The Flexible Voucher Program: Why A New Approach to Housing Subsidy Is Needed

A White Paper
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Executive Summary

The Flexible Voucher Program initiative will improve upon the Housing Choice Voucher Program in many ways to ensure the long-term viability of this important resource for low-income families. Recent attention has focused more on cost savings rather than the significant program improvements this initiative is intended to provide. This paper will discuss the concerns expressed by Congress and HUD about the spiraling costs of the voucher program, how these cost pressures came about, and how they can be reduced, without jeopardizing the number of families assisted by this program. Increased focus on increasing self-sufficiency rates is addressed herein. Also, this paper will discuss some of the program areas where greater flexibility is needed even without budget pressures, and will identify the sources of savings from program reforms.

Greater Program Flexibility Needed Regardless of Budget Pressures

- The verification of household income and determination of tenant contribution to rent for program purposes has become so complex that it is difficult to perform these functions accurately. It is far more time-consuming to determine the right rent contribution for a low-income household than to calculate the Federal income tax for that household.

- Current rent policies for the Housing Choice Voucher Program do not provide incentives for increased employment and income, but rather taxes increases in income immediately.

- PHAs are not allowed to experiment with policy alternatives that may counteract the negative effects of income-based rent under the current laws.

- The current program design has led to housing assistance as a permanent support for some families. (Statistics supporting this statement are included later in this paper.)

- Targeting 75 percent of admissions to extremely low-income households extends the waiting time for working low-income families to receive vouchers in some localities, and may lead to questionable occupancy and income certification policies due to the targeting preference for extremely low-income families.

- Results from the welfare-to-work voucher demonstration indicate that providing vouchers to welfare recipients caused, at least in the short term, a reduction in earnings, a reduction in employment, and an increase in welfare dependence.

Costs Have Grown Rapidly

- From 1998 to 2004, the Housing Certificate Fund has grown from 36 percent to 51 percent of the HUD budget.

- In December 2000, the average public housing agency (PHA) payment standard was \$648, or 95 percent of the fair market rent (FMR). By December 2003, however, the average PHA payment standard was \$844, and was equal to 104 percent of FMR. During

this time, the percentage of program participants with payment standards between 101 and 110 percent of FMR rose from 25 percent to 50 percent of all participants. This 30.25 percent nationwide average increase in payment standards between December 2000 and December 2003 is not supported by the much lower 10.5 percent nationwide average increase in gross rents (as measured by Consumer Price Index) during this same period.

- The average gross rent allowed for program units increased by 20 percent, from $652 in 2000 to $784 in 2003.

- The end result was a 26 percent increase in the housing assistance payment (HAP), the amount the Federal government pays. The average HAP has increased from $411 per household per month in 2000 to $517 in 2003, and that difference amounts to more than $2.5 billion annually. This cost increase has occurred even as markets across the country exhibited record high vacancy rates and PHAs from across the country report to HUD that rents in their markets have declined.

- The recent spiraling per unit costs in the Housing Choice Voucher Program are a consequence of policies enacted in the compromise that created the merger of the certificate and voucher programs in the Quality Housing and Work Responsibility Act of 1998 (QHWRA).

Sources of Savings from Program Reforms

- In FY 2005 alone, we estimate that the Flexible Voucher Program will save a total of $1.804 billion - $1.674 billion in subsidies and $130 million in administrative expenses.

- Subsidy savings include: reducing the payment standard, reducing income-related errors, eliminating some of the one-month reserve, and permitting greater flexibility in income targeting.

- Administrative savings include: permitting greater simplicity and flexibility in income determinations, reducing the frequency of income certifications, and reducing the required frequency of annual housing quality inspections.

The President's Budget for FY 2005 proposes to spend $13.3 billion on the new Flexible Voucher Program, $1.1 billion less than the current Housing Choice Voucher appropriation for FY 2004. This difference in cost is driven by savings from the redesign of the program, not from reductions in the number of families assisted. In fact, the Department believes that the improved design of the new Flexible Voucher Program can help a greater number of families afford decent housing.

The Flexible Voucher Program: Why A New Approach to Housing Subsidy Is Needed

A) Greater Program Flexibility Would Be Needed Even Without Budget Pressures.

Reform is desirable for reasons other than the escalation in costs. The present statutory framework leads to (1) large errors in the distribution of assistance amounts, (2) indefinite support of some assisted households, (3) targeting that may not reflect locally determined needs and priorities, and (4) negative incentives for tenants and lack of focus on transitioning families to self-sufficiency.

1) Large errors in the distribution of assistance amounts.

Basic tasks of the PHAs have become needlessly complicated by large numbers of revisions, individually minor, in the United States Housing Act of 1937, which constitutes the statutory authority for the housing voucher program. In particular, the verification of income and determination of tenant contribution to rent for program purposes has become so complex that it is difficult to perform these functions without significant expenditure of resources, and without incurrence of subsidy errors.

We estimate that the process of interviewing the client, verifying the client's information, and converting the verified data into a rent computation takes on average four to five hours per household if properly performed – even with the assistance of a HUD developed "rent calculator." It is far more time-consuming to determine the right rent contribution for a low-income household than to calculate the Federal income tax for that household.

2) Indefinite support of some assisted households.

The current program authority has also led to housing assistance as a permanent support for some families. Lengthy dependence on the voucher is not uncommon. The following statistics (from work now underway in the Department) represent a snapshot of non-elderly non-disabled families with children participating in the voucher program between 1995 and 2002 for at least 6 months. About 34 percent of non-elderly non-disabled voucher families with children have received voucher assistance for more than 5 years. Further, about 10 percent of non-elderly non-disabled families with children have received voucher assistance for more than 10 years. Similar length of stay patterns were found for non-elderly, non-disabled families without children.

When large numbers of needy families receive no assistance at all, it is likely that many PHAs think it inappropriate for families with no obvious impairments from working to create a permanent claim on assistance, causing longer waits for needy families on the waiting lists.

3) Locally inappropriate targeting.

The current statute requires that 75 percent of admissions to the program be allocated to extremely low-income households. Although some extremely low-income families have wage income, as a practical matter the 75 percent target extends the waiting time for issuing vouchers to the working low- and very low-income families in some localities, and may lead to questionable occupancy and income certification policies. For example, in 2000, over 27 percent of voucher families in Texas had reported incomes of zero. The corresponding figure for California is 0.5 percent.[1]

The 75 percent targeting rule means that families who have gone from extremely low-income to just over the very low-income threshold will sometimes be told that they "earn too much money" to qualify for a voucher. In Allen County, Kansas, for example, the FY 2004 limit for extremely low-income for a family of three is $12,850, and thus the local PHA might have to defer serving a family with a $13,000 annual income. This type of notch effect punishes families for working and sends the wrong message to those who are still in need of housing assistance.

4) Negative incentives for tenants.

Finally, the program under the current law appears to have adverse long-term social and economic effects on some families.

In 1998 Congress mandated a rigorous evaluation of the effects of housing vouchers in supporting the self-sufficiency of families currently receiving, recently receiving, or eligible to receive Temporary Assistance to Needy Families (TANF) benefits. HUD randomly assigned 8,732 welfare recipients in Atlanta and Augusta, Georgia; Fresno and Los Angeles, California; Houston, Texas; and Spokane, Washington. Half of them received a voucher, half (the control group) did not, and because of random assignment the two groups are essentially identical.

The table below shows the impacts of the housing voucher program on earnings, employment and welfare dependence relative to the experience of the controls. All impacts shown are statistically significant.

[1] Lubell, Shroder, and Steffen, op. cit.

Impacts of Welfare-to-Work Vouchers on Earnings, Employment, and Welfare Receipt

Outcome*	Control group average (no voucher)	Voucher group average (regression-adjusted)	Voucher group impact
Earnings after 7 quarters	$8720	$8201	-$519
Quarters employed, after 7 quarters	3.414	3.296	-.118
Quarters receiving TANF, after 7 quarters	3.881	4.038	+. 157

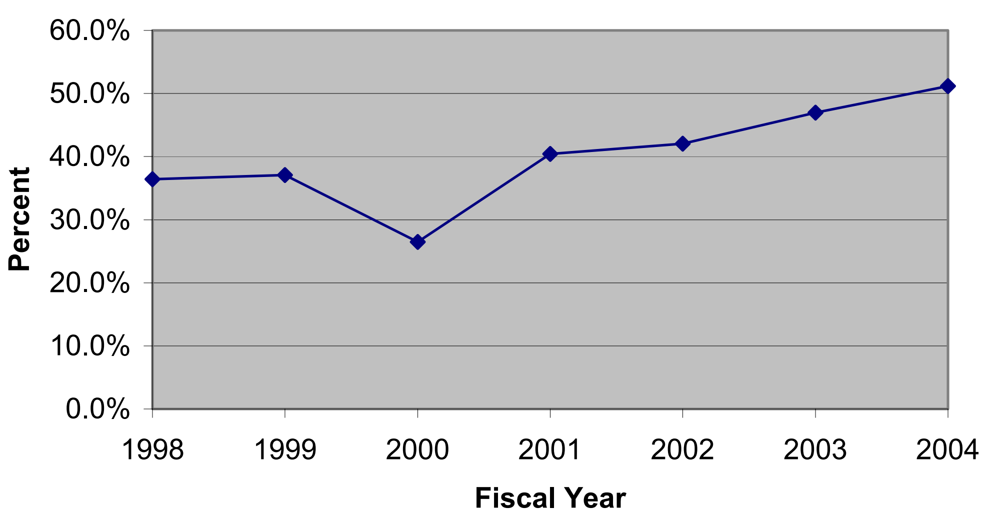
Source: Rhiannon Patterson, Michelle Wood, Ken Lam, Satyendra Patrabansh, Gregory Mills, Steven Sullivan, Hiwotte Amare, Lily Zandniapour, *Evaluation of the Welfare to Work Voucher Program: Report to Congress*, Abt Associates, Cambridge, MA, 2004.
* Data after 7 quarters do not include Los Angeles, which started the experiment later than the other sites. Impacts after 5 quarters at all sites, including Los Angeles, are similar.

Congressional intent, plainly expressed in law, was to use the voucher to help families obtain and retain employment. It is beyond dispute that the current voucher program resulted in, at least in the short term, a reduction in earnings, a reduction in employment, and an increase in welfare dependence.

B) Costs Have Grown Rapidly

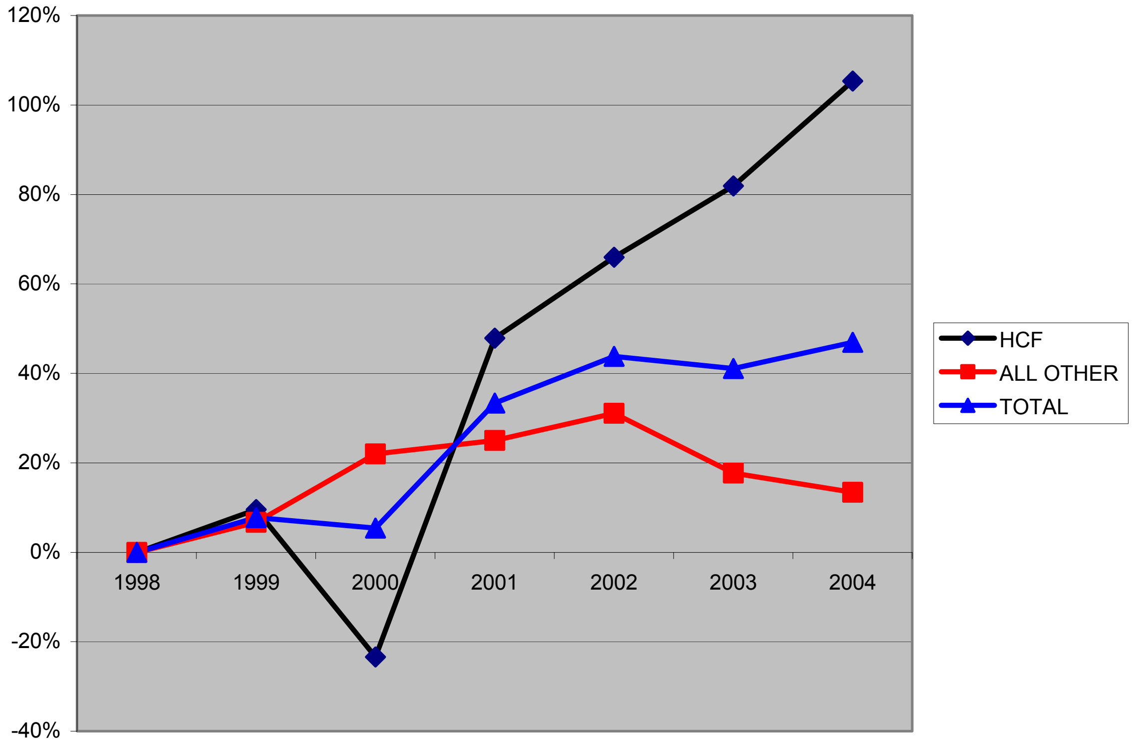
In addition to the need for program reform that will benefit the program and its intended beneficiaries -- low-income families -- the cost pressures within the current system make reform inevitable. Recent and continued cost growth is unsustainable. The chart below shows appropriations since FY 1998 for the Housing Certificate Fund, of which the Housing Choice Voucher Program is the major component.

Housing Certificate Fund Appropriation Relative to HUD Budget by Fiscal Year



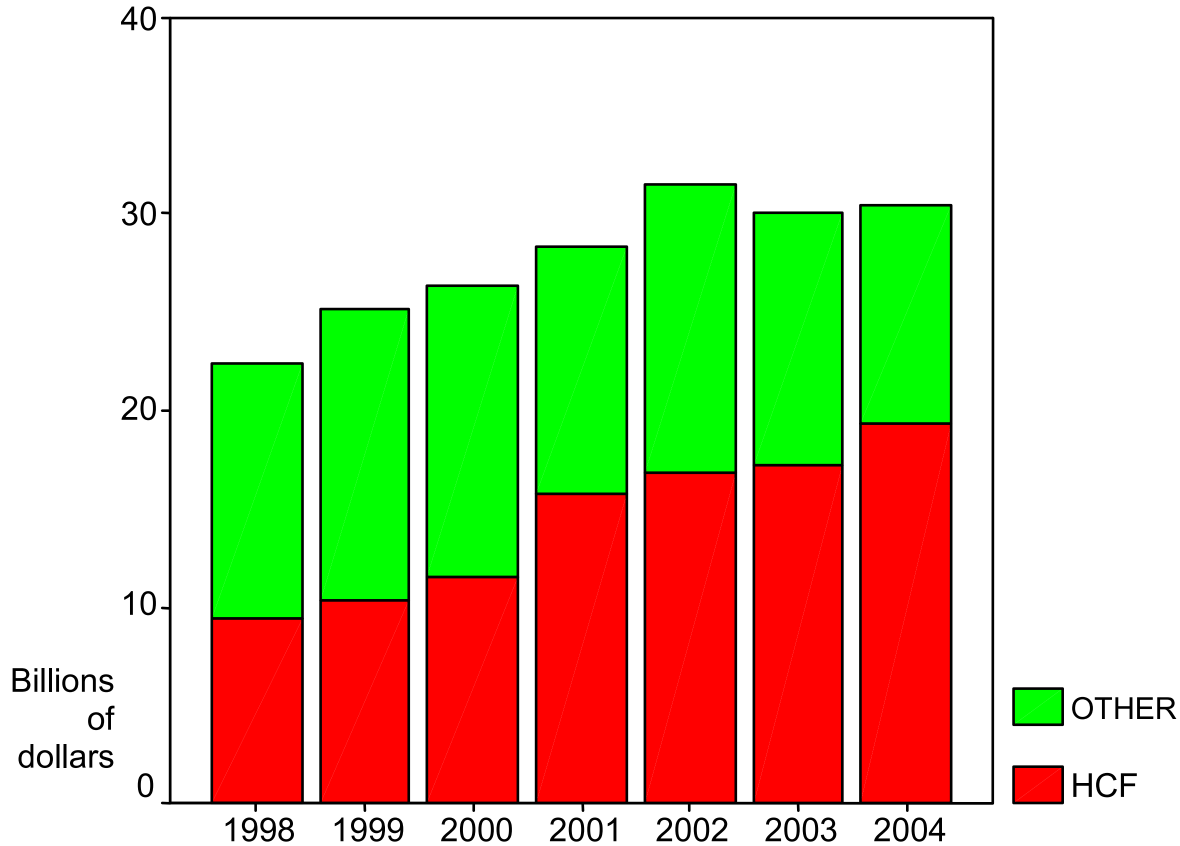
From 1998 to 2004, the Housing Certificate Fund has grown from 36 percent to 51 percent of the HUD budget. Funding for the Housing Certificate Fund has grown even as overall HUD funding has been cut back (see next table). This rate of increase is unsustainable. *Without reform, reduction in the number of families served by the voucher program is inevitable.*

Budget Authority Increases for the Housing Certificate Fund Compared to Entire HUD Budget and Non-Section 8 HUD Budget



From 1998 to 2004, the budget authority for the Housing Certificate Fund has risen 105 percent. By comparison, the increase for the entire HUD budget has been only 47 percent, and the non-Section 8 portions of the Department's budget have risen only 13 percent since 1998.

Housing Certificate Fund Funding Has Risen Steadily While All Other HUD Funding Has Fallen



As shown in the chart above, much of the increase in funding for the Housing Certificate Fund has come at the expense of other HUD programs.

1) **The per unit costs increased rapidly while market data showed high vacancy rates and modest rent changes.**

The growth in costs associated with the Housing Choice Voucher Program is not solely the consequence of program expansion. Costs per unit increased by 26 percent between December 2000 and December 2003, an increase that is in no way justified by the level of rent inflation.[2] Rental vacancy rates are at record highs throughout large parts of the nation, and the increase in

[2] Calculation by Office of Policy Development and Research from Public and Indian Housing Information Center (PIC) records.

gross rents on a national basis averaged only 10.5 percent during the same period.[3] As always, some housing markets will show signs of tightness and rent escalation, but any national measure of rent inflation will show only modest change.

2) Statutory changes to the voucher program removed cost limitations and savings incentives.

a) Guaranteed funding and payment standard limits raised.

The Housing Choice Voucher Program resulted from the merger of two prior programs, housing certificates and housing vouchers. The certificate program generally prohibited assisted families from leasing units where gross rent exceeded the Fair Market Rent, which is HUD's estimate of the rent at which 40 percent of private rental units in the market are available. The maximum Federal liability was the FMR times the number of units.

The housing voucher program (before the merger with the certificate program) allowed families to choose units with any rent they liked, but limited the maximum household subsidy to a payment standard, which the local PHA could set anywhere between 80 and 100 percent of FMR. The total amount of money for vouchers, however, was fixed, and there were significant incentives to serve more families; thus the PHA had an incentive to set the lowest payment standard at which most of the families it served would actually be able to find a unit. The maximum Federal liability was whatever amount of money HUD had reserved in its contract with the PHA.[4]

The Quality Housing and Work Responsibility Act (QHWRA) allowed the PHA to set the payment standard anywhere between 90 and 110 percent of FMR, and funding was guaranteed for every authorized unit. Absent specific HUD approval, the theoretical limit of Federal liability in the current Housing Choice Voucher Program is 110 percent of FMR times the number of authorized units.

b) Funding at unknown "actual costs".

QHWRA also required that the regulation on the voucher funding system should be reached through negotiated rule making. Under the rule adopted in this process, HUD must make available to the PHA each year an amount per unit that equals actual costs. In fact, HUD does not know actual voucher costs until PHAs report such costs throughout each fiscal year. As a result, HUD and Congress are faced with the extremely difficult task of identifying unknown costs during the budget and appropriations process, as actual voucher costs continue to increase

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[3] The increase in "rent of shelter" cost of the All Urban Consumer index of the Bureau of Labor Statistics (a component of the Consumer Price Index) from December 2000 to December 2003 was 10.2 percent; the change in fuels and utilities during the same period was 12.0 percent. The American Housing Survey has consistently shown an average ratio of 85 to 15 between contract rent and utilities. An 85 percent weight on the shelter rent index and a 15 percent weight on the fuels and utilities index yields 10.5 percent.

[4] In practice the amount of money reserved was the product of a theoretical number of units and the two-bedroom FMR. However just as the payment standard could be substantially less than FMR, the number of households could vary significantly from the theoretical units figure.

from year to year and even within each year. Higher costs per unit simply mean higher funding requirements that HUD must satisfy, and the PHA has no incentive to control them.

c) Lease up requirements.

Concurrently, Congress has prohibited agencies from leasing up more units than their contracts with HUD authorize (for a fiscal year). Thus, the current structure curtails funding for more families (above the authorized level), but implicitly encourages spending too much per family. This is because even if a PHA restrains costs and has funding available, it may not assist additional families with the savings due to its unit authorization limit. These are precisely the wrong program incentives when families on waiting lists remain unserved.

3) Mistaken attacks on this proposal.

In its objections to the Flexible Voucher proposal, the Center on Budget and Policy Priorities (CBPP) has made unfortunate use of cost projections from both the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB), to differing purposes. The Center has pointed to a recent Congressional Budget Office (CBO) analysis projecting a 1.8% growth in the cost of vouchers in FY 2005.[5] The Center asserts that Congress need not worry about skyrocketing costs in recent years, because growth in voucher costs will come to a sudden stop in FY 2005, despite the fact that actual spending for the voucher program has increased by more than 50% since 2001. On the other hand, the CBPP takes a sudden year-to-year drop of $3.9 billion projected by OMB for FY 2009 as evidence of a plan to eliminate assistance to a large group of low-income families in the long run.

In each case, the CBPP has misunderstood the purposes of budget projections by CBO and OMB. In making these projections, CBO and OMB each use one estimated inflation rate for all government programs.[6] Their forecasts are intended for macroeconomic purposes, to inform policymakers about the sustainability of overall revenue and expenditure patterns, not the particular trajectory of any one program. These projections can be reasonably accurate in the mass, but wildly inaccurate in detail. With respect to the CBO projection, it would not be possible to constrain voucher program expenditures to even a 1.8 percent increase in FY 2005 without a significant change from current policy.

The OMB projection does not apply to the voucher program alone. At some point between now and FY 2009 the nation's policy makers will have many hard choices to make about the continued funding of discretionary programs. If the voucher program is on the block, it will have plenty of company. A future Congress might indeed cut the voucher program in FY 2009, just as they might cut it now, without reforming it. But the cut projected in the OMB document was uniform across the domestic discretionary programs, and does not reflect a policy decision about vouchers in particular.

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[5] Barbara Sard and Will Fisher, "Sources and Methods Used to Estimate Impacts of Housing Voucher Proposals in Administration's Fiscal Year 2005 Budget," *http://www.cbpp.org/3-17-04hous-meth.pdf*.
[6] The rate CBO chooses might be different from the one OMB chooses.

C) Our Current Voucher Program Is Dictated By Stringent Rent Setting Requirements.

1) Increased costs due to increased payment standards.

Following the enactment of QHWRA, the perverse incentives of the new structure only gradually began to affect PHA behavior.[7] In December 2000, the average PHA payment standard was $648, and was on average equal to only 95 percent of FMR. By December 2003, however, the average PHA payment standard was $844, and was equal to 104 percent of FMR. During this time, the percentage of program participants with payment standards between 101 and 110 percent of FMR rose from 25 percent to 50 percent of all participants. The run-up in payment standards occurred in the range that, under QHWRA, was not subject to any HUD control.

The increase in PHA payment standards resulted in higher owner rents and rent subsidies. The average gross rent allowed for program units increased by 20 percent, from $652 in 2000 to $784 in 2003. Meanwhile, tenant contribution to rent increased at a quite normal 11 percent (3.6 percent annually), rising from $234 in 2000 to $259 in 2003. With owner rents increasing rapidly, and with tenant contributions increasing by a much more modest amount, the end result was a 26 percent increase in the HAP, the amount the Federal government pays. The average HAP has increased from $411 per household per month in 2000 to $517 in 2003, an annual increase of more than $2.5 billion. This cost increase has occurred even as markets across the country exhibited record high vacancy rates and PHAs from across the country report to HUD that rents in their markets have declined.

2) Rent reasonableness.

The payment standard is not the only mechanism by which PHAs can control cost. PHAs are required by law to ascertain that the rents charged by owners are "reasonable" relative to those for similar unsubsidized units in the vicinity. PHAs differ in the degree of rigor that they bring to this task; some exceed the requirements of regulations, and some do not even meet them. Costs are lower in PHAs that are more rigorous, although overall cost per unit has not been a focus of PHA management.[8] The current law does not encourage such a focus. Nor does rent reasonableness rigor benefit the PHA in any way – again, because any savings derived are not available to serve more families.

D) What Welfare Reform Has Shown.

A redesigned program, sensitive to local conditions, could better support work. The Federal welfare reform law, which gave the states discretion to design their own systems of family support, has markedly reduced dependency and increased employment, without increasing the

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[7] "A surprisingly large number of PHAs are unaware of the new renewal rule published in October 1999 that renews funding for voucher units under contract by factoring in a PHA's annual costs for the previous year." Deborah J. Devine, Barbara A. Haley, Lester Rubin, and Robert W. Gray, *The Uses of Discretionary Authority in the Tenant-Based Section 8 Housing Program: A Baseline Inventory of Issues, Policy, and Practice*, Office of Policy Development and Research, U.S. Department of Housing and Urban Development, January 2001, p. xi.

[8] Meryl Finkel, Jill Khadduri, Victoria Main, Linda Pistilli, Claudia Solari, Kristin Winkel, and Michelle Wood, *Costs and Utilization in The Housing Choice Voucher Program*, Abt Associates, Cambridge, MA, July 2003.

numbers of impoverished children. Researchers working from controlled welfare reform experiments have found repeatedly that HUD-assisted housing tenants respond to the work incentives of state welfare reform at least as strongly, and usually more strongly, than unassisted welfare families.[9]

PHAs are not, under current law, allowed to experiment with policy alternatives that could tend to counteract the negative effects of income-based rents. Well-intentioned Congressional efforts to counteract them through earnings-related deductions of various types have been largely ineffectual, because they have been funneled through the administratively difficult income and rent determination process described previously.

E) What HUD Proposes: The Flexible Voucher Program.

The President's Budget for FY 2005 proposes the new Flexible Voucher Program. HUD believes that the improved design of the new Flexible Voucher Program can help a greater number of families afford decent housing.

The Flexible Voucher proposal would allow public housing agencies to adopt rent structures and other policies that will enhance self-sufficiency and reduce long-term dependency. Many local agencies will use this discretion. The evaluators of the Moving to Work (MTW) Demonstration[10] found that all housing agencies applying for greater autonomy under that program "appeared eager to use the demonstration to experiment with alternatives to the traditional percent-of-income approach for calculating tenant rent contributions." They found that "(e)ach of the MTW PHAs that implemented changes in housing subsidy formulas adopted a unique approach, based on local judgments about the role that scarce rental-assistance resources should be playing and about the behavior of assisted housing residents." They also adopted a range of policies to promote work

All of the MTW PHAs allowed assisted tenants to keep a greater share of increases in earnings than they can under current law. Some adopted flat rents, so that tenant contributions were no longer a function of income changes. Some adopted stepped rents, where tenant contributions started low and increased at fixed intervals thereafter, without regard to actual earnings. Some adopted a wider range of income exclusions or deductions than current law permits. Some agencies adopted minimum rents that essentially assumed some part-time minimum-wage employment, whatever the actual situation was. Seven adopted varying types of time limits on assistance.

[9] Nandita Verma and James A. Riccio, with Gilda L. Azurdia, *Housing Assistance and the Effects of Welfare Reform: Evidence from Connecticut and Minnesota*, MDRC, New York, 2003. Verma and Riccio review results from welfare reform demonstrations in 6 states.

[10] Martin D. Abravanel, Robin E. Smith, Margery A. Turner, Elizabeth C. Cove, Laura E. Harris, and Carlos A. Manjarrez, *Housing Agency Responses to Federal Deregulation: An Assessment of HUD's "Moving to Work" Demonstration*, The Urban Institute, Washington DC, 2004.

F) Sources of Savings From Program Reform.

Enactment of the Flexible Voucher Program would permit substantial savings. The Administration has proposed $1.1 billion less in subsidy payments in FY 2005 than Congress appropriated in FY 2004, and $59 million less in administrative fees to PHAs.
However, we estimate that in FY 2005 alone, Flexible Vouchers would save $1.804 billion in total, $1.674 billion in subsidies and $130 million in administrative expenses.

The *net* savings of $574 million in subsidies would support another 88,000 families, even at the FY 2004 cost of $6523 per unit. The *net* savings of $71 million in administrative expenses can be used for services that will help families develop economic security, e.g., family self-sufficiency coordination, home ownership counseling.

First-Year Savings Summary Table

Program Savings		**Administrative Expense Savings**	
Payment Standard	$815 million	Income flexibility	$56 million
Income-related error	$350 million	Less Recertification	$45 million
Reserve elimination	$450 million	Less Inspection	$29 million
Targeting flexibility	$59 - $350 million		
Total	*$1674 million*	*Total*	*$130 million*

1. Program Savings.

a) $815 million in first-year savings and annually recurring savings in excess of $1 billion from the average payment standard returning to 95 percent of FMR.

The PHAs used to run this program with a national average payment standard of 93.5 percent of FMR, and they can run it now with a 95 percent average. The 30.25 percent nationwide average increase in payment standards between December 2000 and December 2003 is not supported by the much lower 10.5 percent nationwide average increase in gross rents (as measured by Consumer Price Index) during this same period. As noted above, there was an increase of $196 in the average payment standard over 3 years, slightly offset by an average increase in the tenant contribution of $25. The actual increase in the average subsidy has been $106, not $171, because tenants who rent below the payment standard do not get the maximum subsidy.[11] We assume that just as the HAP rises 62 cents per dollar of potential increase, it will fall by 62 cents per dollar of decrease. The difference between 104 percent of FMR and 95 percent of FMR is approximately $71 a month, when the national average FMR is about $811.50.

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[11] The Federal government pays a subsidy based on the lower of the payment standard or the actual gross rent. For example, suppose two different tenants both have a minimum tenant contribution to rent of $250 and the payment standard is $1000. Tenant A rents a unit for $1100 a month, the subsidy is $750 ($1000 -$250), and Tenant A pays $350. Tenant B rents for $900 a month, the subsidy is $650 ($900 - $250), and Tenant B pays $250. Now suppose the payment standard is lowered to $950, and neither tenant moves. The subsidy for tenant A is $700 ($950 - $250), and the subsidy for tenant B is still $650 ($900 - $250). Reducing the payment standard saves the program $50 a month for tenant A and zero for tenant B.

.62 x $71 x 2 million households x 9 months x 1.0282 anticipated 2003-2005 inflation rate[12] = $815 million.

After the first year, savings would occur over 12 months, rather than 9 months, and more than $1 billion would be saved annually.

b) $350 million in annually recurring savings from net income-related error.

The FY 2004 Appropriations Bill for HUD programs authorized HUD to have access to the Department of Health and Human Services' (HHS) New Hires database. One of the components of this database is a records system with comprehensive income source and earnings data reports. An income match for a sample of assisted housing tenants in 2000 showed that approximately $700 million in excess subsidy payments was paid for voucher program units because of intentionally and unintentionally unreported income. It is estimated that at least $350 million (50 percent) can be collected and will reduce subsidy requirements. The other thing that reduces income-related error is the actual subsidy calculations, which will decrease if not be eliminated by allowing PHAs to simplify rent policies.

c) $450 million one-time savings from elimination of the reserves.

The one-month reserve will no longer be required in a dollar-based program. However, we plan to leave a small amount in reserves for PHAs in the first year of the Flexible Voucher Program to allow for some transition.

d) $59 to $350 million in first-year savings from greater flexibility in targeting, and out-year savings significantly higher.

Currently 80 percent of new admissions in the voucher program are "extremely low income" families, in excess of the 75 percent of admissions that every PHA must reserve for the extremely low-income (less than 30 percent of area median income). The actual savings amount resulting from targeting flexibility will vary depending on the income targeting policies adopted by PHAs. But savings are expected in all circumstances.

For example, if PHAs reverted to the pre-QHWRA admission percentages of 68% extremely low-income, 23% very low-income, and 9% low-income families, at least $59M of savings would still result in the first year and at least $118M of savings would result in the second year. If PHAs exercise their targeting flexibility by admitting 40 percent extremely low-income families, 40 percent very low-income income (30 to 50 percent of area median income), and 20 percent low-income (50 to 80 percent of area median income) families, as much as $350 million[13] would be saved.

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[12] This is the actual CPI inflation factor for March 2003-March 2004 times the OMB predicted inflation factor for the following twelve months.

[13] Savings amount for Scenario 2 of Table 4 (United States Department of Housing and Urban Development Housing Certificate Fund Analysis of Potential Savings from Income Targeting Flexibility) for the Housing Certificate Fund, Congressional Justification for 2005 Estimates.

2. Administrative Expense Savings.

a) $56 million in annually recurring administrative savings from greater flexibility in income determination.

In a test to develop a comprehensive tenant income and rent determination process, it took 132 pages to cover all of the questions required to fully comply with all statutory and regulatory requirements. Even with automation, this is a time-consuming, error-prone, and expensive process. If PHAs are given the opportunity to establish their own processes, they are likely to be far simpler than the current system. A system based on gross income less simple deductions for dependents and elderly/disabled, for instance, is estimated to reduce certification/recertification time by at least one hour per case. As HUD expands the availability of its earned income data matching system, which was recently facilitated by Congressional approval to use the HHS New Hires data base, use of this data base will simplify and reduce the work associated with verifying tenant earned income by at least another one-half hour per case. At an average hourly cost of $15 and a fully loaded staff cost of $30 per hour, a conservative estimate of a 1.5 hours per casework reduction would reduce administrative costs by $56 million per year. (This estimates assumes 1.25 million certifications or recertifications, a smaller figure than we have currently. See the next item.)

b) $45 million in annually recurring savings from less frequent mandated income eligibility recertifications.

The Flexible Voucher proposal mandates recertification for the elderly and disabled at least every 3 years and for other families at least every 2 years; the current requirement is annual for all families. We assume that PHAs will not take full advantage of the reduction in requirements: some will want to reduce rents to cushion tenants against sharp income reductions, and others may want to ensure the continued eligibility of their assisted families on a more regular basis. Accordingly, we estimate that 750,000 fewer recertifications will be conducted, saving two hours of staff time per session, with fully loaded cost of $30 per hour.

c) $29 million in annually recurring savings from less frequent mandated housing quality inspections.

Current law requires annual inspection of every assisted unit for compliance with HUD's Housing Quality Standards. The Flexible Voucher proposal would require this inspection for all units at the initiation of a new tenancy; a PHA would also be required to re-inspect at least 25 percent of units in which the tenancy had continued for at least a year. An initial inspection requires about 1.3 hours of staff time[14].

HUD estimates that approximately 1 million units would no longer need to go through an annual inspection. We assume that 25 percent or 500,000 of the voucher families are either newly admitted or move to a new unit. If PHAs inspect one-half of remaining 1.5 million units (i.e., 750,000 units instead of the remaining 1.5 million units) the savings will be as follows: 750,000

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[14] Mireille L. Leger and Stephen D. Kennedy, *Administrative Costs of the Housing Voucher and Certificate Programs,* Abt Associates, Cambridge, MA, June 16, 1988, page 58.

unit inspections not performed x 1.3 hours per inspection x fully loaded cost of $30 per hour = $29 million.