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Recommendation on Energy Relief for Public Housing and Section 8 Voucher Households

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The Issue

Nationwide, approximately 3 million families receive public housing or Section 8 housing voucher assistance. These forms of assistance help families pay for housing costs, including utilities. Generally, public housing agencies pay utility bills, and vouchers include an allowance for tenant-paid utilities. However, the HUD budgets for both public housing and Section 8 vouchers, developed many months ago, did not contemplate the explosive growth in energy costs that we are seeing today.

The Department of Energy recently reported that natural gas users can expect to pay up to 77 percent more during the upcoming winter compared to last year. Those who heat their homes with fuel oil will pay 33 percent more than last winter.

- **Public Housing:** HUD's public housing operating fund budget request for FY 2006 incorporated only a 1.5 percent increase in utilities for FY 2006. DOE estimated increases obviously will dwarf this requested increase. Nationally, NAHRO estimates that utility rate increases will cost an additional \$250 million in public housing alone in the coming year. After years of underfunding --- public housing agencies received just 89 percent of the amount necessary to cover basic maintenance and operations in 2005, and are expected to receive about 91 percent of necessary funding in FY 2006 --- many agencies cannot absorb these increases within their budgets or reserves. Without supplemental funding, many agencies will be forced to again cut back on basic maintenance as well as vital services to the elderly, disabled and hard-pressed families they serve.
- **Section 8 Vouchers:** Annual increases in voucher funding provided to local housing agencies and limits on the amount that agencies are permitted to pay on behalf of families for tenant-paid utilities are both tied to area housing cost estimates calculated by the Department of Housing and Urban Development. Unfortunately, these calculations were developed before the recent increase in utilities. Under the current "budget-based" method of funding vouchers, prior-year costs are adjusted only for an inflation factor calculated by HUD. No additional funding is provided mid-year to accommodate increased costs. Failure to provide additional funding to local agencies for utility cost increases will create either greater rent burdens for low-income families, or force agencies to reduce the number of families they assist within their limited budgets.

For 2006, NAHRO estimates that additional \$243 million will be needed for voucher-assisted households' utility costs. We estimate that the average utility allowance for voucher-assisted households will rise by a seasonally-adjusted, weighted average of 28.5 percent. Our estimate also factors in an assumption that all eligible families will apply

for LIHEAP assistance to augment their housing assistance, thereby offsetting some cost to the Section 8 voucher program.

How Utilities Factor into Housing Assistance

The assistance standards in both public housing and the voucher program are intended to cover the costs of maintaining tenancy, including utilities.

- **Public Housing:** In about 80 percent of public housing units, the local housing agency, as the landlord, pays directly for utilities. The local agency cannot pay increased utility bills simply by raising rent because rents are set as a percentage of tenant income. In the remaining 20 percent of public housing units, local agencies assist families, elderly and disabled persons to pay utility bills where these bills would tip housing costs over 30 percent of income.
- **Section 8 Housing Vouchers:** About 20 percent of assisted families have utilities included within their rental charges. For the remaining 80 percent, housing agencies provide the family with a standard “utility allowance,” based on modest utility consumption for the type and size of housing in which they live. Housing agencies are required to recalculate and increase utility allowances for families whenever utility costs increase by 10 percent or more. However, under the current “budget-based” method of funding vouchers, no additional funding will be provided mid-year to accommodate these increased costs.

The voucher housing subsidy standard is designed to accommodate all housing charges, including utilities. Local agencies set these standards as a percentage of the federally-calculated Fair Market Rent (FMR) for that area. Because the national calculation is not likely to precisely reflect the local area, agencies can set their subsidy standards at from anywhere from 90% – to 110% of the FMR. If escalating utilities are pushing total rental costs above these HUD-issued standards, local agencies currently have to seek special approval from HUD headquarters to increase these limits.

Recommendation

NAHRO recommends that Congress provide supplemental emergency funding for unanticipated utility costs resulting from the 2005-2006 national energy crisis. In the public housing program, \$250 million will be necessary to offset agency-borne utility costs and maintain housing quality for residents. In the Section 8 voucher program, we estimate that \$243 million will be necessary to permit agencies to adjust families’ utility assistance without increasing rent burdens or reducing the number of families served in their communities. In addition, we believe that in instances where utility increases drive total housing costs (rent + utilities) above current FMR standards, agencies must be given the ability to exceed current FMR payment standard limits in the voucher program without prior HUD approval. Supplemental funding should be payable to agencies in the current year, upon proof of additional utility expense.