in their rental payments. Specifically, of the approximately 1.9 million total households whose monthly rental payments would change under this option, about 61 percent (approximately 1.2 million households) would experience an increase in their monthly payments and about 39 percent (755,000 households) would experience a decrease.

Requiring households' rental payments to be based on a percentage of the applicable fair market rent rather than 30 percent of adjusted income primarily would affect households living in high-cost (mostly urban) areas

and large families, as well as those at the lower end of the income scale. HUD's fair market rents reflect market prices and unit sizes—thus, household rent shares will increase if they live in a more expensive fair market area or rent larger units in the same fair market rent area under a rent option based on percentage of fair market rents. Table 10 illustrates how fair market rents and household payments based on a percentage of the fair market rent can vary by location and unit size.

Table 10: Comparison of Two- and Three-Bedroom Monthly Rents under a 35 Percent of Fair Market Rent Structure, for Three Areas

	Boston, Massachusetts		Concord, New Hampshire		Farmington, Maine	
	Fair market rent	Monthly tenant payment	Fair market rent	Monthly tenant payment	Fair market rent	Monthly tenant payment
2 bedroom unit	\$1,357	\$475	\$993	\$348	\$687	\$240
3 bedroom unit	1,623	568	1,226	429	820	287

Source: GAO analysis of HUD data.

In addition, under an option where households' rental payments are based on a percentage of the fair market rent, lower-income households would pay a larger percentage of their income toward rent than higher-income households. And while many of the lowest-income households would experience rent increases (\$116 per month, on average for families with children), many of the highest-income households would experience rent decreases (\$97 per month).⁵¹

Under each of these rent reform options, a small number of households might lose their subsidies—that is, their subsidy payments would be reduced to zero because their new, higher rental payments would fully cover the gross rent. For example, under the option where households pay 35 percent of their adjusted income in rent, we estimated that approximately 1.8 percent of households would lose their subsidies.⁵² Further, other affected households might leave the program because they would have to pay more in rent and no longer choose to participate in the program. However, because the demand for rental assistance by low-

⁵¹We segmented the incomes of assisted household into 10 equal groups. We considered assisted households in the lowest tenth as the lowest-income households and assisted households in the highest tenth as the highest-income households.

⁵²In addition, under all other rent reform scenarios, less than 0.5 percent of households would lose their subsidies.

income households generally exceeds the number of available vouchers, eligible household likely would replace the one that left because similar unassisted households have much higher rent burdens than assisted households. Consequently, these rent reform options likely would not result in a sharp decline in program participation rates.

Rent structures that decrease the amount of subsidy households receive may discourage HUD's deconcentration efforts, as well as household mobility. With less subsidy, households (especially those with lower incomes) may not have the means to move from neighborhoods of concentrated poverty to those with a diversity of people and opportunities. But HUD's deconcentration goal presents its own trade-offs—chief among them that fewer households ultimately would be served, albeit with more generous subsidies. Among the rent reform structures we evaluated, all but one would decrease household subsidies. A rent structure under which households would pay 30 percent or less of the applicable fair market rent would increase subsidies for almost all households and thus could further HUD's deconcentration and mobility goals.⁵³

Two of the rent structures we evaluated—higher minimum rents and rents based on a percentage of the fair market rent—could create work incentives for households with little to no income. Under the current rent structure, and as previously discussed, a household with no income generally does not pay rent—HUD's subsidy covers the gross rent. Consequently, some have argued that these households have little incentive to seek employment because, for every \$1 they earn, their subsidies are reduced by 30 cents (for every \$100 they earn on a monthly basis, they will pay \$30 in rent). Rent structures that do not take into account household income may do more to encourage assisted

⁵³We evaluated the effect (in terms of costs and households served) of requiring assisted households to pay 12, 15, 20, 30, and 35 percent of the fair market rent. (The October 5, 2011, draft Section 8 Savings Act includes a provision that would require certain households to pay the greater of \$75 or 12 percent of the fair market rent.) Our analysis showed that requiring households to pay 12, 15, 20, or 30 percent of the fair market rent would increase program costs and reduce the number of households served. For example, requiring households to pay 12 percent of the fair market rent would increase program costs by approximately \$4.1 billion and reduce the number of households served by approximately 451,000; requiring households to pay 30 percent of the fair market rent would increase program costs by approximately \$165 million and reduce the number of households served by approximately 27,000.

households to find and retain employment.⁵⁴ Housing agencies in the MTW program that have implemented these types of rent structures simultaneously have offered self-sufficiency training and services to assisted households. Additionally, rent structures that eliminate household income from the rent equation may allow Congress and HUD to more accurately forecast funding needs. As we previously discussed, market rents and tenant incomes are two of the primary drivers of program costs, and predicting changes in market rents and incomes when developing budget proposals for future years is difficult. These types of rent structures also would encourage assisted households to make choices about housing consumption similar to unassisted households. For example, households would not have an incentive to over-consume housing because their share of the rent would increase with the size of the unit they rented.

Moving toward a rent structure either based on fair market rents or gross income would introduce significant administrative efficiencies into the program and could allow housing agencies to further reduce improper payments from administrator (housing agency) error or tenants' underreporting of income. Some housing agencies we contacted noted the complexity of the current income and rent determination process and their frustrations with tracking the existence of and changes to tenant incomes. HUD noted that requiring assisted households to pay higher minimum rents or 35 percent of their adjusted income in rent would not create administrative efficiencies in the voucher program. Our 2005 report on improper subsidy payments in HUD's rental assistance programs made similar observations, finding that the complexity of HUD's income and rent determination policies were of major concern to HUD field offices, program administrators, and industry groups.⁵⁵ HUD officials noted at the time that the department was considering various

⁵⁴In the early stages of the MTW demonstration, several housing agencies experimented with time limits on assistance as a means of encouraging self-sufficiency among assisted households. All of these housing agencies largely abandoned time limits. However, some were in favor of mandatory minimum rents or subsidies that decreased over time, regardless of a household's income. Applied Real Estate Analysis, Inc. and The Urban Institute, *The Experiences of Public Housing Agencies That Established Time Limits Policies under the MTW Demonstration* (Washington, D.C.: May 2007).

⁵⁵See GAO, *HUD Rental Assistance: Progress and Challenges in Measuring and Reducing Improper Rent Subsidies*, [GAO-05-224](#) (Washington, D.C.: Feb. 18, 2005).

approaches for statutory, regulatory, and administrative streamlining and simplification of its policies for determining subsidies.

Finally, nearly all of the housing agencies we contacted said that they supported some type of rent reform—among the most popular options were increasing minimum rents and increasing tenant rental payments to 35 percent of adjusted income. Some housing agencies have suggested that they have been successful in implementing rent reform under the MTW program with community support.⁵⁶ Despite this, some industry groups have voiced concern about rent reform. For example, in commenting on a provision included in the draft Section 8 Savings Act of 2011 that would permit HUD to pursue a rent demonstration, the National Low Income Housing Coalition stated that the demonstration would put HUD-assisted households at risk of having significant rent burdens.⁵⁷ The Coalition also said that any demonstration should include parameters that require HUD to monitor these burdens and stop or change the demonstration if it were found to harm assisted households.⁵⁸

Consolidation of Voucher Administration

Based on our literature review and interviews with HUD and housing industry officials, consolidation of voucher program administration under fewer housing agencies (administrative consolidation) could yield a more efficient oversight and administrative structure for the voucher program and cost savings for HUD and housing agencies; however, current information on the magnitude of these savings was not available.

HUD spends considerable resources in overseeing housing agencies. More than 2,400 local housing agencies administer the voucher program on HUD's behalf. According to a 2008 HUD study, the department

⁵⁶The MTW statute requires that “an application to participate in the demonstration shall include a plan that... includes criteria for establishing a reasonable rent policy, which shall be designed to encourage employment and self-sufficiency by participating families, consistent with the purpose of this demonstration, such as by excluding some or all of a family’s earned income for purposes of determining rent.” See HUD, Policy Development and Research, *Report to Congress, Moving to Work: Interim Policy Applications and the Future of the Demonstration* (Washington, D.C.: August 2010).

⁵⁷The National Low Income Housing Coalition advocates for the affordable housing needs of low-income people.

⁵⁸Subcommittee on Insurance, Housing, and Community Opportunity, House Committee on Financial Services, testimony of Linda Couch, Senior Vice President for Policy, National Low Income Housing Coalition, 112th Cong., 1st sess., 2011.

dedicated from more than half to two-thirds of its level of oversight to 10 percent of its units (generally those housing agencies that administer 400 or fewer vouchers), and an even lower level of risk in relation to the amount of subsidy funds they administered (about 5 percent of total program funds).⁵⁹ According to agency officials, consolidating the administration of vouchers under fewer agencies would decrease HUD's oversight responsibilities.

According officials from HUD and some housing agencies with whom we spoke, administering the voucher program through small local housing agencies may be less cost effective, in part because of the differences in the economies of scale. For example, larger housing agencies can realize cost efficiencies in conducting large numbers of voucher unit inspections that smaller agencies cannot. Also, larger housing authorities collect sufficient fees to support fraud detection units to ensure that households report all of their income sources. Although there are no current data on the comparative costs of administering the voucher program through small and large housing agencies, the current administrative fee structure recognizes that economies of scale exist in larger housing agencies. As previously discussed, HUD pays housing agencies a higher rate for the first 600 vouchers a housing agency has under lease and a lower rate for the remaining units under lease. Congress passed this two-tiered fee structure based in part on a 1994 HUD study that found that flat fee rates were leading to administrative fee deficits in small housing agencies and large administrative fee reserves at larger housing agencies.⁶⁰

HUD has acknowledged that oversight and administrative efficiencies could be realized. As previously discussed, in recent years, the department has advanced several proposals aimed at streamlining and simplifying administration of the voucher program. Several of these proposals have advocated administrative consolidation as a means of creating administrative efficiencies. For example, HUD's 2011 version of the Transforming Rental Assistance initiative was intended to streamline and improve the delivery and oversight of rental assistance across all of

⁵⁹See HUD, Office of Policy, Program, and Legislative Initiatives, *Rebalancing HUD's Oversight and Small PHAs' Regulatory Burdens* (Washington, D.C.: 2008). About 58 percent of housing agencies administer 400 or fewer vouchers.

⁶⁰See HUD, Office of Policy Development and Research, *Section 8 Administrative Fees: A Report to Congress* (Washington, D.C.: June 1994).

the department's rental assistance programs by means such as promoting consortiums, consolidation, and other locally designed structures for administrative functions.

In addition, HUD recently initiated changes to its housing agency consortium rule. The revised rule would treat all housing agencies in a consortium as one entity—HUD's current regulation requires that consortium members be treated separately for oversight, reporting, and other purposes. Some have argued that the current rule does not allow HUD or housing agencies to realize the full benefits of consolidation—less oversight (one versus multiple agencies) and shared and thus reduced administrative responsibilities—and therefore discourages the formation of consortiums. Since 1998, nine housing agencies that administer vouchers have formed four consortiums.

We evaluated the administrative consolidation in terms of its effect on assisted households and selected voucher program goals. More specifically, we looked at implications for, or likelihood of achieving (1) HUD's mobility and deconcentration goals, (2) program administration, and (3) housing agency and industry support. Like the rent reform options we evaluated using similar criteria, consolidation has advantages over the current administrative structure, but also involves some trade-offs.

Consolidation might help HUD more readily achieve deconcentration goals. Although vouchers theoretically allow recipients to use them anywhere in the United States, the current system of program administration creates numerous hurdles for households to move out of high-poverty, central city jurisdictions in which they typically live. Most housing agencies originally were established to construct and manage public housing developments.⁶¹ As a result, program administration does not always align with housing markets. In urban areas within the same market, several housing agencies may operate voucher programs with different admissions criteria and subsidy levels. A paper by researchers at the Brookings Institution argued that this "fragmentation of local program administration undermines the potential of the [voucher] program as a mechanism for deconcentrating urban poverty."⁶² Extending the

⁶¹Approximately 850 housing agencies only administer vouchers.

⁶²See Bruce Katz and Margery Austin Turner, *Who Should Run the Housing Voucher Program? A Reform Proposal*. Working paper prepared for the Brookings Institution, Center on Urban and Metropolitan Policy (Washington, D.C.: November 2000).

jurisdiction of housing agencies (through consolidation, for example) likely would give assisted households access to more housing options, particularly in surrounding suburbs. On the other hand, regionalized administration of the voucher program may make it harder for households to make or maintain contact with program administrators when necessary—for example, assisted households may not have access to transportation or may have to travel long distances to meet with housing agency officials.

Several states offer examples of regional or statewide administration. Thirty-one states have programs in which one housing agency administers a voucher program throughout a state. These housing agencies administer from less than one percent to all of their respective state's total voucher allocation. In addition, as part of our work, we visited a number of housing agencies in the Boston, Massachusetts, metropolitan area. As a result of litigation in the mid-1990s, local housing agencies in the state are permitted to lease vouchers throughout the state (that is, outside their original jurisdictions, which typically align with city limits).⁶³ Although all of the housing agencies with which we spoke suggested that it was important that housing agencies maintain local control of their programs, each leased at least one voucher outside their original jurisdiction. In Brookline—a city with relatively high housing costs compared with the surrounding area and the nation—more than half of voucher holders rent apartments outside the city limits.

Although consolidation will not alleviate housing agencies' current administrative burden, it may begin to address some of the issues housing agencies and industry groups have raised about a particular policy—portability. Although portability is one of the hallmark objectives of the voucher program, almost all the housing agencies we contacted said that HUD's portability policies should be revised or eliminated, noting that they are complicated and costly to administer. Under HUD's portability rules, an assisted household may move to the jurisdiction of a different housing agency—the receiving agency either may bill the sending agency for assistance for the transferring household or absorb the household into its own program. According to the 2000 Brookings Institution report, because of the complexity of the portability process—for example,

⁶³*Williams v. Hanover Housing Authority*, 871 F. Supp. 527 (D. Mass. 1994); see also *Williams v. Hanover Housing Authority*, 926 F. Supp. 10 (D. Mass. 1996), *rev'd and remanded on other grounds*, 113 F.3d 1294 (1st Cir. 1997).

receiving agencies may calculate subsidy levels differently than sending agencies, or apply more rigorous screening criteria—many housing agencies do not fully explain portability to households and do not encourage them to consider moving.⁶⁴

In addition, consolidated waiting lists and single points of contact for housing assistance within a single housing market, region, or state may make the process of applying for and obtaining rental assistance less confusing and more transparent for households seeking assistance. For example, a large number of housing agencies in Massachusetts participate in a consolidated waiting list—households seeking assistance in the state need only put their name on one list and receive communications from one agency. HUD officials said that the department has been considering taking steps to maintain the waiting lists of each housing agency in a centralized system.

Finally, housing agencies we contacted were split on the idea of consolidation—about one quarter supported it as a way to cut costs and introduce administrative efficiencies in the voucher program, while almost half were against it. Some housing industry groups and an academic with which we spoke argued that consolidation would not save money—one noted that the administrative fees that small housing agencies receive are relatively insignificant in terms of total program dollars—and would sacrifice local discretion and control of voucher programs. Others noted that administrative costs savings could result from the consolidation and single-source management of waiting lists and elimination or substantial reformation of the portability process; however, no data currently are available to assess this point.

Conclusions

Over the past decade, Congress has responded to the increasing cost of vouchers by changing the way the program is funded. Specifically, rather than providing funding based on the number of vouchers housing agencies are permitted to lease, Congress currently provides funding based on housing agencies' prior-year subsidy expenses. Congress also has capped appropriations so that housing agencies do not always receive the amount of subsidy or administrative funding for which they are

⁶⁴See *Who Should Run the Housing Voucher Program? A Reform Proposal*.

eligible based on the funding formulas Congress annually establishes. While this approach gives Congress some control over cost increases, it does not directly address the market and policy factors we identified as contributing to increases in program costs.

Although policy makers can do little to alter or control market changes such as changes in rents and tenant incomes, our analysis suggests that savings could continue to be realized (or, in some cases, more households could be served without additional program funding if Congress chooses to reinvest the funds in the program) if HUD provided Congress better information on housing agencies' subsidy reserves. Enhanced information would include the extent of housing agencies' subsidy reserves, clear and consistent criteria for determining how much housing agencies would need to retain to help ensure effective program management, and how much could be rescinded in future appropriations. Without such information, HUD faces difficulties in effectively manage the funding Congress provides for the voucher program, including ensuring that funds disbursed to housing agencies are used to assist households rather than remaining unused in reserve accounts.

In tandem with providing information about the use of program funds, HUD also has an opportunity to advance proposals that would help increase the efficiency of program administration. In particular, HUD now has or will have richer, relevant experience and data from which to draw. In addition to previous reforms HUD has proposed, examples from the MTW program and HUD's study on administrative fees can offer options to Congress for streamlining and simplifying administrative activities and aligning the administrative fee structure with actual administrative expenses. For example, information and analyses from these sources could help identify all current administrative requirements, determine which of those actions are necessary and which could be eliminated or streamlined, and determine the cost of performing these activities—which could help reduce program costs in the future.

Although Congress and HUD have taken several steps to control rising costs in the voucher program, we have identified a range of options that offer the additional promise of managing program costs or increasing efficiency in the long term. These options would also be applicable to HUD's other rental assistance programs and would have the potential to generate even greater savings. Implementing rent reform and administrative consolidation would require policymakers to consider some potential trade-offs—in the balance are issues such as the rent burden of assisted households, concentration of poverty, and the extent of local

control over voucher programs. Nevertheless, these options have certain advantages over the current program structure. For example, these options could save money or streamline program administration—both of which are important objectives in a time of fiscal constraint. Currently Congress is considering a variety of measures to address some of these issues.

Recommendations for Executive Action

To help reduce voucher program costs or better ensure the efficient use of voucher program funds, we recommend that the HUD Secretary provide information to Congress on (1) housing agencies' estimated amount of excess subsidy reserves and (2) its criteria for how it will redistribute excess reserves among housing agencies so that they can serve more households. In taking these steps, the Secretary should determine a level of subsidy reserves housing agencies should retain on an ongoing basis to effectively manage their voucher programs.

Further, the Secretary should consider proposing to Congress options for streamlining and simplifying the administration of the voucher program and making corresponding changes to the administrative fee formula to reflect any new or revised administrative requirements. Such proposals should be informed by results of HUD's ongoing administrative fee study and the experience of the MTW program.

Agency Comments and Our Evaluation

We provided a draft of this report to HUD for comment. In its written response, reproduced in appendix II, HUD neither agreed nor disagreed with our recommendations, but provided technical comments that we have incorporated where appropriate. While the response noted that the draft report provided an accurate assessment of the program and its current outcomes, HUD identified several points for clarification and emphasis, including:

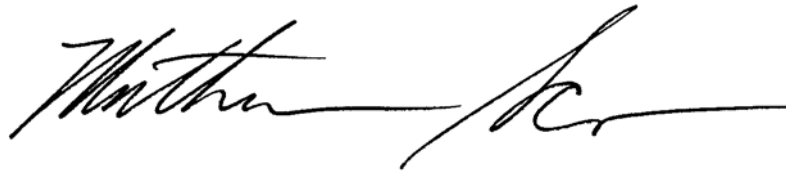
- HUD commented that the stated purpose of our report of identifying options for increasing efficiencies and simplifying program administration was inconsistent with our recommendations for agency action because some of the options do not result in both efficiencies and simplification. We clarified, where appropriate, that the focus of our report was to identify reform options that could reduce costs or create efficiencies.
- HUD also commented that the draft report's discussion of growth in HUD's outlays could be misleading because this growth reflects

only a change in HUD's disbursement policy and does not relate at all to changes in program costs. Specifically, HUD stated that starting in 2006, the program was required to disburse all eligible funds, instead of the department's maintaining those reserves. HUD did not provide any support that outlays reflect only a change in HUD's disbursement policy and do not relate at all to changes in program costs. While we recognize that disbursement policies may affect outlays, changes in program size and other factors would also affect outlays. Further, although the draft provides information on the trends in actual HUD outlays, it focuses on housing agencies' expenditures because they are a better measure of what housing agencies are paying in subsidies to assisted households with vouchers. Therefore, we made no changes in response to this comment.

- HUD also commented that the draft report did not address HUD's ongoing efforts to limit the accumulation of subsidy reserves. We added additional language to the report on these efforts, such as the assistance HUD provides to housing agencies in ensuring that all available voucher funds are utilized.
- HUD noted that it currently provides quarterly reports to the Congressional Budget Office on subsidy reserve levels. However, these quarterly reports do not include information on the estimated amount of housing agencies' subsidy reserves that exceed prudent levels, as we are recommending. By providing the estimated amount of excess subsidy reserves, Congress will be better positioned to make informed funding decisions, as we illustrated in our draft report.

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

If you or your staff have any questions concerning this report, please contact me at (202) 512-8678 or sciremj@gao.gov. Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix III.

A handwritten signature in black ink, appearing to read "Mathew J. Scire". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Mathew J. Scire
Director, Financial Markets
and Community Investment

List of Congressional Requesters

The Honorable Charles E. Grassley
Ranking Member
Committee on the Judiciary
United States Senate

The Honorable Shelley Moore Capito
Chairwoman
Subcommittee on Financial Institutions
and Consumer Credit
Committee on Financial Services
United States House of Representatives

The Honorable Judy Biggert
Chairman
Subcommittee on Insurance,
Housing and Community Opportunity
Committee on Financial Services
United States House of Representatives

Appendix I: Objectives, Scope, and Methodology

The objectives of our review were to (1) determine the factors that have affected costs in the Housing Choice Voucher (voucher) program from 2003 through 2011 and the actions Congress and the Housing and Urban Department (HUD) took to manage these costs and (2) identify additional steps HUD, housing agencies, or policy makers can take to limit cost growth in the voucher program and more effectively provide decent, safe, and affordable housing.

To determine the factors that have affected costs in the voucher program from 2003 through 2011 and the actions Congress and HUD took to manage these costs, we reviewed and analyzed appropriations legislation, budget documents—including HUD budget proposals, Congressional Research Service reports, monthly statements from the Department of the Treasury, and the Office of Management and Budget SF-133 reports on budget execution and budget resources. We also reviewed HUD's annual guidance on the allocation of the program's appropriation to housing agencies. We used these sources to determine the annual appropriations and outlays over the period. The starting year for our analysis reflects the year when Congress began changing the voucher program's funding formula.¹

We analyzed program data that HUD prepared using information derived from multiple HUD systems including the Central Accounting and Program System (HUDCAPS) and Voucher Management System (VMS) to determine how much housing agencies' expenditures changed from 2003 through 2010. Specifically, we assessed the extent to which certain factors, such as subsidy paid to a landlord, program size (that is, the number of assisted households), and administrative expenses, contributed to the change in program expenditures over this period. We identified these factors by reviewing GAO, HUD, and stakeholder studies. We also reviewed prior work by GAO and others to describe what is

¹Funding for 2003 and 2004 was provided through the Housing Certificate Fund, which accounted for both Section 8 programs—the project-based and tenant-based programs. As a result, we were unable to determine the appropriated and outlay amounts for the programs for these years. In addition, in 2005 the Housing Certificate Fund was split into two accounts, one of which was the tenant-based rental assistance account. Because of the split, about \$4.2 billion from the advance appropriation enacted in fiscal year 2004 and available in 2005 does not appear in this account. Instead, it appears in the Housing Certificate Fund where it was appropriated. Total available resources for tenant-based rental assistance in fiscal year 2005 were \$14.8 billion.

known about the cost-effectiveness and characteristics of vouchers relative to other forms of rental housing assistance.

To identify additional steps HUD, housing agencies, or policy makers can take to limit cost growth in the voucher program and more effectively provide decent, safe, and affordable housing, we identified and reviewed relevant legislation, draft legislation, and studies. We analyzed HUD's VMS data on the Net Restricted Assets (NRA) balances (or subsidy reserves) of housing agencies as of September 30, 2011, to determine the extent of housing agencies' "excess" subsidy reserves. To derive our estimates of the potential "excess" balances, we used HUD's 8.5 percent (about a month) threshold to estimate the excess NRA balance. Also, we analyzed HUD data to determine the number of housing agencies and amount of funding that Congress offset in fiscal years 2008 and 2009 and the additional funding Congress appropriated for and HUD provided to certain housing agencies in 2009. Further, we visited nine housing agencies in Massachusetts. We selected these housing agencies based on Massachusetts' use of both local and regional housing agencies to provide voucher assistance and the housing agencies' proximity to one another. In addition, we interviewed 31 of the 35 housing agencies participating in the Moving to Work (MTW) demonstration program to identify the activities the agencies had implemented in their voucher programs to reduce program costs and introduce efficiencies in the program.² For example, as part of these interviews, we identified alternate rent structures these agencies had implemented or proposed.

We also evaluated the cost and policy implications of three types of programmatic reforms to the voucher program: increasing minimum rents, changing the percent of income tenants pay toward rent, and requiring tenants to pay a percentage of fair market rent. In identifying and assessing these programmatic reforms, we reviewed proposals included in draft legislation and HUD, Congressional Budget Office, and housing industry group reports. We also considered reforms certain agencies have implemented. To estimate the effects of these alternative

²We did not contact the Philadelphia Housing Authority because the agency currently is under administrative receivership. We did not contact the Boulder Housing Partners, and Lexington-Fayette Urban County Housing Authority because they had not yet entered into MTW agreements with HUD at the time of our analysis. In addition, the Housing Authority of the County of Santa Clara administers its own MTW program as well as the Housing Authority of the City of San Jose's MTW program.

approaches to calculating tenant payments on the subsidy levels that result, we analyzed a December 2010 extract of tenant records from HUD's Public and Indian Housing Information Center (PIC). These records contain information about participating households, as of December 2010, including information on gross and adjusted income levels, housing unit size and rent, tenant contributions and housing assistance payments, as well as information on age, sex, and disability status of each household member. To focus on the core of the assisted household population, we examined only those households with five or fewer members, and living in units with one, two or three bedrooms. We determined the elderly and disability status of each household. Specifically, we defined a household as an elderly household if either of the first two household members (the head of household and possibly a spouse or co-head) were age 62 or over, and we placed a household in disability status if any of the five members were identified as having a disability. For the identified subsidy alternatives, we calculated an alternative tenant contribution using information on income and applicable fair market rent in the PIC file as appropriate, and calculated the resulting assistance payment. (The assistance payment is the difference between the lesser of the payment standard and gross rent, and the tenant payment, subject to any existing minimum tenant payments.) We did not consider the possible effects of any change in household behavior, either in terms of continued participation in the voucher program or in choice of housing unit or rent level that could be induced by changes in tenant contributions.

In conducting our work, we assessed the reliability of datasets provided by HUD, including data files derived from HUDCAPS, VMS, and PIC. Specifically, we performed basic electronic testing of relevant data elements, such as housing assistance payment amounts, total tenant payment, and unit months leased. We reviewed HUD's data dictionaries, instructions, and other relevant documentations. We also interviewed HUD officials knowledgeable about the data to obtain clarifications about key variables and calculation rules. Where possible, we compared our results with other sources to ensure the reasonableness of the information. We determined that the data were sufficiently reliable for the purpose of this report.

Finally, for all of our objectives, we interviewed HUD officials and consulted with one academic and officials from various housing groups including the Center on Budget and Policy Priorities, Council of Large Public Housing Authorities, National Low-Income Housing Coalition, National Association of Housing Redevelopment Officials, Public Housing

Authorities Directors Association, Quadel Consulting, and the Urban Institute. Further, we contacted 53 housing agencies that administer the voucher program. In selecting these housing agencies, we considered the number of authorized vouchers, location (that is, HUD-defined regions), and leasing and spending rates for the voucher program as of March 2011.

We conducted this performance audit from February 2011 through March 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Comment from U.S. Department of Housing and Urban Development



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

OFFICE OF PUBLIC AND INDIAN HOUSING

MAR 14 2012

Mr. Mathew J. Scire
Director
Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, N.W., Room 2440
Washington, D.C. 20548

Dear Mr. Scire

Thank you for the opportunity to comment on GAO's draft report on Options to Increase Housing Choice Program Efficiencies, GAO-12-300. GAO's review of the Housing Choice Voucher program provides an accurate assessment of the program and its current outcomes. There are a few items, however, to which Housing and Urban Development (HUD) would like to respond.

The major points HUD would like to clarify or amplify are as follows:

1. The title should be "Housing Choice Vouchers", not "Housing Vouchers".
2. GAO's stated purpose is inconsistent with its recommendations. In the "Highlights" portion of the report, GAO says the focus is increasing efficiencies and simplifying program administration. However, two of the recommendations made for rent reform focus on reducing costs but have no impact on streamlining program management. Specifically, implementing higher minimum rents and increasing tenant rents to 35 percent of their adjusted income. Neither of these options would reduce administrative burdens for PHAs nor simplify the rent determination process.
3. The discussion of outlay growth could be misleading. On page 9, GAO discusses the fact that measured growth in outlays grew 11 percent over the evaluation period. However, this growth in outlays reflects only a change in HUD disbursement policy and does not relate at all to changes in program costs. Starting in 2005, the program transitioned to a budget based approach rather than a unit based method. With a congressional requirement (2005 Consolidated Appropriations Act HR 4818/H Report 108-792) to notify PHAs of their full funding allocation at the beginning of the year, HUD determined that disbursements would be made on a monthly basis assuming 1/12 of renewal funding eligibility, on the basis that PHAs were responsible for managing within the funds available. PIH Notice 2006-3 went on to describe that PHAs were no longer required to submit year-end settlements, but must maintain all excess disbursed funds in an Undesignated Fund Account (the pre-cursor of the Net Restricted Assets (NRA) and Unrestricted Net Assets (UNA)) to be used only for eligible program expenses and HAP costs.

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The important point illustrated in the GAO text is that housing agency expenditures grew at essentially the same rate as the growth in appropriations.

4. The impact of changes in state level assistance is understated. On page 12, GAO makes reference to “one housing agency in California...that reported state cuts to social welfare programs, including those that provide direct cash assistance.” Of course, cuts in TANF and SSI in California affect all of the agencies in California – a state that serves twenty percent of the HCV assisted households. HUD estimates that, on average, reductions in TANF and SSI resulted in monthly increases of \$17 and \$5, respectively, in housing subsidy for families receiving those forms of assistance.
5. The discussion of reserves could be misleading. A portion of the reserve total cited has not been accumulated over time. This funding consists of recently issued new increment funding where insufficient time has passed for expenditure. Recently awarded Contract Renewal set aside funding also comprises a portion of the total reserve figure. These vouchers would thus be protected in the upcoming rescission, as would funding deemed a necessary cushion against unforeseen circumstances. The 9/30/2011 report takes the 9/30 NRA contractor’s report balance of \$1.88 billion and excludes: 1) all 2011 new increments; 2) the set-aside which was not awarded until September 2011; and 3) a reserve allowance of 8.5% of ABA (approx. one month). This results in an “excess” reserve balance of approximately \$606 million. The 2012 Appropriations Act subsequently recaptured these reserves (\$650 million) through offset to 2012 funding eligibility.
6. Reserve accumulation issues raised did not address several of HUD’s ongoing efforts to address this issue. No mention was made of HUD’s optimization efforts. These efforts have already helped PHAs project the funding necessary to maintain desired leasing levels. The optimization tool takes into account factors such as attrition, PHA reserves and new vouchers awarded to the PHA.

More importantly, HUD is in the process of implementing new cash management procedures for the disbursement of HCV funding. The process of disbursing only the funds required to meet current HAP costs which began in January 2012 (based upon the most recent validated quarter of leasing and expense data from VMS) will result in the re-establishment of HUD-held reserves, whereby unused HAP funds will remain obligated but undisbursed at the HUD level rather than held by PHAs. Existing net restricted asset (NRA) balances currently held by PHAs will be transitioned back to program reserves. This change will reduce program risk and provide for greater transparency and accountability regarding the use and availability of program reserves.

7. Reporting Reserve levels to Congress. HUD currently provides quarterly reports to the Congressional Budget Office on reserve levels.

Thank you for your consideration of these comments. Please do not hesitate to contact me at (202) 402-1380 should you have any questions.

Sincerely,



Milan M. Ozdinec
Deputy Assistant Secretary
Office of Public Housing and Voucher Programs

Appendix III: GAO Contact and Staff Acknowledgment

GAO Contact

Mathew J. Scire` (202) 512-8678, sciremj@gao.gov

Staff Acknowledgments

In addition to the contact named above, Daniel Garcia-Diaz, Acting Director; Stephen Brown, William Chatlos, Karen Jarzynka-Hernandez, Cory Marzullo, John McGrail, Josephine Perez, and Barbara Roesmann made key contributions to this report.

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