CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 6, 2006

H.R. 5443
Section 8 Voucher Reform Act of 2006

As ordered reported by the House Committee on Financial Services on June 14, 2006

SUMMARY

H.R. 5443 would amend the United States Housing Act of 1937 to change certain aspects of the Department of Housing and Urban Development's (HUD) rental assistance programs. The bill would change requirements for the inspection of housing units, adjust targeting requirements, and expand eligibility for the Moving to Work program. It also would alter income, tenant rent, and funding calculations.

CBO estimates that implementing this legislation would cost $1.2 billion over the 2007-2011 period, assuming appropriation of the necessary amounts. The Joint Committee on Taxation (JCT) estimates that enacting H.R. 5443 would reduce revenues by $64 million over the 2007-2011 period, and by $272 million over the next 10 years.

H.R. 5443 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 5443 is shown in Table 1. The costs of this legislation fall within budget function 600 (income security).

TABLE 1. ESTIMATED BUDGETARY IMPACT OF H.R. 5443

	By Fiscal Year, in Millions of Dollars				
	2007	2008	2009	2010	2011
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Income Determination Changes					
Earned Income Disregard	0	593	613	633	654
Estimated Authorization Level	0	356	605	625	646
Estimated Outlays					
Eliminate Imputed Return on Assets	0	15	15	16	16
Estimated Authorization Level	0	9	15	16	16
Estimated Outlays					
Changes to Allowances					
Eliminate Child Care Allowance					
Estimated Authorization Level	0	-194	-199	-204	-209
Estimated Outlays	0	-117	-197	-202	-207
Increase Dependent Allowance					
Estimated Authorization Level	0	24	24	24	54
Estimated Outlays	0	14	24	24	42
Decrease Medical Expense Allowance					
Estimated Authorization Level	0	-192	-203	-213	-225
Estimated Outlays	0	-115	-198	-209	-220
Increase Elderly and Disabled Allowance					
Estimated Authorization Level	0	241	241	258	258
Estimated Outlays	0	144	241	251	258
Rent Calculation Changes					
Change Tenant Rent Calculation					
Estimated Authorization Level	0	2	2	2	2
Estimated Outlays	0	1	2	2	2

Continued

Table 1. Continued

	By Fiscal Year, in Millions of Dollars				
	2007	2008	2009	2010	2011
Eligibility and Targeting Changes					
Income Eligibility Changes					
Estimated Authorization Level	73	75	77	79	81
Estimated Outlays	44	74	76	78	80
Asset Eligibility Changes					
Estimated Authorization Level	7	8	8	8	8
Estimated Outlays	4	8	8	8	8
Targeting Changes					
Estimated Authorization Level	-72	-147	-227	-310	-398
Estimated Outlays	-43	-117	-195	-277	-363
Interactions Between Provisions					
Estimated Authorization Level	-1	-9	-9	-9	-10
Estimated Outlays	-1	-6	-9	-9	-10
Total Changes					
Estimated Authorization Level	8	415	342	283	232
Estimated Outlays	5	252	371	306	252
CHANGES IN REVENUES					
Changes to Lower Income Housing Tax Credit					
Estimated Revenues [a]	-3	-7	-11	-18	-23

a. Estimate provided by the Joint Committee on Taxation.

BASIS OF ESTIMATE

Background

Over 4.5 million households receive assistance through HUD's various rental assistance programs, including the Section 8 Housing Choice Voucher program, Public Housing, and other project-based subsidy programs. To be eligible for assistance, family income must be below either 50 percent or 80 percent of the area median income, depending on the program. Targeting requirements in each of the programs establish a minimum percentage of assisted families who must be below 30 percent of the area median income. Assisted tenants generally pay the higher of 30 percent of their adjusted monthly income or 10 percent of their gross monthly income towards rent. Funding from HUD covers the difference between what the tenant pays and the full rent for the unit (up to certain limits). In the case of public housing, HUD provides public housing authorities (PHAs) with operating and capital funding that allows them to subsidize rents.

Families participating in HUD's rental assistance programs have their incomes certified when they enter the program and annually thereafter. Current law allows various adjustments to income prior to calculating a family's rent payment. Families may deduct any child care expenses and medical expenses over 3 percent of income. In addition, elderly and disabled households may deduct $400 each and all households may deduct $480 for each dependent. As a result of these various deductions, the average adjusted income is approximately 10 percent lower than the average gross income. In 2005, the average family rent payment was about $240 per month and the average subsidy payment was about $580 per month.

For this estimate, CBO assumes an enactment date late in fiscal year 2006. Unless otherwise indicated, the provisions estimated below have an effective date of October 1, 2007. In cases where the tenant rent contribution changes, CBO assumes that appropriations would be adjusted to reflect the costs of the changes. In addition, CBO estimates that these changes would not affect the funding requirements for about 300,000 public housing or voucher units covered by Moving-to-Work agreements.

Income Determination Changes

Earned Income Disregard. Section 3 of the bill would define earned income as the amount of income earned by a family in the prior year reduced by 10 percent. Currently, certain tenants in public housing may disregard any income earned in the first year of a new job, and half of the income earned in the second year. Based on information published by HUD, CBO estimates that over $10 million in income is disregarded in this manner each year. Approximately 30 percent of tenants in HUD's rental assistance programs report earned income. The total earned income for these families is about $19 billion each year. Changing the amount disregarded to 10 percent of earned income would reduce income by about $2 billion, lowering tenant rent contributions by more than $500 million. Assuming appropriation of the necessary amounts, CBO estimates that this provision would cost $356 million in 2008 and $2.2 billion over the 2008-2011 period. About half of this cost is from the Housing Choice Voucher Program, with the other half split evenly between the public housing and project-based subsidy programs.

Imputed Return on Assets. Under current law, housing authorities and property owners calculate a tenant's imputed rate of return on any assets over $5,000 by using an interest rate determined by HUD. If the imputed return on assets is greater than actual income from assets, the imputed return is included in the family's income total. Section 3 would eliminate the calculation of imputed returns. Based on data provided by HUD, CBO estimates that about 6 percent of families (about 260,000) have income that includes an imputed return on assets. Under the bill, asset income would decrease by about $47 million. Assuming appropriation of the necessary amounts, CBO estimates that excluding the imputed return on assets would cost about $9 million in 2008 and $56 million over the 2008-2011 period.

Changes to Allowances

Child Care Allowance. Families now living in assisted housing may deduct any child care expenses necessary to enable a member of the family to be employed or attend school. Section 3 would eliminate this deduction. Based on data provided by HUD, CBO estimates that about 5 percent of assisted families (about 200,000) claim child care allowances of about $3,000 each. Assuming that appropriations are reduced accordingly, CBO estimates that eliminating the child care allowance would reduce outlays by $117 million in 2008 and $723 million over the 2008-2011 period.

Dependent Allowance. Section 3 also would increase the amount that can be deducted for dependents from $480 to $500, and would inflate that amount each year rounded down to the nearest multiple of $25. Based on data provided by HUD, CBO estimates that this allowance is currently claimed for more than 4 million dependents. About 8 percent of families claiming the allowance would not see any additional benefit from the increase since their adjusted incomes are already at zero. Assuming appropriation of the necessary amounts, CBO estates that increasing the dependent allowance would cost $14 million in 2008 and $104 million over the 2008-2011 period.

Medical Expense Allowance. Elderly and disabled families currently deduct the amount by which unreimbursed medical expenses exceed 3 percent of the family's income. Based on data provided by HUD, adjusted to account for the participation of elderly tenants in the Medicare prescription drug program (elderly medical expenses were reduced by one-third), CBO estimates that approximately 20 percent of families claim an average allowance of $1,400 each (for a total of over $1 billion). The bill would decrease the amount of medical expenses that can be deducted to the amount that exceeds 10 percent of the family's income. CBO estimates that this would cut the number of families claiming medical expenses and the total amount claimed in half. Assuming that appropriations are adjusted accordingly, CBO estimates that this provision would save $115 million in 2008 and $743 million over the 2008-2011 period.

Elderly and Disabled Allowance. Section 3 would increase the amount that can be deducted by elderly and disabled households from $400 to $750, and would inflate that amount each year, rounded down to the nearest multiple of $25. Based on data provided by HUD, CBO estimates that this deduction is claimed by about half of assisted households. One percent of families claiming the allowance would not see any additional benefit from the increase because their adjusted incomes are already at zero. Assuming appropriation of the necessary amounts, CBO estimates that increasing the dependent allowance would cost $144 million in 2008 and $894 million over the 2008-2011 period.

Rent Calculation Changes

Tenant Rent Calculation. Under current law, the tenant's contribution toward rent is the higher of 30 percent of adjusted monthly income or 10 percent of gross monthly income. Using the 10 percent calculation prevents families from excessively reducing their rent payments by claiming deductions on income. The bill would eliminate the 10 percent calculation for the tenant-based voucher program. Based on data provided by HUD, CBO estimates that about 0.3 percent of tenant-based voucher recipients have their rent payments calculated using the gross income measure. The average tenant contribution for these families is about $45 per month. Changing the rent formula for these families to 30 percent of adjusted income would lower the average monthly contribution to about $20 per month. Assuming appropriation of the necessary amounts, CBO estimates that eliminating this tenant rent calculation would cost $1 million in 2008 and $7 million over the 2008-1011 period.

Eligibility and Targeting Changes

Income Eligibility. Under current law, families with income over 80 percent of the area median income at their initial certification are not eligible for assistance. Eligibility tests are not done after the initial certification (incomes are certified each year to determine tenant rent contribution); therefore, a family may have their income rise above 80 percent of the area median and continue to receive assistance. Section 4 would require families to be below 80 percent of median at any annual income certification. This provision would be effective upon enactment. Based on data provided by HUD, CBO estimates that approximately 19,000 families currently receiving assistance would become ineligible. Because there is unmet demand for participation in HUD's rental assistance programs, CBO expects that families made ineligible would be replaced by families on housing authority or property owner waiting lists. Replacing ineligible families with average families would cost the government about $3,700 each (or $312 per month). Assuming appropriation of the necessary amounts, CBO estimates that this provision would cost $44 million in 2007 and $354 million over the 2007-2011 period.

Asset Eligibility. Section 4 also would make any family with over $100,000 in assets ineligible for assistance. This provision would be effective upon enactment. Based on data provided by HUD, CBO estimates that about 8,000 families would become ineligible for assistance. Replacing these families with average families would cost the government about $880 each. Assuming appropriation of the necessary amounts, CBO estimates that this provision would cost $4 million in 2007 and $36 million over the 2007-2011 period.

Targeting. Currently, at least 75 percent of families initially provided tenant-based assistance must have incomes that do not exceed 30 percent of the area median income. Section 5 would change this targeting requirement so that at least 75 percent of families initially provided assistance must have incomes that are below the higher of the poverty line or 30 percent of the area median income. This provision would be effective upon enactment. Approximately 79 percent of the tenant-based population have incomes below 30 percent of the area median. Adjusting the targeting limit to include the poverty line would increase the number of tenants below the limit to 86 percent. Assuming that housing authorities would issue vouchers in a manner that gradually would move the percent of families under the new targeting limit back to the current level, CBO estimates that approximately 130,000 tenants with incomes over the new targeting limit would replace tenants below the limit as vouchers turn over. The subsidy for each new family would be about $2,700 lower than the families being replaced. Assuming that appropriations are reduced accordingly, CBO estimates that the change in voucher targeting would save $43 million in 2007 and $994 million over the 2007-2011 period.

Interactions Among Provisions

The overall increase in estimated costs of H.R. 5443 is slightly less than the sum of the individual provisions because some of those provisions interact. For example, making families with assets over $100,000 ineligible would reduce the number of families with incomes that include an imputed return on assets. In addition, the reduction in the amount of allowances that can be claimed would also reduce the number of families that must use the 10 percent of gross income rent calculation since 30 percent of adjusted income would be the higher figure for these families. On balance, the interactions among the provisions of H.R. 5443 would reduce outlays by $35 million over the 2007-2011 period, assuming appropriation actions consistent with the bill's provisions.

Revenues

Section 12 of the bill would affect revenues by changing the eligibility determination for members of the Armed Forces applying to live in housing constructed with low-income housing tax credits. Under the bill, the military's basic allowance for housing would be treated in the same manner as a Section 8 housing voucher. JCT estimates that this provision would reduce revenues by $64 million over the 2007-2011 period and $272 million over the next 10 years.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 5443 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATE PREPARED BY:

Federal Costs: Chad Chirico
Impact on Revenues: Thomas Holtmann, Joint Committee on Taxation
Impact on State, Local, and Tribal Governments: Sarah Puro
Impact on the Private Sector: Nabeel Alsalam

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis