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ABSTRACT

In this study of rental assistance programs for low-income households administered by the Department of Housing and Urban Development (HUD), the General Accounting Office (GAO) compares the costs and benefits of housing certificates and housing vouchers. The certificate program, established in 1974, and the voucher program, authorized in 1983, aim to create an alternative to the construction of low-rent housing by providing low-income families with subsidies for private rental housing. The GAO study, prompted by a request from the Senate Subcommittee on HUD-Independent Agencies, also investigates the costs of converting outstanding housing certificates to vouchers and assesses HUD's fair market rent (FMR) structure and its effect on tenant rent burdens. The GAO study finds that while housing vouchers provide families with more flexibility to "shop around" for suitable housing and with higher subsidies than certificates, the voucher program is more costly and serves fewer families. The GAO finds that HUD's budgeting processes are inconsistent, that HUD FMRs are not always accurate, and that the cost of converting certificates to vouchers would be high. The report includes one table and ten figures. Appendices provide the following information: (1) methodology; (2) contributing public housing agencies; (3) HUD response to the report; and (4) major contributors. (AF)

United States General Accounting Office

GAO

Report to the Chairwoman, Subcommittee on HUD-Independent Agencies, Committee on Appropriations, U.S. Senate

February 1989

RENTAL HOUSING

Housing Vouchers Cost More Than Certificates but Offer Added Benefits

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Resources, Community, and
Economic Development Division

B-224834

February 16, 1989

The Honorable Barbara Mikulski
Chairwoman, Subcommittee on HUD
-Independent Agencies
Committee on Appropriations
United States Senate

Dear Madam Chairwoman:

In response to the April 20, 1987, request of your predecessor, Senator William Proxmire, this report provides information on the costs of the Department of Housing and Urban Development's (HUD) section 8 existing certificate and housing voucher programs It also contains information on the adequacy of HUD's fair market rents and their impact on tenant rent burdens.

As agreed with the Subcommittee office, we are sending copies of this report to the appropriate congressional committees; the Secretary of Housing and Urban Development; and the Director, Office of Management and Budget. Copies will also be sent to other parties upon request.

This work was done under the direction of John M. Ols, Jr., Director, Housing and Community Development Issues. Major contributors are listed in appendix IV.

Sincerely yours,

J. Dexter Peach

J. Dexter Peach
Assistant Comptroller General

Executive Summary

Purpose

About a million low-income households are currently receiving rental assistance through the Department of Housing and Urban Development's (HUD) section 8 existing certificate or housing voucher programs The administration has proposed that the certificate program be replaced with the voucher program, claiming that vouchers are less costly and more efficient. However, debate surrounding the comparative merits of both programs prompted the Chairman, Subcommittee on HUD-Independent Agencies, Senate Committee on Appropriations, to request that GAO compare the costs of vouchers and certificates and determine the costs of converting outstanding certificates to vouchers The Chairman also asked GAO to assess the adequacy of HUD's fair market rents (FMRS) and their impact on tenant rent burdens.

Background

Housing vouchers, which were established in 1983, and certificates, which were established in 1974, are two very similar programs whose identical goals are to provide subsidies for low-income families to live in private rental housing that is decent, safe, and affordable. A distinct feature of the voucher program is the incentive it provides families to "shop around" for housing best suited to their needs. This feature distinguishes vouchers from certificates in terms of the way public housing agencies (PHAS) compute tenant rent subsidies.

In the certificate program, subsidies are based on the difference between 30 percent of an assisted family's adjusted monthly income and its actual rent payments, which cannot exceed the FMR for the area. In the voucher program, subsidies are based on the difference between 30 percent of an assisted family's adjusted monthly income and the FMR for the area. Families may choose to rent units priced above the FMR and pay the additional rent themselves. However, if a family's actual rent is less than the FMR, PHAS' rent subsidies are based on the higher FMR, thereby reducing a family's actual out-of-pocket expenses.

Results in Brief

The voucher program's shopping incentive provides low-income families more flexibility in choosing housing and higher average subsidies than certificates These higher subsidies, however, result in vouchers that cost more than certificates and, therefore, serve fewer families. HUD's contention that vouchers are less costly than certificates is misleading because HUD uses different budgeting approaches to compute program costs.

Beginning in 1989, subsidies for 780,000 outstanding certificates will begin expiring. HUD plans to refinance these certificates with vouchers. Because certificate families who have been in the program for a number of years are often paying less than FMRs, it would be costly to begin subsidizing these families based on higher FMRs instead of their lower actual rents.

FMRs influence the degree of success low-income families have in locating affordable rental units and, in the voucher program, the percentage of income they pay for rent. Even though HUD uses the best available central data sources in making rent determinations, there are limitations in the data that can cause FMRs to be either too high or too low in certain areas.

Principal Findings

Vouchers Cost More Than Certificates but Provide Added Benefits

The latest data available indicate that voucher costs are likely to be higher than certificate costs. Using data from HUD's first-year report on the housing voucher program, GAO calculated that with HUD's 1989 budget request, about 9,500 (or 6 percent) fewer families can be assisted with vouchers than with certificates. To assist the same number of families with vouchers would cost an additional $208 million.

Vouchers are more costly because, compared with certificates, they provide higher subsidies to those families who rent units for less than FMRs. Voucher families, however, must pay the difference between FMRs and higher actual rents and, in some cases, assisted voucher families are paying over 60 percent of their incomes for rent.

Budgeting Processes Are Inconsistent

HUD has told the Congress that the voucher program is less costly than the certificate program. This statement, however, is misleading because HUD uses different methods to estimate the costs for each program. In presenting the costs of these programs in its budget, HUD does not clarify that these different approaches were used, which makes it difficult for the authorizing Committees to fully evaluate the merits of each program and establish appropriate funding levels.

Converting Certificates to Vouchers Would Be Costly

Over the next 12 years, 780,000 section 8 certificates will expire. HUD plans to refinance these certificates with vouchers. Data GAO obtained on 87,000 certificate tenants show that their rents averaged 15 percent below FMRS. Because voucher recipients who rent below FMRS receive larger subsidies, the first-year costs to refinance the 87,000 certificates would be $83 million greater than if they were refinanced with certificates. Although this sample is not statistically projectable, GAO calculated that if these rent differences are representative of the 780,000 expiring certificates, the cumulative additional cost to refinance them with vouchers over the next 12 years would be $9.6 billion. This differential, expressed in terms of its discounted present value, equals $4.3 billion.

Fair Market Rents Are Not Always Accurate

HUD's FMRS do not always accurately reflect actual market rents. Even though HUD uses the best available national data in setting its FMRS, these data are not always current nor geographically specific. Consequently, FMRS are sometimes set too high, which can result in PHAS oversubsidizing tenants. Conversely, FMRS are sometimes set too low, which can result in tenants having high rent burdens and/or difficulty in locating affordable rental units.

GAO's review of housing assistance in the Houston, Texas, area, which has surplus rental housing, shows that FMRS appear to be too high. This results in PHAS oversubsidizing some families at the expense of other low-income families who go unserved. On the other hand, FMRS appear to be too low for the more expensive counties included in the New York City housing market. This results in certificate families experiencing considerable difficulty in finding housing and in voucher families having unusually high rent burdens.

Matters for Congressional Consideration

GAO believes that operating one rental assistance program is advantageous. It would provide consistent benefits to program recipients and a unified approach to delivering housing assistance. If the Congress elects to have one program, it will need to evaluate the merits and drawbacks of features presently distinguishing vouchers from certificates and adopt those features that best satisfy the programs' legislative intent of providing decent, safe, and affordable housing. A key feature is whether subsidies should be based on actual rents as in the certificate program or FMR payment standards as in the voucher program. And,

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- if subsidies are based on FMR payment standards, should shopping incentives be paid to tenants who rent in place—especially tenants with expiring certificates, or,
- if subsidies are based on actual rents, should families be allowed to rent units with rents above the FMR payment standards.

Another key feature is whether program budgeting should be based on a fixed number of families to be served as in the certificate program or fixed dollar allocations as in the voucher program

Recommendations

The Secretary, Department of Housing and Urban Development, should (1) identify areas where FMRS may be either too high or too low and make necessary adjustments and (2) establish consistency in the budgeting processes for certificates and vouchers.

Agency Comments

HUD agreed that the voucher and certificate programs should be combined into a single subsidy program. But, HUD raised concerns regarding GAO's cost comparison of vouchers and certificates, which it said could lead to erroneous conclusions.

HUD contended that the report relies solely on the results of the first year of the voucher demonstration and that the second-year results will show that vouchers are less costly than certificates. GAO believes that its conclusions are appropriate. The report refers to several data sources other than the voucher demonstration used in GAO's analyses. The report also discusses the principal features distinguishing the two programs, such as the "shopping incentive," and how these features affect low-income tenants and program costs regardless of the outcome of the second year of the voucher demonstration.

GAO emphasizes that it does not take a position favoring either vouchers or certificates but believes that the Congress should examine the merits and drawbacks of features presently distinguishing the programs and adopt those that best satisfy the programs' legislative intent. HUD did not comment on the report's recommendations concerning establishing consistency in the budget process for vouchers and certificates and improving the process of setting FMRS. (See ch. 4 and app. III.)

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Abbreviations

CPI	consumer price index
CRS	Congressional Research Service
EHAP	Experimental Housing Allowance Program
FMR	fair market rent
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
OMB	Office of Management and Budget
PHA	public housing agency
PMSA	primary metropolitan statistical area

Introduction

In 1974, the Congress passed legislation creating a new rental assistance program for low-income families. The program, commonly referred to as the section 8 certificate program, subsidizes household rent payments in existing privately owned housing by paying a portion of recipients' actual rents. A similar program, known as the housing voucher demonstration program, was authorized by the Congress in 1983. This program, like the certificate program, also subsidizes the rents of low-income families in privately owned rental housing. However, unlike the certificate program in which federal subsidies are based on the actual rent paid to a private landlord, federal subsidies under the voucher program are based on a Department of Housing and Urban Development (HUD) computed fair market rent (FMR) for specific areas.

For the past several years, both programs have operated concurrently. However, the administration has proposed that vouchers be used in the future as the primary federal housing subsidy program. Uncertainty, particularly over the budgetary ramifications of this proposal, prompted the Chairman, Subcommittee on HUD-Independent Agencies, Senate Committee on Appropriations, to ask us to compare the current costs of issuing certificates versus vouchers, as well as comparative costs of converting outstanding certificates to vouchers. The Chairman also asked us to evaluate the adequacy of HUD's fair market rent determinations under different market conditions.

The Existing Certificate Program

Prior to 1974, HUD's principal housing assistance programs provided subsidies for the construction or rehabilitation of additional low-income housing. This housing was then rented to lower income families at below market rates. Beginning in the early 1970s, interest developed in making greater use of existing privately owned housing. Accordingly, a 10-year Experimental Housing Allowance Program was initially authorized in 1970 to test the feasibility of subsidizing tenants rather than the builders of low-income rental housing.

Early experience under the experimental program led the Congress in 1974 to add section 8 to the United States Housing Act of 1937 (42 U.S.C. 1437f), creating the Existing Rental Assistance Certificate Program to provide rental assistance to low-income families. According to the act, the certificate program was to help lower income families obtain a decent place to live and promote economically mixed housing.

How the Program Works

The certificate program is administered by some 2,000 state and local public housing agencies (PHAS) nationwide. PHAS certify families' eligibility for assistance, issue housing assistance certificates to eligible families, assist certificate holders in finding adequate housing units in the private market, and inspect housing units to ensure that they meet HUD's housing quality standards. Families participating in the section 8 existing certificate program are principally very low-income households earning 50 percent or less of the median income for the area in which they live. These families are selected from waiting lists maintained at their local PHA.

The program provides subsidies to tenants by paying a monthly stipend to a private landlord on their behalf. An assisted family pays 30 percent of its monthly adjusted income for rent, and the PHA pays the landlord the difference between the tenant's payment and an approved monthly rent. The unit the tenant selects must meet HUD's housing quality standards, and the monthly rent must be equal to or less than a HUD-determined FMR for the area. HUD sets FMRS to represent the typical price for a modest rental unit for families of various sizes. In fiscal year 1987, the federal government provided, through the certificate program, rental assistance to about 800,000 low-income families.

The Congress approves new certificates each year and authorizes funds to HUD for a 15-year budget period. The 15-year budget authority assists PHAS in maintaining long-term stability in operating their certificate program.

The Housing Voucher Program

Housing vouchers were recommended by the President's Commission on Housing, which was created in June 1981 to find remedies to the housing problems that affect millions of Americans. The Commission reported that the primary housing problem in the country was one of affordability rather than availability of housing. Accordingly, the Commission recommended that federal subsidies be used to help low-income families afford privately owned housing rather than for the construction of additional low-income housing.

In considering the Commission's recommendations, the administration found that only the certificate program was specifically designed to address the affordability problem. After analyzing the program's underlying policies and the way in which it was being delivered, the administration concluded that, while the program was generally doing a good job, several aspects could be improved. The administration's changes were incorporated into a newly designed housing voucher program, which the Congress authorized in the Housing and Urban-Rural Recovery Act of 1983 (Titles I-V of P.L. 98-181) as a 5-year demonstration program. The program was reauthorized by the Housing and Community Development Act of 1987 (P.L. 100-242).

How the Program Works

The voucher program, like certificates, is administered by PHAs throughout the country. These PHAs certify family eligibility for voucher assistance and ensure that HUD's housing quality standards are met. Like the certificate program, vouchers primarily assist families with incomes of no more than 50 percent of the area's median income.

A principal change brought about by vouchers is the added flexibility it provides to low-income families by allowing them to rent units above established FMRs. Also, if families rent units below FMRs, they can keep the difference between actual rents and the applicable FMR. The opportunity to keep this difference provides families with an incentive to rent below FMRs. This feature is commonly referred to as a "shopping incentive." The Congress expected that the application of this shopping incentive would constrain private landlord rent increases since families would have a monetary incentive to obtain the most favorable rent. Since certificates do not provide a shopping incentive, the Congress perceived that landlords are motivated to raise rents to FMR ceilings.

The Senate report on the housing voucher legislation (report no. 98-142, May 23, 1983) discussed the importance of the program's shopping incentive feature:

> "This housing payment certificate program will improve the Section 8 existing housing program by giving very low-income families more flexibility to 'shop around' for housing best suited to their needs. . This shopping incentive will give assisted tenants the same choice between housing and other needs that they would exercise in using their own money This choice by tenants will constrain the inflationary impact on rents in the current Section 8 program where landlords often just raise rents up to the maximum fair market since tenants get no savings from a lower rent. The shopping incentive feature is the essential element of the Administration's 'housing voucher' proposal and has been accepted by the Committee as a way to bring some discipline of market transactions to tenants in the existing housing program."

Aside from the shopping incentive, other differences between the programs include the method of program budgeting, a rent reasonableness test, treatment of welfare rent payments in several states, and tenant rent burdens. These differences are discussed further in chapter 2.

The Housing and Community Development Act of 1987 eliminated several other features that had previously also distinguished vouchers from certificates. Specifically, the act (1) equalized PHA administrative fees for both vouchers and certificates (previously, fees for vouchers were less), (2) provided that certificate holders could also choose housing outside the jurisdiction of their specific PHA within the same or a contiguous metropolitan statistical area (this portability provision before the act applied only to vouchers), and (3) authorized annual rent adjustments for voucher recipients (prior authority provided for only two adjustments over a voucher's 5-year authorization).

HUD contracted in February 1985 with Abt Associates, a private consulting firm, to evaluate the housing voucher demonstration program. The ongoing evaluation is being conducted at 20 of the nation's largest PHAS and calls for an examination of the general effectiveness of rental subsidies provided by the certificate and voucher programs and a comparison of the use of certificates and vouchers. An interim report on the results of the evaluation was released in June 1987. According to HUD officials, a final report is scheduled for the spring of 1989.

Objectives, Scope, and Methodology

The former Chairman, Subcommittee on HUD-Independent Agencies, Senate Committee on Appropriations, asked us to

- compare the cost of housing vouchers with section 8 certificates,
- examine the cost of converting existing certificates to vouchers, and
- determine the adequacy of HUD's FMR determinations and their impacts on tenant rent burdens in distinct housing markets.

To accomplish these objectives, we analyzed program regulations and data obtained from several sources, including HUD's central office, its New York and Fort Worth regional offices, and its Houston field office; four PHAS in the New York City area (New York City, Westchester County, Rockland County, and Putnam County); four PHAS in the Houston area (city of Houston, Harris County, Liberty County, and city of Pasadena); several realtors in New York; and apartment survey firms in the Houston area.

We developed financial models to compare the cost of housing vouchers with section 8 existing certificates. As a baseline for our cost assumptions, we used summary data on certificates and voucher tenant rents, subsidy costs, and tenant payments from the first year of HUD's housing voucher demonstration. We estimated subsidy cost changes over time and the number of households that could be assisted, which HUD used in preparing its fiscal year 1989 budget request. In our analysis, we used a similar benefit period for both the certificate and voucher programs to provide a basis for comparing program costs over time. Appendix II discusses the methodology we used to estimate and compare the federal costs of providing section 8 certificates versus housing vouchers. To calculate the costs of converting existing certificates to vouchers, we obtained data on certificate tenants from the PHAs we visited in the New York City and Houston areas and through telephone surveys with officials at 13 other large PHAs nationwide. Appendix III contains a listing of the PHAs we contacted. The PHAs provided us with information on the average gross rents, average tenant payments, average subsidy payments to landlords, and fair market rents, broken out by bedroom size, for all certificate tenants on their rolls as of December 31, 1987. Data from New York City were obtained as of December 1, 1987. Rent payment information obtained from the PHAs covered approximately 87,000 certificate tenants.

To examine tenant rent burdens and fair market rents, we selected two areas of the country with significantly different housing markets. The New York City area was selected because it is the largest user of housing vouchers, and it has a tight rental market, experiencing a rental vacancy rate of about 2 percent. The Houston area was selected because it is also a large user of housing vouchers, and it represents a loose rental market, experiencing a rental vacancy rate of up to 18 percent.

To determine the availability and quality of section 8 rental housing available in the Houston and New York areas, we performed a limited market survey by using the information and data sources that PHAs furnish to section 8 applicants. In the Houston area, we contacted 40 apartment complexes that were included on listings of rental units provided by PHAs to section 8 applicants and visited 13 apartment projects. In the New York area, rental listings were not available from PHAs, so for a 2-day period at each PHA we examined daily newspapers, rental listing publications, and bulletin boards. We also contacted local realtors and existing section 8 landlords. We visited the one apartment that we were able to locate in the New York area whose landlords rented the units within the FMR and would accept section 8 families.

We performed our work at the PHAs and the HUD field offices between October 1987 and May 1988. Our review was performed in accordance with generally accepted government auditing standards.

Housing Vouchers Are More Costly Than Certificates but Provide Greater Benefits to Some Households

Housing vouchers, on average, cost about 7 percent more than certificates to assist low-income households. Based on HUD's fiscal year 1989 budget request, this 7-percent added cost means that over 9,500 fewer low-income households can be assisted with vouchers. To assist the same number of families would cost an additional $208 million.

The added cost results from the shopping incentive feature of the voucher program. This feature provides a larger rent subsidy than certificates for families choosing to rent units below an area's FMR standard. However, it is unclear from HUD's housing voucher demonstration whether the shopping incentive is achieving one of its primary objectives of encouraging families to shop for housing. Earlier HUD studies have shown that similar incentives have not greatly influenced families' housing choices. What HUD's housing voucher demonstration clearly shows, however, is that low-income families who continue to rent their same pre-subsidy units without moving (renting in-place) receive greater benefits than they would under the certificate program.

As long as the shopping incentive remains a distinct feature of the voucher program, voucher per-unit and program costs will always be greater than the certificate program and households renting below the FMR will always receive greater benefits than they would using certificates, assuming no other notable differences exist between the programs. However, other differences add to the debate as to which subsidy mechanism is the most cost-effective. The most notable difference, aside from the shopping incentive, is the programs' budgeting processes. The voucher program is structured to provide a fixed amount of dollars over a 5-year period whereas the certificate program allows for supplemental appropriations should initial budget projections prove inadequate. On the one hand, vouchers bring greater fiscal responsibility at the expense of possibly assisting fewer families, whereas, certificates generally assure that a desired number of low-income households are assisted each year at the expense of possible future budgetary problems. The pros and cons to each of these budgeting approaches are discussed later.

Aside from the programmatic budget differences, HUD has further confused the budgeting process for vouchers and certificates by using different methods to estimate per-unit costs under each program. These methods have resulted in misleading comparisons of the programs' costs in past HUD budgets.

In addition to the current costs of assisting low-income households with either vouchers or certificates, a potentially very costly decision is imminent regarding the proposed conversion of approximately 780,000 outstanding certificates to vouchers. We found, based on data we obtained for 87,000 of these certificates, that the subsidy costs would be about $83 million greater if these families received vouchers, based on FMR payment standards, instead of certificates based on actual rents. The added subsidy costs would reduce family rent burdens below 30 percent. Although our data are not statistically projectable, we calculate that if it were representative of all 780,000 outstanding certificates, there would be a cumulative additional cost of $9.6 billion to convert these certificates to vouchers as the certificates expire over the next 12 years. In terms of its discounted present value, this differential equals $4.3 billion.

Voucher's Shopping Incentive Increases Costs and Has Questionable Impact on Housing Choices

Vouchers pay higher subsidies than certificates when tenants rent units costing less than the FMR. This feature, called a shopping incentive, is intended to encourage recipients to shop for housing best suited to their needs and to make choices between housing and other expenditures. The Congress also intended that this shopping incentive would constrain rent inflation. Past HUD experience with shopping incentives, however, disclosed that these incentives did not work as intended. To date, HUD's voucher demonstration has not evaluated what impact the shopping incentive has had on tenant housing decisions.

Vouchers Are Structured to Pay Higher Subsidies Than Certificates

When families rent below FMRs, voucher subsidies are higher than certificate subsidies. Under vouchers, PHAs pay subsidies initially based on the FMR payment standard regardless of actual unit rents. A tenant contribution, generally 30 percent of adjusted family income, is deducted from this standard. If a family's actual rent is less than the payment standard, the family's actual out-of-pocket expenses are reduced and in effect the family can use the higher subsidy to purchase other goods and services. If the rent is greater than the payment standard, the family must pay the full difference.

Figure 2.1 illustrates a family's rent contribution and the amount of PHA subsidy under three rent scenarios—monthly rents of $400, $450, $500—in the certificate and voucher programs. In all three scenarios, the FMR is assumed to be $450, there are no HUD-granted exceptions to the FMR, and the adjusted family income is assumed to be $500 per month.

Figure 2.1: Monthly Housing Assistance Payments and Tenant Contributions at Various Rent Levels, Vouchers and Certificates

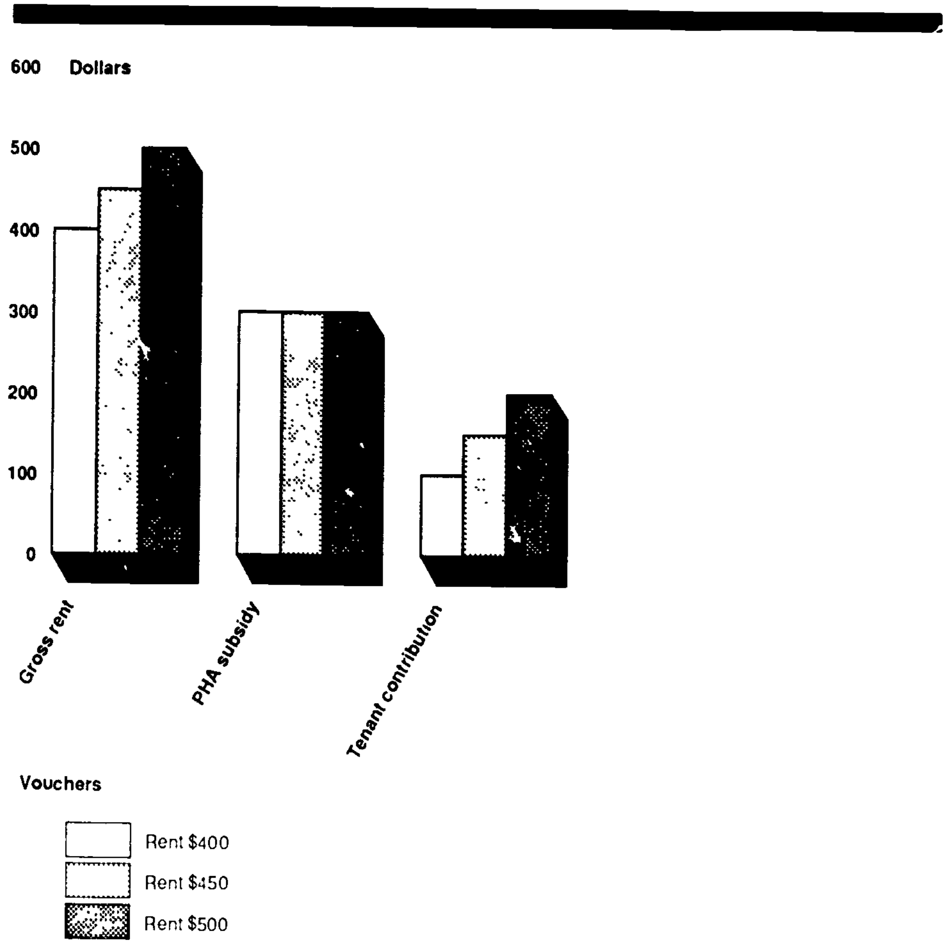

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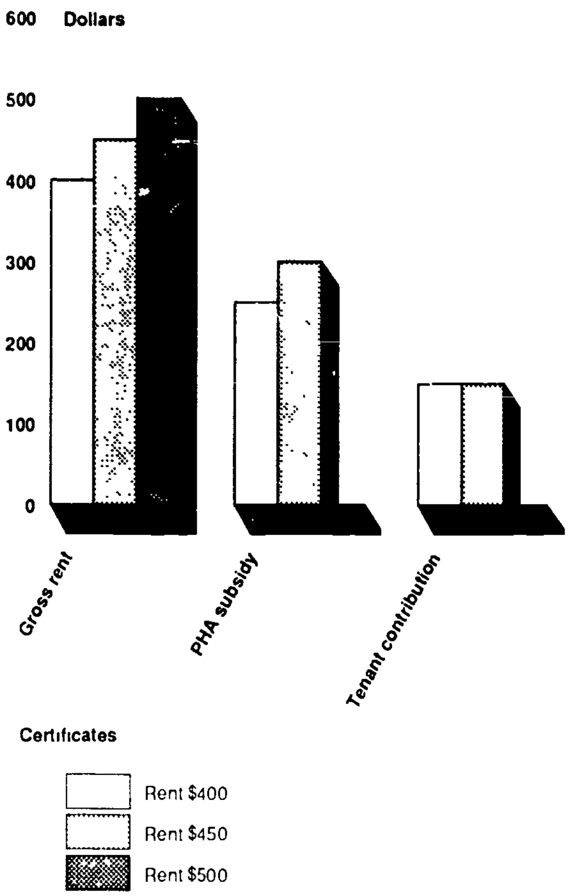
Figure 2.1 continued



The above examples assume a fair market rent of $450 per month and an adjusted family income of $500 per month

At the $500 gross rent level, a rental unit would be ineligible to participate in the certificate program

Source GAO examples

As shown in figure 2.1, certificates hold tenant rent payments constant at 30 percent of adjusted income and PHA subsidy payments vary according to the gross rent level. In contrast, vouchers hold constant the amount of PHA subsidy and tenant rent burden varies according to the gross rent level. With vouchers, households receive a larger subsidy for units renting at $400 than certificate holders do, and their rent burden decreases to 20 percent. Voucher recipients can also rent units costing $500, which is not possible using certificates, but their rent burden increases to 40 percent.

HUD Data Show Vouchers Are More Costly Than Certificates

In June 1987, HUD published the Report of the First Year Findings for the Freestanding Housing Voucher Demonstration which summarizes its early experience under the housing voucher demonstration and compares costs of both the certificate and voucher programs in 18 large urban PHAs. The report shows that in the first year of the voucher program tenant rents were, on average, $32 per month, or 8 percent, higher than certificate tenant rents, reflecting the fact that voucher recipients are allowed to rent above FMR limits. Similarly, PHA subsidy costs were $23 per month, or 8 percent, higher in the voucher program due to voucher recipients renting units below FMRs and receiving higher assistance payments than similar certificate recipients.

Using actual housing subsidy cost data from the first year voucher demonstration report, we calculated that vouchers are 7 percent more expensive than certificates over a 5-year benefit period. This period was used for the analysis because it is the time frame for voucher budget authority and is the minimum benefit period for certificate recipients (certificate contracts generally have an initial 5-year term but are renewable for up to 15 years). We included a 3.4-percent annual rent inflation factor in our analysis, consistent with figures provided to us by HUD's housing budget office.

Figure 2.2 shows our estimates of total subsidy costs for vouchers and certificates over a 5-year benefit period. The data show that, over this period, vouchers cost $21,820 per unit while certificates cost $20,422 (a 7-percent differential).

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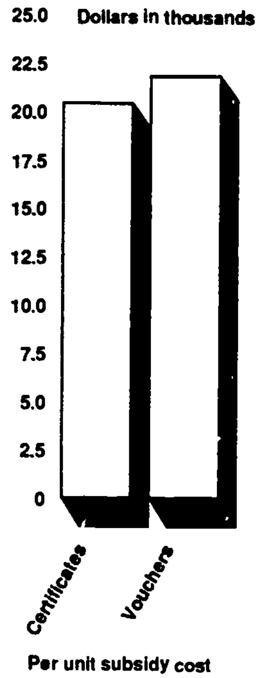
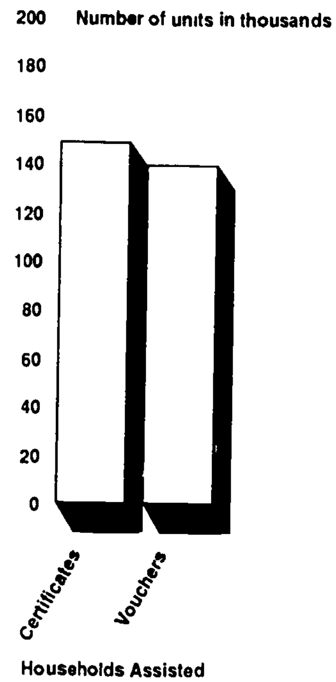
Figure 2.2: Vouchers Cost 7 Percent More Than Certificates Over a 5-Year Benefit Period



Source: GAO calculations using HUD data and budgeting assumptions

The additional voucher subsidy costs mean that PHAs will be able to issue fewer vouchers than certificates for the same budget allocation. To illustrate, we estimated the number of vouchers and certificates that could be issued based on HUD's fiscal year 1989 request of $3.0 billion in budget authority. Figure 2.3 shows the results of dividing the $3 billion budgetary allocation by our 5-year cost estimates of vouchers and certificates (the budget authority required per household). We calculated that 148,479 certificates or 138,962 vouchers can be issued with the fiscal year 1989 budget authority request, or 9,517 fewer households with vouchers.

Figure 2.3: Certificates Could Serve 9,500 More Families Than Vouchers, Based on HUD's Fiscal Year 1989 Voucher Budget Request



Source: GAO calculations using HUD data from the first-year housing voucher demonstration report and HUD budgeting assumptions

Using the same 5-year cost estimates, we calculated the additional budget authority needed to issue the same number of vouchers as certificates. PHAS would require an additional $207.7 million in budget authority to issue the same number of vouchers as certificates.

HUD officials cautioned that data in the first-year demonstration report may not be representative because the voucher program was new to PHAS, landlords, and tenants. The officials said that the final demonstration report due to be released in the spring of 1989 will provide a broader data base and be more representative. The final report will contain data on the program's second year of operation. While this additional information is not yet available, data we obtained from PHAS we visited in the New York City and Houston areas showed that during fiscal year 1987, voucher recipients continued to pay higher rents—5 percent in Houston and 10 percent in New York City—and PHAS also continued to pay higher subsidies—2 percent in Houston and 21 percent in New York City.

HUD officials said that the housing voucher demonstration report data may overstate cost differences between certificates and vouchers because subsidy payments for certificate families in New York and Michigan were influenced by welfare rent payment rules. In these states, the tenant rent contribution in the certificate program is the larger of 30 percent of adjusted income, 10 percent of gross income, or the portion of the welfare payment designated as rent. The voucher program does not include a welfare rent provision.

To determine the impact of the welfare rent provision, we adjusted our 5-year cost analysis to exclude welfare rent payments from HUD's reported data on the certificate program. This adjustment resulted in the per-unit costs of the certificate program increasing from $20,422 to $20,650, while voucher costs remained at $21,820. Accordingly, the relative cost differential of vouchers over certificates dropped from 7 percent to 6 percent. The number of estimated families served under certificates fell from 148,479 to 146,835 and the differential of fewer vouchers than certificates issued was reduced from 9,517 to 7,873 (6 percent less to 5 percent less). The additional costs to issue the same number of vouchers as certificates decreased from $207.7 million to $171.8 million. HUD has prepared a legislative proposal to apply the welfare rent provision to the voucher program.

Instances in Which Voucher Recipients Were Charged Higher Rents

Contrary to voucher program expectations that tenant shopping would constrain rent inflation, PHA officials in the Houston area cited several instances in which landlords were charging voucher tenants higher rents than certificate tenants occupying similar units within the same project. It is important to clarify, however, that we have no indication to what extent this may be occurring at other PHAS.

Houston PHA officials told us that this practice occurs because there are no procedures to limit the rents a landlord may charge voucher tenants. Rents for certificate tenants, in contrast, cannot exceed the rents a landlord usually charges on the open market, or the FMR rent ceilings, whichever is lower. PHAS assure proper landlord rent charges by conducting a rent reasonableness test for each apartment location. The Houston PHA provided us with examples of three apartment complexes that charged voucher tenants higher rents than certificate tenants occupying similar units. The apartment landlords charged voucher tenants the FMRS, while they charged certificate tenants the going market rent which was between $35 and $37 per month, or about 10 percent, less than the FMRS.

Past Studies Found Shopping Incentives Had Little Impact on Mobility

The section 8 existing certificate program regulations originally contained a shopping incentive feature, called a rent credit, whose purpose was to encourage families to find housing units at the lowest possible rent, thereby reducing both their rent contribution and the amount of federal subsidies required. Under the rent credit provision, a family's monthly rent contribution was reduced by the same proportion that its rent was below the area's FMR. For example, if a family rented a unit that leased for 10 percent below the FMR, the family received a 10-percent reduction in its monthly rental contribution.

In our January 28, 1977, report entitled Major Changes are Needed in the New Leased-Housing Program, we recommended that HUD not permit the payment of the rent credit to families renting in place. On May 10, 1978, we issued a follow-up report stating that additional information we obtained from contacting 31 PHAs in 20 states leads us to conclude that the rent credit should not only be eliminated for in-place families, but also for all families assisted under the section 8 program. We reported that rather than operating as an incentive to encourage families to shop for less expensive housing, only a few families actually altered their housing choice because of it.

In November 1978, HUD issued a report entitled Lower Income Housing Assistance Program (Section 8): Nationwide Evaluation of the Existing Housing Program. The report stated that the rent reduction credit has not functioned as planned. It pointed out that very few certificate holders made a specific effort to obtain lower rents and that the credit was received largely by "stayers" who never searched for units. HUD's director of the existing housing division told us that the rental credit provision of the certificate program may have been too complicated for tenants to understand. Because it was not being used as intended, it was discontinued in October 1980.

During the 1970s, HUD also conducted the Experimental Housing Allowance Program (EHAP) experiment which studied how low-income families respond to various forms and levels of housing allowances. The study was the largest social experiment ever undertaken by the federal government.

In an EHAP "Demand Experiment" in the Pittsburgh, Pennsylvania, and Phoenix, Arizona, areas HUD studied a program that was very similar to today's housing voucher program. Tenants were given housing subsidies directly and, except for minimum housing quality standards, were not constrained in the type of housing chosen or the rents paid. The study was conducted over a 3-year period and involved about 50,000 families. The EHAP experiment sought data to address, among other things, the following questions:

"Does a housing allowance program stimulate families to move?"

"Are increased expenditures matched by similar increases in the amount of housing which families obtain?"

In its report entitled Experimental Housing Allowance Program, Conclusions, the 1980 Report, HUD stated, regarding the first question, that the EHAP demand experiment showed

"Mobility and location of residence are governed largely by ties to relatives, neighborhoods, friends, workplaces, and schools, and are not much affected by allowance payments and . . the effect of the allowance on mobility is small or non-existent."

Regarding the second question, the report stated that

"Increased expenditures for housing may not always lead to corresponding changes in the amount and quality of housing that families obtain. If early in their search for a unit that passes the housing standards, a family finds one that is overpriced, it might choose to rent it rather than continue to search for a better deal "

HUD's finding on the effect of housing allowances on mobility is not surprising since it is unlikely that low-income households that receive a sizable housing subsidy would move and rent less expensive housing. Households generally rent more expensive housing when they experience increases in income, or a reduction in the price of housing. Vouchers both raise effective household income and reduce the relative price of housing. The combination of these two factors makes it very unlikely that voucher recipients would rent less expensive housing upon receipt of the voucher. Further, recent movers generally pay higher rents than those who stay in place. Thus, the best way for households to keep rental costs down is generally to continue renting the same unit.

FMRs May Be Too High for In-Place Renters

In-place renters, on average, pay rents that are less than FMRs and, in the case of voucher recipients, receive larger subsidies than certificate holders and have lower rent burdens. In setting FMRS, HUD uses data from the American Housing Survey which represent a sample of units occupied by households that have moved into rental units within the past 2 years, referred to as "recent movers." Recent mover rents in the

1983 American Housing Survey were 7 percent higher than the rents of all renters.

Figure 2.4 shows, by movers and in-place rentals, the average rent burdens for all tenants included in HUD's first-year voucher demonstration program and for tenants in two-bedroom units in the Houston and New York PHAS we visited.

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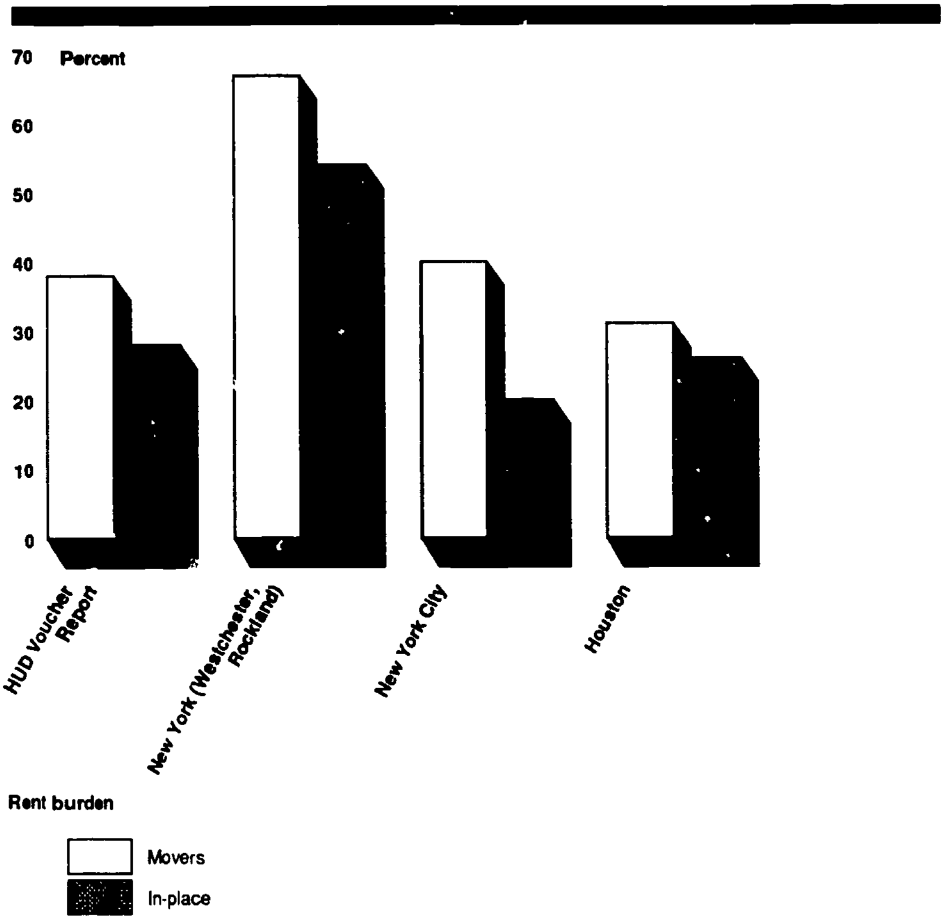
Figure 2.4: Voucher Tenant Rent Burdens, Movers and In-Place Rentals



In the certificate program, rent burdens generally average 30 percent of adjusted tenant income.

New York is one of several states that identify a portion of the Aid to Families with Dependent Children's payment as a shelter allowance This allowance is used as the tenant's certificate payment, regardless of the percentage of income it represents.

In New York City, certificate tenants in two-bedroom units averaged a 32-percent rent burden.

Source: PHA data and HUD's first-year report on the housing voucher demonstration

As shown in figure 2.4, in-place renters under the voucher program have rent burdens that are less than those who move. The rent burdens for the New York counties of Westchester and Rockland represent data on a total of 55 two-bedroom vouchers that were issued between January and September 1987. Also, rent burdens in New York City were influenced by rent controls. Landlords in New York City are allowed larger rent increases when a tenant leaves an apartment than when

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renewing an existing lease. In New York City, from inception of the voucher program through September 1987, 68 percent of recipients receiving vouchers remained in place, and 70 percent of recipients receiving certificates remained in place. Eighty percent of the voucher families who rented in place received shopping incentive benefits—they rented for less than the FMR and received a greater subsidy than they otherwise would have with certificates.

Disparities in Current Budgeting Practices Prohibit Meaningful Cost Comparisons

Direct cost comparisons of the voucher and certificate programs are hampered by differences in the two programs' budgeting processes and the factors used to compute budgeted costs. The voucher process provides PHAs a fixed funding level over 5 years and allows no cost amendments within this period. The certificate process, on the other hand, serves a fixed number of households up to 15 years and relies on supplemental appropriations to cover cost overruns when they occur. Moreover, because HUD uses different factors in computing the cost of each program, HUD's presentation of the comparative costs of the programs in its annual housing budget justifications to the Congress is misleading.

Differences Exist in the Voucher and Certificate Budgeting Processes

Differences in HUD's budgeting for certificates and vouchers lead to tradeoffs between number of families assisted and cost controls. For certificates, federal costs can increase, but the number of families assisted and the level of assistance provided generally remain constant. Vouchers, on the other hand, are designed to hold federal costs constant, while the number of families assisted and the level of rental assistance provided can vary.

With vouchers, HUD provides PHAs with estimates of the number of families they can assist with the funds allocated to them and requires the PHAs to operate their voucher programs within these funding limits. HUD has informed PHAs that there will be no cost amendments to cover funding shortfalls. In contrast, HUD provides PHAs with a fixed number of certificates, and the funds needed to operate the program are estimated and are more flexible. PHAs are permitted to request cost amendments to cover funding shortfalls.

The Congress recently enacted a provision to enable PHAs to request additional voucher funds to cover funding shortfalls, but HUD has not implemented the provision. The Housing and Community Development Act of [illegible]7 provides that the Secretary of HUD may set aside up to 5 percent of the total voucher budget authority as an adjustment pool.

Amounts in the adjustment pool are to ensure continued affordability when the Secretary determines additional assistance is necessary, based on documentation submitted by a PHA. The director of the housing voucher program, however, said that HUD has determined that an adjustment pool is not needed because PHAs have sufficient project reserves due to a lag between the time that voucher funding allocations are issued and housing units are actually leased to households. According to the director, an adjustment pool may not be needed for several years.

HUD has not determined, though, if all PHAs have sufficient project reserves as the program director indicated and the specific reasons why such reserves exist. For example, one reason PHAs may have such reserves is because they may be issuing fewer numbers of vouchers than HUD authorizes. Another reason might be attributed to PHAS not adjusting voucher family rent payment standards to keep up with rent inflation. Even though HUD chooses not to establish an adjustment pool, it continues to request cost amendments to cover shortfalls in the certificate program. In HUD's fiscal year 1989 budget, HUD requested $747 million in cost amendments to cover certificate funding shortfalls from prior years' appropriations.

At the PHAS we visited, we asked program officials if voucher funding, in their opinion, is sufficient to pay for the number of vouchers that HUD budgets. New York area PHA officials said they plan to issue all of the vouchers HUD provides. The officials acknowledged that funding may become a problem if the costs per vouchers increase, but if that happens, they would issue fewer vouchers in the future. PHA officials in the Houston area, on the other hand, plan to initially issue a fewer number of vouchers than the number HUD budgets. They believe it is necessary to build a reserve for unforeseen costs that may occur in the latter years of the contract period. Of the 1,319 vouchers HUD budgeted as of December 1987 to the four Houston PHAS, the PHAS plan to issue only 951 (about 28 percent less than budgeted).

The Congressional Research Service (CRS) issued a report in July 1985 entitled Preliminary Survey of Housing Voucher Demonstration Program in Large Jurisdictions, which also addressed this issue. CRS asked 20 PHAS whether the dollar amounts that HUD allots are sufficient to provide the numbers of units that HUD announced it would support. CRS found wide variation among PHAS, ranging from those that planned to issue all of the HUD allotted vouchers to those planning to issue only 56

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percent of the HUD-allotted vouchers. In total, HUD-allotted 4,588 vouchers to the 20 PHAS CRS surveyed, and the PHAS projected they will issue 4,058, or 530 (11.6 percent) fewer vouchers than HUD allotted.

Our cost estimates are based on actual tenant rents and PHA subsidies, projected over comparable 5-year periods and using consistent budgeting assumptions for both the certificate and voucher programs. If HUD's budgeting assumptions do not accurately reflect future costs, differences in the budgeting processes of the two programs could affect the cost comparison. In the certificate program, PHAS could request additional program funds to cover shortfalls, potentially causing certificate costs to increase. In the voucher program, PHAS are currently not permitted to request additional funds. However, there would be other offsetting effects. If voucher funding is inadequate, PHAS could either issue fewer vouchers, in which case unit costs per voucher would increase, or PHAS could pass cost increases on to low-income families. In some cases such as in Westchester and Rockland Counties. New York, where average voucher family rent burdens for two-bedroom apartments already average 67 percent of income (see fig 2.4), any future rent burden increases could be an extreme hardship.

HUD's Comparison of Program Costs Is Misleading

HUD's budget justifications have consistently indicated that vouchers are less expensive than certificates. For example, HUD's fiscal year 1985 budget, which first included the housing voucher program, proposed to "replace the existing certificate program with the more effective and less costly housing voucher program." The fiscal year 1989 budget continues to indicate that vouchers are less costly. The estimated 1988 per-unit cost of new vouchers, including PHA administrative fees, is $4,773, while the per-unit cost of existing certificates is $5,659.

Per-unit costs shown in HUD's budget justifications are misleading because HUD uses two different budgeting approaches. In the certificate program, HUD uses a rather straight-forward approach to compute budget authority. Specifically, estimates are based on the total number of units to be funded, multiplied by the most recent FMR per unit and the program's 15-year budget authority. HUD does not, however, include estimates for other factors that have a significant impact on the 15-year cost of the units under the certificate program. These factors include the anticipated percentage of the certificates that will be in use at any one time, the estimated amount that the tenants contribute to the rent, the rent increases due to inflation over the 15-year period, and the amount of funding the PHAS r   ive from HUD to cover their costs of administering the program.

Conversely, HUD uses more relevant information to compute budget authority for the voucher program. This authority is computed over a 5-year budget period and considers tenant rent contributions, which significantly decrease costs, as well as PHA fees and estimated rent inflation, which increase costs. The net effect of these factors makes the voucher program's costs appear to be lower. HUD's budget does not clarify that these different approaches were used, leaving the reader to infer that costs were computed in a similar manner. This lack of budgeting comparability makes it very difficult for policymakers to assess the true costs of the programs.

Aside from the differences in the certificate and voucher budgeting methods, another problem posed in comparing the budgeted figures for the two programs is the uncertainty over how many units the budgets can actually support. For example, in arriving at a per-unit cost for both programs, HUD estimates the number of units that can be supported with the requested budget allocation. Should HUD overestimate the number of units that can be funded, budgeted per-unit costs would be understated. Early indications are that this may be happening in the voucher program; we pointed out previously that PHAs are issuing fewer vouchers than HUD has allocated.

Similarly, actual experience has shown that HUD's budget estimates understate the cost of the certificate program. In an April 18, 1988, report,[1] we stated that HUD's budgeting approach for certificates underestimates the amount of funds needed over the 15-year budget authority period because it does not compute the cost of all factors having an impact on the program. We estimated a potential shortfall of between $2.1 billion and $11.8 billion in the budget authority needed to support the approximately 800,000 outstanding existing certificates. To address this problem, we recommended that HUD develop budgeting procedures that compute and annually update costs, for existing and new certificates, based on total program costs, including certificate usage rates, tenant contributions, rental increases, and administrative fees.

[1] H   Programs Funding Approach for HUD's Section 8 Certificate Program Needs Changing (GAO/RCED-88-136, Apr 1988)

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Converting Existing Certificates to Vouchers Is a Potentially Costly Proposition

Our cost analysis shows that it would be considerably more expensive to refinance expiring section 8 housing assistance contracts with vouchers than it would be to refinance them with certificates. Certificate tenants who have been in the section 8 program for several years generally are paying rents that are well below FMRs. Converting these certificates to vouchers would mean that rental assistance subsidies would be based on FMRs, instead of the assisted tenants' lower actual gross rents. This conversion would convey greater subsidies to these tenants and consequently reduce their rent burden below 30 percent.

Projected Cost to Convert Certificates to Vouchers

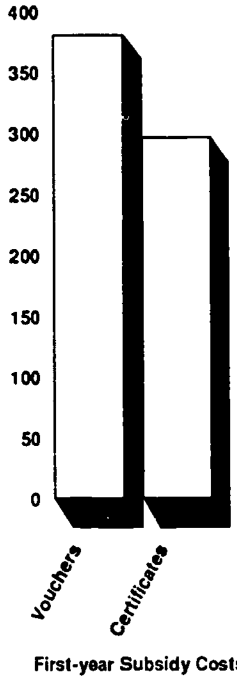
HUD's fiscal year 1989 budget justification requests authority to convert all section 8 assistance to vouchers as the current contract terms expire. Beginning in 1989, HUD's 15-year commitments to the section 8 existing certificate program—currently 780,000 units—will start expiring. Over the next 12 years, according to HUD budgeting assumptions, the costs to refund these commitments with vouchers will total $43.5 billion.

In preparing its fiscal year 1989 budget justification, HUD assumed that certificates would be replaced by vouchers and that the Congress would renew the vouchers for successive 5-year terms as they expire during the 12-year period. For example, HUD estimated that the 993 certificates that expire in 1990 would be funded with vouchers in that year and that these vouchers would again be renewed as their 5-year terms expire in 1995 and in the year 2000.

Rents of Certificate Tenants Are Below FMRs

Because vouchers convey a larger subsidy to low-income households renting below FMRS, it would cost considerably more to refinance the expiring certificates with vouchers. Data that we obtained from 17 PHAS nationwide show that rents of existing certificate tenants who were in the program as of December 1987 were 15 percent less than current FMRS. These lower than FMR rents compare with data from HUD's first-year housing voucher demonstration study which shows that rents of new entrants into the certificate program are 8 percent less than FMRS. Figure 2.5 shows the first-year subsidy costs of refinancing existing certificates with vouchers at these 17 PHAS. If expiring certificates were refinanced with new certificates, the cost would be $297 million versus a cost of $380 million if they were refinanced using vouchers. This additional subsidy totaled $83 million, or 28 percent, greater than if families continued to be assisted with certificates.

Figure 2.5: Refinancing 87,000 Existing Certificates With Vouchers Would Increase First-Year Federal Subsidy Payments by $83 Million



Seventeen PHAs nationwide provided us with subsidy cost data on the 87,000 certificates

If expiring certificates were converted to vouchers at the 17 PHAs, voucher subsidies in the first year of conversion would be 28 percent more expensive than certificate subsidies

Source GAO calculations using data from 17 public housing authorities

The costs shown in figure 2.5 are the first-year subsidy cost differential in converting certificates to vouchers at the 17 PHAs. Although the database for the 17 PHAs includes about one-tenth of the total certificates currently outstanding, it is not statistically projectable. Nevertheless, to illustrate the potential budgetary impact if the differential were applied to all expiring existing certificates, as detailed in appendix I, we calculated the conversion cost differential for the entire universe of certificate holders. Our calculations show that, if the PHA data were projectable, it would cost an additional $9.6 billion (25 percent more) if the 780,000 existing certificates that will be expiring through the year 2000 were refinanced with vouchers. This cost differential, expressed in terms of its present value, equals $4.3 billion. We used a long-term discount rate of 9 percent in this computation, which approximated federal long-term interest rates as of April 1988 on U.S. Treasury notes and bonds.

Inaccurate Fair Market Rents Affect Program Costs and Tenant Rent Burdens

In establishing FMRS, HUD uses the best available national data sources. However, because these data are not always current, inaccurate FMRS can result. Inaccurate FMRS, in turn, can lead to tenant rent burdens in the voucher program that are either too high or too low. Also, inaccurate FMRS cause federal subsidy payments to be too high or too low for both voucher and certificate recipients. Inaccurate subsidy payments either afford recipients the opportunity to rent housing beyond modest means or impair their ability to locate suitable housing.

Because FMRS set the basis for voucher subsidy payments and also the rent ceiling under the certificate program, it is crucial that HUD's determinations of FMRS be accurate reflections of rents prevailing in communities. By monitoring PHA experiences with vouchers and certificates in terms of low-income families' ease or difficulty in locating affordable housing and the rent burdens of voucher recipients, HUD would have additional information to supplement data currently used in establishing FMRS, which should improve the process.

FMRs Are Not Always Accurate

HUD's intent in setting FMRS is to reflect costs of modest rental housing available in the private market. The success of HUD's Division of Economic Market Analysis, under the Assistant Secretary for Policy Development and Research, in meeting this objective, is largely dependent upon the accuracy of its data sources. Because the data sources discussed below have limitations, HUD relies on public comments to identify market areas where its estimates can be improved.

HUD uses three data sources to set FMRS for 2,760 market areas nationwide—the decennial census, the American Housing Survey, and the consumer price index (CPI). The census, conducted once every 10 years by the Bureau of the Census, is the baseline for setting FMRS in 2,706 of the 2,760 market areas. Baseline rents are to reflect the price that renters who have recently moved paid for modest rental housing. In setting fair market rents, HUD also uses data from the American Housing Survey. This survey, which is done for HUD by the Bureau of the Census, provides housing data to establish the baseline rents for 54 metropolitan areas individually surveyed. The survey is also used to adjust the census data base, since it provides better information than the decennial census on housing units suitable for the section 8 program. In addition, to account for annual rent inflation, HUD uses the CPI to adjust the fair market rents for new units and to establish annual rent adjustments for units already under the section 8 program.

Because the available central data sources that HUD uses are not current or geographically specific, its schedules of FMRs and its annual adjustments do not precisely reflect rent changes in all market areas. For example, the decennial census is about 5 years old when HUD first receives the information and as much as 15 years old when a new census becomes available. Similarly, the American Housing Survey's samples for the 54 metropolitan areas provide new baseline information once every 3 to 4 years. In addition, annual adjustments for local rent inflation and housing quality are based on CPI and American Housing Survey data that are not geographically specific. Also, CPI statistics are about 1 year old when HUD publishes its FMR schedules.

HUD recognizes that because of the limitations of available data, the allowable rents that it establishes may not accurately reflect market conditions in all areas. Consequently, HUD's procedures provide for appeals of FMRs when interested parties believe these rent estimates can be improved. Under the procedure, interested parties are asked in the Federal Register to submit written evidence to HUD showing that actual rents in the community are different from HUD's estimates.

Rental Housing Is Widely Available Below the FMR Ceiling in the Houston Area

HUD field office officials and PHA officials commented that FMRs appear to be too high for the Houston market. Our contacts with landlords and visits to several rental units participating in the section 8 program showed that section 8 tenants in the Houston area have a wide choice of rental units available in almost every area, most with a variety of features and amenities, such as swimming pools, covered parking, and club room facilities.

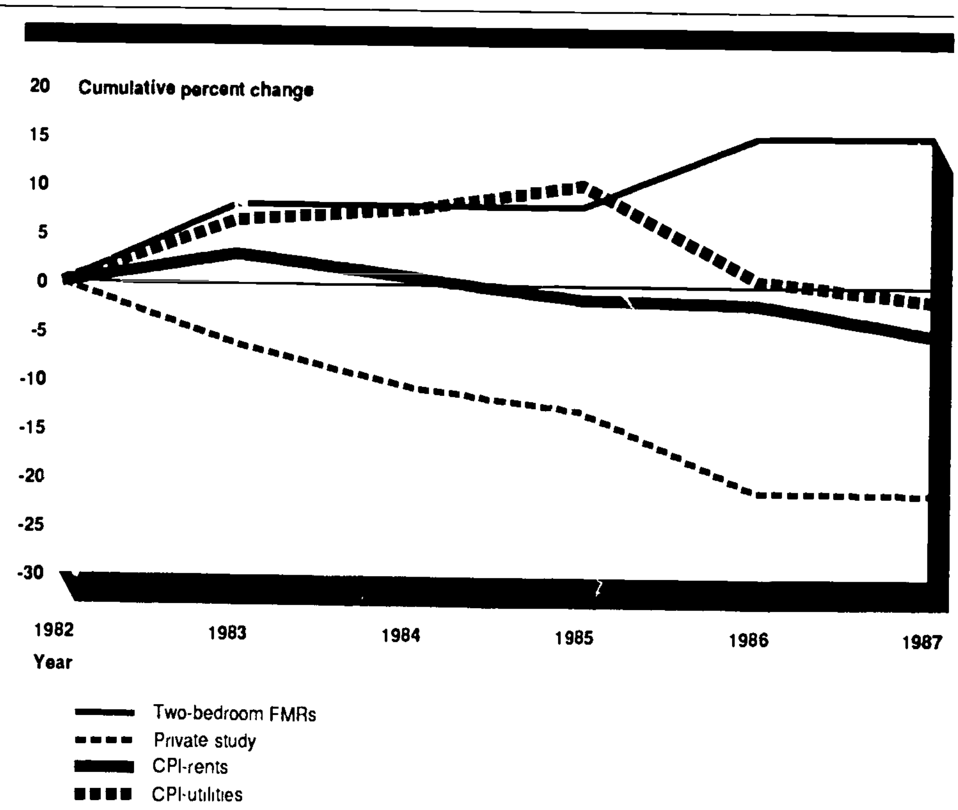
FMRs Have Been Too High Given the Depressed Housing Market

Even though HUD field office and most PHA officials believe FMRs are too high for the Houston area, HUD's procedures for adjusting FMRs rarely elicit such responses. Since PHA administrative fees are based on FMRs, respondents do not generally find it in their best interests to comment that FMRs are set higher than necessary.

Over the past 5 years HUD has increased Houston area FMRs on two occasions. An increase of 8.1 percent in 1983 reflected CPI rent and utility increases, and another 7.2 percent increase in 1986 reflected HUD's adjustments based on 1980 census data. Conversely, a 1987 apartment occupancy and rental survey, performed by a private real estate consulting firm, showed that from 1982 to 1987 residential rents have decreased by an average of 21 percent. Further, CPI data for residential rents and utilities showed an overall decline over the past 5 years.

Because the data sources used to compute FMRs lag behind current market conditions, HUD was slow to recognize the declining Houston rental market. Not until April 13, 1988, did HUD act to decrease FMRs in the Houston area. In an April 13, 1988, Federal Register announcement, HUD proposed to decrease fiscal year 1989 Houston FMRs by 3 percent. Figure 3.1 shows rent decreases in the Houston area over the past 5 years, as shown in the CPI and in the real estate consulting firm's report, and the HUD-approved FMR increases for two-bedroom units.

Figure 3.1: Comparison of FMRs With CPI and Private Rent Study in Houston Area



Source HUD and CPI data and private rent study

Officials from HUD's Houston field office and from three of the four Houston PHAs we visited said that Houston's FMRs are too high for the area's depressed housing market. The HUD officials noted that over the past 5 years, apartment owners have decreased unit rents by over $100

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per month in some neighborhoods. They observed that FMR adjustments usually lag behind abrupt changes in rental conditions.

Plentiful Supply of Affordable Rental Housing

At the PHAs we visited, certificate and voucher applicants received a listing of landlords they could contact in shopping for housing. The PHAs generally compiled the lists based on landlords contacting them and expressing an interest in renting to section 8 tenants.

Using the lists provided by the PHAs, we contacted 40 apartment managers to determine whether they would lease to section 8 tenants. Thirty-eight of the 40 said they would participate in the program. One landlord, who would not participate, said that he had simply changed his policy and decided not to accept section 8 tenants. The other landlord said he was not familiar with the section 8 program.

We visited 13 apartment complexes in various locations in the Houston area. Our purpose was to determine the difficulty or ease with which section 8 applicants could find acceptable rental units and to observe the type of units and locations available to certificate and voucher holders. We found that a certificate or voucher tenant could find an acceptable rental unit in almost any area of the PHA at rents below the FMR ceiling. In addition, most of the complexes offered a variety of amenities. Most complexes had swimming pools, a number had club room facilities, several were wired for cable television, one had tennis courts, and a few had covered parking for tenant vehicles. The age of the units ranged from 18 months to 25 years, and vacancies varied from 8 to 39 percent.

Figures 3.2 through 3.4 describe several apartment complexes we visited that had units available below the FMR limit. The importance of accurately establishing FMRs is illustrated partly by the fact that four families could be assisted each month in the apartment complex shown in figure 3.4, while only three families could be assisted each month in the apartment complex shown in figure 3.3. The total rent for four families living in the apartments shown in figure 3.4 would be $1,200 per month, while the total rent for three families living in the apartments shown in figure 3.3 would be $1,185 per month.

Figure 3.2: Oaks of Woodforest, Harris County PHA

This project contained 536 units and had 3 swimming pools, tennis courts, a clubhouse, and playground areas. Two-bedroom units rented for $325 a month. Utilities, estimated by HUD at $40 per month, are paid by tenants.

Figure 3.3: Parkside Place, Pasadena PHA

This apartment complex contained 315 units and had 2 swimming pools, a clubroom, playground area, covered parking, and cable TV. Two-bedroom units were $395 per month, utilities included.

Figure 3.4: Kendlewood Apartments, Liberty County PHA

This apartment complex had 80 units. Two bedroom units, with few amenities, rented for $260 per month. Utilities, estimated by HUD at $40 per month, were paid by tenants.

Rental Units at or Below the FMR Ceiling Are Extremely Difficult to Locate in the New York City Area

PHA officials representing Rockland, Putnam, and Westchester Counties, which are included in the New York City housing market, said that FMRS for their counties are too low. However, HUD headquarters officials said that with the 20-percent adjustment, FMRS in these counties were reasonably accurate. They suggested that low vacancy rates were contributing to the difficulties low-income households have had in finding qualified units. Our contacts with landlords and visits to a number of rental units participating in the section 8 program confirmed that locating rental housing even with the adjusted FMR ceiling is difficult. Moreover, the housing that we were able to locate was very modest when compared with Houston housing and was often located in depressed neighborhoods.

FMRs for Counties in the New York City Housing Market Are Low Relative to Actual Rents

The boundaries of the New York City housing market include the entire city and the neighboring counties of Westchester, Rockland, and Putnam. Together these areas comprise the New York City Primary Metropolitan Statistical Area (PMSA). Generally, a PMSA is an area of over a million in population and has a large urbanized county or cluster of counties that demonstrate strong internal economic and social links. To meet the needs of various federal agency programs, federal standards provide for a flexible structure in defining statistical areas into various population categories. Because the population of New York City is so large relative to neighboring counties, rents in the city dominate those for the PMSA to the extent that higher rents in these neighboring counties have little impact on the FMR calculation.

The 1988 FMR for the New York City PMSA is $535 per month for a two-bedroom unit. According to the New York City section 8 program director, this FMR is adequate for New York City which has rental controls; however, the director pointed out that due to shortages of affordable rental housing, section 8 families experience problems in locating housing. Section 8 directors in the outlying counties of Westchester, Rockland, and Putnam believe FMRs are set too low for their areas. The HUD New York field office officials agree, and over the years have routinely given the counties the maximum allowable 20-percent increase to the New York FMR.[1] These increases have raised the ceiling FMR for a two-bedroom unit to $642 per month, which according to the county directors, has helped but is still too low. Westchester County officials, for example, produced a rent survey showing that moderate rents in the county were $850 in December 1987. A HUD survey of rents for two-bedroom units in Putnam County, conducted in 1986, showed that rents ranged from $600 to $850.

HUD headquarters officials said that their data show the county rent levels about 20 percent above New York City—for which the adjustment compensates. While their data (from the 1980 census) are not current, the officials said there is no evidence that the relationship between rents in New York City and the counties have significantly changed. Finally, according to these officials, there is no statistically reliable evidence that the adjusted FMRs for the counties are seriously in error

[1] Under HUD guidelines, PHAs can request that HUD field offices grant exceptions to FMRs, increasing them up to 20 percent These exceptions cannot be granted to more than 50 percent of the population of the market area

During our review, the 1987 Housing Act established Westchester County as a separate FMR area. On March 18, 1988, HUD set a proposed fiscal year 1988 FMR for Westchester County at $642 for a two-bedroom unit. The advantage to Westchester County is that one-half of the county is now eligible to receive the 20-percent exception rent increase, which when applied to Westchester's new higher initial base would bring the FMR level for Westchester's high-cost areas to $770 for a two-bedroom unit compared with the previous maximum of $642.

We asked officials in the Office of Management and Budget (OMB), the federal agency responsible for classifying metropolitan areas, whether Putnam and Rockland counties could qualify as separate statistical areas. The officials said that the counties could be reclassified as separate areas but that the reclassification would require that favorable "local opinion" be obtained from the affected jurisdictions. According to these officials such opinion is generally requested through the local congressional delegations, and the opinion must clearly support the separate recognition of the proposed statistical area. Concerning the New York City PMSA, OMB sent a questionnaire in February 1983 to New York City and vicinity congressional delegations concerning several PMSA restructuring proposals. The responses did not favor separating the three neighboring counties from the New York City PMSA. Accordingly, when OMB announced its final definitions of PMSAs in June 1983, Westchester, Putnam, and Rockland Counties were still included in the New York City PMSA.

OMB officials pointed out that federal agencies are not obligated to follow OMB's definitions of metropolitan statistical areas in conducting their programs. In fact, according to these officials, OMB would prefer that federal agencies establish boundaries that best relate to their individual programs. HUD views PMSAS as reasonable approximations of housing markets.

Modestly Priced Housing Is Scarce

Families provided either vouchers or certificates in the New York area have experienced considerable difficulties in locating affordable apartments. Table 3.1 shows families' success rates in locating rental units during the past 2 years. It should be noted that most of the successful families are using their certificates or vouchers to rent their current apartments. If these families were factored out, the success rates shown in table 3.1 would be even lower.

Table 3.1: Success Rates in Locating Rental Units in the New York City Area During Fiscal Years 1986 and 1987

Figures in percent

PHA	Certificates	Vouchers
New York City	32	34
Westchester County	62	57
Rockland County	34	(a)
Putnam County	36	(b)

[a]Rockland County began issuing vouchers in May 1987

[b]Putnam County did not issue vouchers

New York PHA program officials told us that higher FMRS alone will not solve New York's low section 8 utilization problem. They cited other factors as contributing causes, including: (1) a lack of affordable rental housing as indicated by low vacancy rates, (2) conversion of rental units to cooperatives and condominiums, (3) lack of new low-income rental housing construction, (4) low turnover in moderately priced apartments, and (5) adverse landlord attitudes toward section 8 tenants and program requirements.

PHAS we visited advise certificate and voucher tenants to check newspaper advertisements and to check with family, friends, and acquaintances about housing availability. The PHAS did not have lists of landlords expressing an interest in renting to section 8 tenants, as was the case in Houston. New York City, however, provided applicants with a list of landlords who currently rent to section 8 tenants.

Again, using information provided by the PHAS, we attempted to locate affordable housing in the New York area. In each PHA area, we examined rental advertisements in several newspapers and rental listing publications. We also contacted several realtors. The results of our search were as follows:

- In New York City we were unable to locate any apartments whose rents were within the FMR. In addition to examining rental advertisements, we contacted landlords in the Brooklyn area who were currently renting to section 8 tenants, but none had vacancies within the FMR.
- In Rockland and Putnam Counties we were unable to locate any apartments renting within the FMR.
- In Westchester County, in addition to advising applicants to check with newspapers, family, friends, and acquaintances regarding affordable housing, section 8 counselors also provide applicants with a list of brokers who, for a fee (usually equivalent to one month's rent) will direct

them to affordable housing. We were unable to locate affordable housing in Westchester County from our newspaper and other rental listings search. One broker, however, showed us one apartment that was within the FMR and would be ready for occupancy within the next 2 weeks. The apartment was being rehabilitated.

Figure 3.5 describes the building and the apartment we were able to locate within the FMR in the Westchester area.

Figure 3.5: 75 Broadway, Yonkers; Westchester County PHA

This was a 40-unit building. The monthly rent for a 2-bedroom unit, with limited amenities, was $571 without electricity. Electricity, estimated by HUD at $25 per month, was paid by tenants.

Conclusions, Matters for Congressional Consideration, and Recommendations

Conclusions

HUD is currently operating two similar rental assistance subsidy programs—certificates and vouchers—whose identical goals are to provide low-income families with decent, safe, and affordable rental housing. The administration has proposed replacing the certificate program with housing vouchers, claiming that vouchers are less costly and more efficient. Opponents, who favor the certificate program, argue that vouchers cost more and can result in higher tenant rent burdens.

Operating one rental assistance program is logical and advantageous. It would provide a unified approach to delivering housing assistance, equalize the benefits to program recipients, and quiet the debate over which program is preferable. If the Congress elects to have one program, we believe it should consider the merits and drawbacks of features presently distinguishing vouchers from certificates and adopt those features that best satisfy the programs' legislative intent of providing decent, safe, and affordable housing.

Two key features distinguish the voucher and certificate programs. The first is the method by which PHAS provide subsidies to program recipients. Vouchers generally provide recipients with subsidies equal to the difference between 30 percent of their income and the applicable FMR. Voucher families can rent units for less than FMRS, and thereby reduce their out-of-pocket rental expenses. Conversely, voucher families can rent units for more than FMRS if they are willing to pay more than 30 percent of their income for rent. This choice, called a shopping incentive, was intended to give families a wider range of housing options and also the flexibility of spending more or less of their incomes for housing relative to other needs. The certificate program, on the other hand, provides recipients with a subsidy equal to the difference between 30 percent of their income and their actual unit rent but requires that the recipient live in units where the rent is no higher than the FMR. In contrast to vouchers, certificate recipients can neither reduce their out-of-pocket rental expenses by renting units priced below FMRS nor can they opt to pay more than 30 percent of their income to rent units above FMRS.

While we did not assess the extent to which the shopping incentive influenced family housing choices, HUD's first-year housing voucher demonstration report disclosed that households receiving vouchers were no more likely to move after receiving assistance than thos obtaining certificates. Also, past studies of demand-based subsidy programs have shown that many households choose to remain in place due to ties to family, friends, employment, and neighborhoods and that a shopping incentive produced little if any influence over their housing choices.

Clearly, the shopping incentive offered to voucher recipients conveys added monetary benefits to households renting in place, at rents below the prevailing FMR, that they would not receive under the certificate program. Specifically, the rent burden for these families averaged 27.6 percent of their incomes under the first year of HUD's housing voucher demonstration rather than the 30 percent they would have paid had they received certificate assistance. This reduced rent burden, however, increases the cost of the voucher program relative to the certificate program. On the basis of the actual cost information from HUD's voucher demonstration, we project that with HUD's budget request of $3 billion for fiscal year 1989, about 9,500 (6 percent) fewer families can be assisted with vouchers than with certificates. To assist the same number of families with vouchers would cost an additional $208 million. Thus, a key policy question for the Congress in comparing vouchers to certificates is the tradeoff between providing greater benefits on average to fewer low-income households with vouchers as opposed to providing a smaller average level of benefits to more households through certificates.

The second key feature distinguishing vouchers from certificates is the budget process. Although annual per-unit costs for both programs are presented in HUD's budget, the methodology used to estimate these costs is significantly different. This difference impedes meaningful cost comparisons and could be misleading to federal policymakers.

With vouchers, HUD and PHAs are required to operate within the constraints of a 5-year authorized budget. While this is a desirable feature in the sense of promoting fiscal responsibility, it could present future problems if the budget does not accurately reflect future program costs. Should the budget understate these costs, PHAs will either serve fewer families or pass unforeseen costs on to low-income families in the form of higher rent burdens, or the Congress may be asked to fund supplemental appropriations, which has occurred under the certificate program. Although we did not evaluate the adequacy of HUD's budgeting process for vouchers, we did observe differences in the way PHAs are dealing with their funding allocations. Some have chosen to issue all vouchers allocated to them without providing a contingency reserve. Others have elected to hold back a percentage of their vouchers to better assure adequate funding in the future. Thus, under the voucher program, budgeting is driven by a fixed funding allocation, and the Congress is less certain as to how many families the program will serve over time.

Conversely, we have evaluated HUD's budgeting process for certificates and found it to be inadequate. Because HUD does not consider all program costs, it has consistently understated program needs and has had to request supplemental appropriations. In spite of this budgeting problem, the certificate program has provided continued assistance for a fixed number of families. Thus, under the certificate program, budgeting is driven principally by the number of households assisted, but the Congress is less certain as to the total costs of the program over time.

FMRS are another issue that is critical to the success of both programs. Even though HUD uses the best available centrally compiled rent data in making its FMR computations, these data have limitations. Specifically, the rent data sources that HUD uses to compute FMRS are not always current nor are they always geographically specific. Thus, FMRS may not always represent actual rents in specific neighborhoods or communities. This, in turn, can lead to inaccurate voucher subsidy payments and to tenant rent burdens that are either too high or too low. Moreover, FMRS will affect the degree of success low-income families have in locating affordable rental units under both the certificate and voucher programs. By monitoring PHA experience in terms of low-income families' ease or difficulty in locating affordable housing and tenant rent burdens, HUD would have additional information to supplement data currently used in establishing FMRS which could improve the process.

Another issue relating to FMRS is that they may be too high for in-place renters under the voucher program. Specifically, FMR computations are based on the rents of higher cost recent movers—data from the American Housing Surveys. To the extent that voucher families remain in place, their rents may be lower than FMRS, and they may receive larger subsidies than necessary to rent acceptable housing without a rent burden exceeding 30 percent of their incomes.

Apart from the debate over the desirability of relying on vouchers or certificates as the primary rental assistance program of the future, a critical policy question remains regarding how outstanding certificates should be refinanced. Beginning in 1989, about 780,000 section 8 existing certificates will begin expiring. Because certificate families who have been in the program for several years are paying rents that are substantially less than FMRS, it would be costly to change the basis of their subsidy payments from actual rents to an FMR payment standard. For the 17 PHAS we contacted, 87,000 certificate tenants were paying 15 percent less rents than current FMRS. Assuming landlords did not increase rents, these tenants would receive an additional $83 million in the first year their certificates were converted to vouchers. This, in turn, would reduce their rent burdens to under 30 percent. If these 17 agencies were representative of all PHAs, there would be a cumulative additional cost of $9.6 billion over the next 12 years to refinance the 780,000 certificates that will expire through the year 2000 with vouchers. In terms of discounted present value, this cost differential would equal $4.3 billion.

Matters for Congressional Consideration

The Congress should consider establishing one rental assistance subsidy program. In doing so, it would need to evaluate the merits and drawbacks of several features that distinguish vouchers from certificates and adopt those features that best satisfy the programs' legislative intent of providing decent, safe, and affordable rental housing. The principal differences are (1) the voucher program's shopping incentive and (2) the programs' budget processes.

Concerning the shopping incentive, if the Congress wants to keep this feature, it should recognize the limitations in the FMR process and consider directing HUD to improve the process along the lines we have discussed in this report. Moreover, the Congress may wish to consider whether shopping incentives should be paid to tenants who rent in place—especially tenants with expiring certificates. Shopping incentives are particularly significant for long-term existing certificate tenants whose subsidies will begin expiring in 1989. If the Congress wants to discontinue this feature, and base subsidies on actual rents, it may wish to consider allowing households the flexibility to rent units costing more than the FMR.

Concerning the budget processes, if the Congress wants a fixed funding allocation, similar to the voucher program, it may wish to clarify whether any funding shortfalls should be absorbed by (1) HUD establishing an adjustment pool, as presently provided for in the voucher program, (2) PHAs assisting fewer households, or (3) assisted households incurring higher rent burdens. On the other hand, if the Congress wants to assist a fixed number of households, it will want to assure that HUD provides more reliable estimates of future years' costs, as we recommended in our report entitled Housing Programs: Funding Approach for HUD's Section 8 Certificate Program Needs Changing (GAO/RCED-88-136).

Recommendation to the Secretary of HUD

We recommend that the Secretary of HUD:

- Identify areas within defined housing markets where FMRs appear to be too high or too low and make necessary, timely adjustments to the FMRs. In identifying these areas, the process of setting and adjusting FMRs should include an analysis of data from HUD field offices on tenant rent burdens, utilization rates of certificates and vouchers, and available rental market studies. Through this identification process, the Secretary may find that some of these areas are large enough to warrant their consideration as separate FMR areas. Rockland and Putnam counties are areas where FMRs may not reflect actual market conditions. The Secretary, in consultation with local officials, may wish to realign these counties into separate market areas or combine them, either with or without Westchester County, into a single market area.
- establish consistency in the budgeting processes for certificates and vouchers, as long as the two programs coexist.

Agency Comments

In commenting on a draft of this report (see app. III), HUD agreed with our conclusion that the voucher and certificate programs should be combined into a single subsidy program. It disagreed, however, with our conclusions concerning the relative costs and benefits of vouchers versus certificates—stating that our report invites the reader to draw an erroneous conclusion that certificates are better than vouchers. HUD also commented that this conclusion will be difficult to correct and only serve to prolong the development of a merged program. According to HUD, our report is based on old data collected in the first year of the housing voucher demonstration, which, according to HUD, does not consider changes in subsidy costs and rent burdens experienced in the voucher program's second year.

Our comparison of the cost and benefits of vouchers versus certificates did not, as HUD stated, rely solely on the first-year voucher demonstration study. In chapter 1, we refer to other data sources we used in our analyses. For example, in calculating the costs of converting certificates to vouchers, we obtained rent subsidy data, as of December 1987, on 87,000 certificate tenants at 13 large PHAs nationwide. Further, our report discusses the principal features that distinguish the voucher and certificate programs and how these features affect low-income tenants and program cost regardless of HUD's forthcoming second-year voucher demonstration study. HUD expects this study will show that vouchers are less costly than certificates. It pointed out that during the second-year of the voucher program, 15 of the 20 PHAs included in the demonstration did not grant rent inflation increases to low-income voucher tenants. To the extent that PHAs did not make rent inflation adjustments in the second year, voucher costs would decrease relative to certificate costs. HUD did not mention, however, that the downside of these savings are increased rental costs to be borne by low-income voucher tenants who, before the rent increases, were already paying an average of 34 percent of their incomes for rent.

HUD also said that we made two incorrect assumptions. First, it said we assumed that the voucher payment standard and the FMR are always identical and will increase by identical amounts each year over a 5-year period. According to HUD, however, this is inconsistent with the facts of the first-year demonstration study in which only 5 of the 20 PHAs increased the payment standard.

A possible explanation of why only five of the PHAs increased rents is that during the study period, PHAs were permitted to make only two rent adjustments over a 5-year period. With the passage of the Housing and Community Development Act of 1987, PHAs are now able to adjust rents annually. The annual rent inflation increases used in our analyses are consistent with both HUD's own voucher budgeting procedures and the act. HUD criticizes us for using annual rent inflation adjustments in comparing the programs, yet HUD uses identical assumptions in preparing its annual voucher budgets. Our estimates of voucher and certificate costs are made over similar benefit periods and use consistent budgeting assumptions for each program Conversely, in preparing its budgets, HUD does not use the same budgeting assumptions for both programs, a practice we maintain misleads federal policymakers.

In the second assumption, according to HUD, we assumed that a certificate cannot be used in a unit that rents above the FMR. This assertion is incorrect. We recognize the applicable HUD regulation providing for exception rents in chapter 3 of this report. Our cost analyses in chapter 2, however, do not specifically provide for exception rents because the data used in our cost analyses were actual rents paid by both voucher and certificate tenants. Because the data were actual rents, they already include any exception rents that PHAs were providing.

It is important to emphasize that we are not taking a position favoring either vouchers or certificates but believe that the Congress should examine the merits and drawbacks of features presently distinguishing the programs and adopt those that best satisfy the programs' legislative intent. HUD did not comment on the principal features distinguishing the two programs or address the report's recommendations concerning establishing consistency in the budget process for vouchers and certificates and improving the process of setting FMRS.

Methodology Used to Estimate the Federal Costs of Section 8 Certificates and Housing Vouchers

Financial models were developed to (1) estimate and compare the costs of section 8 existing housing certificates and housing vouchers and (2) determine the impact on public housing agency (PHA) subsidy payments if outstanding section 8 certificates were refinanced with housing vouchers. The analysis considers the following factors:

- The current budgeting formulas and economic assumptions used by the Department of Housing and Urban Development (HUD) to fund vouchers and certificates.
- Costs of financing certificates and vouchers over similar benefit periods based on actual housing subsidy payments.
- Short- and long-term cost differences associated with refinancing expiring certificates based on actual subsidy payments of selected large PHAS.

Estimated Voucher and Certificate Costs Over Similar Benefit Periods

HUD budgets certificates and vouchers over different benefit periods (15 years vs 5 years, respectively) and uses different methods to estimate per-unit costs of providing housing under each form of assistance. HUD's budgeting formula for certificates is based on the average estimated FMR per unit multiplied by 15 years. Its voucher funding formula uses an FMR payment standard and also considers rent inflation and tenant contributions. HUD's administrative fee estimates are also included in the voucher budgeting formula (including three types of fees—ongoing, preliminary, and hard-to-house).

Because differences in the two programs' budgeting processes and dissimilar benefit periods hinder meaningful cost comparisons, we modified the budget formula for certificates to consider the actual housing subsidy payments, tenant rent contributions, rent inflation, and program administrative costs, similar to the voucher budgeting formula. We also used a similar benefit period (5 years) to estimate per-unit cost of assistance for both programs. This is the period for which voucher budget authority is appropriated and is the minimum term of housing assistance available with certificates (PHAS, however, may extend certificate contracts for up to 15 years).

To provide a more accurate cost comparison of the two programs, we structured our analysis based on actual certificate and voucher subsidy payments rather than HUD's budgeted cost estimates. Figure 2.2 shows the results of our analysis which uses housing subsidy cost data from HUD's first-year report on the housing voucher demonstration. Inflation rates for the analysis were derived from HUD's budgeting assumptions from 1987 to 1991, an average of about 3.4 percent per year. Gross rents for both programs are inflated annually, as are administrative fees. Voucher subsidy costs are also adjusted annually for rent inflation, as are certificates.

Our analysis further considers legislative amendments in the Housing and Community Development Act of 1987 that affect the voucher and certificate programs. Specifically, certificate and voucher PHA administrative fees were changed to 8.2 percent of the average two-bedroom FMR for both certificates and vouchers and preliminary fees are $275 for certificates and vouchers. We based our analysis on these new fee structures. In addition to these administrative fees, we account for a hard-to-house fee of $45 per unit (unchanged by the 1987 act) for both programs. The latter is applied to 20 percent of the units in accordance with HUD's budgeting assumptions.

Estimates of Households Served Based on HUD's Fiscal Year 1989 Budget Request

The results of our 5-year cost analysis were used to compute the number of households that could be served through certificates and vouchers based on the $3.0 billion in funds for the voucher program that HUD requested in its fiscal year 1989 budget justification (see fig. 2.3). HUD did not request any new funding authority for the certificate program. To estimate the number of households that could be served, we divided the $3.0 billion by our 5-year subsidy cost estimates from HUD's first-year housing voucher demonstration report. The differences in the number of households served were used to estimate the incremental budget authority needed to assist the same number of households through vouchers as with certificates.

Impact of Welfare Rent Provision on Our Cost Analysis

Our 5-year analysis also estimated the impact of welfare rent payment rules on certificate and voucher program costs. In HUD's voucher demonstration, subsidy payments to certificate families in New York and Michigan were influenced by welfare rent payment rules. In these states, the tenant rent contribution in the certificate program is the larger of 30 percent of adjusted income, 10 percent of gross income, or the portion of the welfare payment designated as rent. The voucher program does not include a welfare rent provision. We adjusted our 5-year subsidy costs for certificates to exclude welfare rent payments, according to HUD-reported data.

Estimated Cost to Refinance Expiring Existing Certificates With Vouchers or New Certificates

This analysis estimates the first-year budgetary impact of converting 87,000 existing certificate households nationwide to vouchers. We use the results of this analysis to illustrate the potential long-term budgetary costs of converting the universe of 780,000 certificate contracts that will expire over the next 12 years.

First-year costs of converting certificates to vouchers are based on actual housing subsidy cost data from 17 PHAS we contacted nationwide. The data obtained include FMRS by bedroom size and average gross rents, tenant payments, and PHA subsidy payments. Sixteen PHAS provided us with information as of December 31, 1987, and 1 PHA as of December 1, 1987 (see app. II). We aggregated the PHA data according to the number of units by bedroom sizes to arrive at weighted per-unit cost averages of the outstanding certificates. We then computed average annual, per-unit subsidy costs for vouchers, changing the payment standard for the 87,000 units from an actual rent basis to an FMR-based standard.

The 17 PHAS were judgmentally selected on the basis of their geographical dispersion and because they could readily provide us with housing cost data. For this reason, our database for the PHAS cannot be projected with statistical reliability. However, the database encompasses about one-tenth of the total certificates currently outstanding.

The second part of our analysis calculates the potential budgetary impact of converting the expiring HUD certificates to vouchers, using as a baseline the certificate and voucher subsidy costs from our PHA database. We used the assumption HUD used in its fiscal year 1989 housing budget justification, that is, that all certificates would be replaced by vouchers and that the Congress would renew the vouchers for successive 5-year terms as they expire during the 12-year period. For example, HUD estimated that the 993 certificates that expire in 1990 would be refunded with vouchers in that year and that these vouchers would again be renewed as their 5-year terms expire in 1995 and in the year 2000. Because of this overlap, about 1,359,000 units would be refinanced through the year 2000

Our long-term refinancing cost computations use a budgeting formula similar to vouchers because this method takes into account future rent inflation, administrative costs, and a 5-year budget authority period. According to this formula, our baseline (1987) per-unit subsidy cost estimates are adjusted to allow total rent increases of 15 percent over a 5-year period. PHA subsidy costs and ongoing administrative fees incurred in subsequent years (1988 to 2000) are inflated according to annual factors that HUD's housing budget office provided us.

We also calculated the present value of the cost of certificate and voucher refinancing from 1988 to 2004. This is the time frame over which the successive 5-year increments of allocated budget authority would be obligated. For purposes of discounting, costs were weighted by the year in which they are obligated. A discount rate of 9 percent was used, which approximated the federal long-term interest rates as of April 1988 on U.S. Treasury notes and bonds.

PHAs Providing GAO With Information Used to Estimate the Cost of Converting Existing Certificates to Vouchers

Public Housing Agency

City of Atlanta Housing Authority
Atlanta, Georgia

Baltimore City Housing Authority
Baltimore, Maryland

Boston Housing Authority
Boston, Massachusetts

City of Pasadena Housing Agency
Pasadena, Texas

Dallas Housing Authority
Dallas, Texas

Georgia Residential Finance Authority
Atlanta, Georgia

Harris County Housing Authority
Houston, Texas

Housing Authority, City of San Diego
San Diego, California

Jacksonville Department of Housing and Urban Development
Jacksonville, Florida

Liberty County Public Housing Authority
Liberty, Texas

Maryland Department of Housing and Community Development
Baltimore, Maryland

Milwaukee City Housing Authority
Milwaukee, Wisconsin

New York City Housing Authority
New York, New York

Oakland Housing Authority
Oakland, California

Oklahoma City Housing Authority
Oklahoma City, Oklahoma

Orange County Housing Agency
Irvine, California

Riverside County Housing Authority
Riverside, California

Note: The PHAs provided data on certificate recipients as of December 31, 1987, except for New York City, which provided data as of December 1, 1987.

Comments From the Department of Housing and Urban Development

U S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D C 20410-8000

OFFICE OF THE ASSISTANT SECRETARY FOR HOUSING FEDERAL HOUSING COMMISSIONER

DEC 2 1988

Mr. John Ols
Associate Director
Resources, Community and
Economic Development Division
General Accounting Office
Washington, DC 20548

Dear Mr. Ols:

Thank you for sharing with me your proposed report entitled Rental Housing: Housing Vouchers Cost More than Certificates, But Offer Added Benefits.

As you may know, we spent a considerable amount of time meeting with General Accounting Office (GAO) staff to discuss earlier versions of the subject report. These meetings were held to clarify for GAO staff the scope and content of the Abt report entitled Report of First Year Findings for the Freestanding Housing Voucher Demonstration, and to correct factual errors so that the report could be of use to the Congress and this Department.

The final draft which you sent us for review was a great disappointment and is of little value in drawing conclusions about the relative costs and benefits of the housing voucher and certificate programs. The following are two major areas which could lead the reader to an unfounded conclusion:

- GAO assumes that the payment standard and Fair Market Rent are always identical, and will increase by identical amounts each year over a five-year period. This assumption is not consistent with the facts. In the demonstration, only five of the twenty public housing agencies increased the payment standard.

- The GAO study assumes that a certificate cannot be used in a unit that rents above the Fair Market Rent. This is also wrong, because certificate families can rent units that cost as much as 120 percent of the Fair Market Rent, with the additional subsidy borne by the public housing agency. A PHA can and usually does approve exception rents up to the maximum of twenty percent of the units in the certificate program.

We agree with the ('s conclusion that the housing voucher and certificate program sh... be combined into a single tenant-based subsidy program. However, we feel that the GAO's report invites the reader to draw an erroneous conclusion, one that will be difficult to correct and will only serve to prolong development of a merged program.

2

The GAO report is based on old data collected in the first year of the demonstration, which does not include any information concerning changes in subsidy costs and rent burden experienced in the second year. Many of your conclusions are based on assumptions that are not supported by facts. It would be a great disservice to provide Congress a report based on suppositions, when the Abt report with the most current data will be available momentarily.

Very sincerely yours,

Thomas T. De [illegible]ry
Assistant Secretary

Major Contributors to This Report

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