CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 22, 2007

H.R. 1851
Section 8 Voucher Reform Act of 2007

As ordered reported by the House Committee on Financial Services on May 25, 2007

SUMMARY

H.R. 1851 would amend the United States Housing Act of 1937 to change certain aspects of the Department of Housing and Urban Development's (HUD's) rental assistance programs. The bill would alter calculations of income, tenant rent, and public housing authority (PHA) funding, change requirements for the inspection of housing units, and adjust requirements for the targeting of housing assistance.

CBO estimates that implementing this legislation would have a net cost of $2.4 billion over the 2008-2012 period, assuming appropriation of the necessary amounts.

H.R. 1851 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). The bill would benefit state, local, and tribal governments and any costs they incur would result from complying with conditions of federal assistance.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1851 is shown in the following table. The costs of this legislation fall within budget function 600 (income security).

ESTIMATED BUDGETARY IMPACT OF H.R. 1851

	By Fiscal Year, in Millions of Dollars				
	2008	2009	2010	2011	2012
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Income Determination Changes					
Earned Income Disregard	329	331	334	336	338
Estimated Authorization Level	197	330	333	335	337
Estimated Outlays					
Eliminate Imputed Return on Assets	15	15	16	16	16
Estimated Authorization Level	9	15	16	16	16
Estimated Outlays					
Changes to Allowances					
Eliminate Child Care Allowance					
Estimated Authorization Level	-194	-199	-204	-209	-214
Estimated Outlays	-117	-197	-202	-207	-212
Increase Dependent Allowance					
Estimated Authorization Level	24	24	24	54	54
Estimated Outlays	14	24	24	42	54
Decrease Medical Expense Allowance					
Estimated Authorization Level	-192	-203	-213	-225	-236
Estimated Outlays	-115	-198	-209	-220	-231
Increase Elderly and Disabled Allowance					
Estimated Authorization Level	223	223	241	241	258
Estimated Outlays	134	223	234	241	251
Eligibility and Targeting Changes					
Income Eligibility					
Estimated Authorization Level	9	17	18	19	19
Estimated Outlays	5	14	18	18	19
Asset Eligibility					
Estimated Authorization Level	2	4	4	4	5
Estimated Outlays	1	3	4	4	5
Targeting					
Estimated Authorization Level	-91	-187	-289	-298	-307
Estimated Outlays	-54	-148	-248	-294	-303

(Continued)

ESTIMATED BUDGETARY IMPACT OF H.R. 1851 (CONTINUED)

	By Fiscal Year, in Millions of Dollars				
	2008	2009	2010	2011	2012
Other Provisions					
Tenant Protection Vouchers					
Estimated Authorization Level	9	9	10	10	10
Estimated Outlays	5	9	10	10	10
Program Evaluations					
Estimated Authorization Level	25	0	0	0	0
Estimated Outlays	2	10	1	1	1
Rent Burdens					
Estimated Authorization Level	0	41	46	50	55
Estimated Outlays	0	12	42	47	51
Resident Technical Assistance					
Estimated Authorization Level	10	10	10	10	10
Estimated Outlays	2	10	10	10	10
Incremental Vouchers					
Estimated Authorization Level	139	286	439	601	770
Estimated Outlays	122	267	420	580	749
Interactions Among Provisions					
Estimated Authorization Level	-4	-4	-4	-4	-4
Estimated Outlays	-2	-4	-4	-4	-4
Total Changes					
Estimated Authorization Level	304	369	430	604	773
Estimated Outlays	204	371	448	579	752

BASIS OF ESTIMATE

Implementing H.R. 1851 would lead to a net increase in discretionary spending for housing assistance, primarily by increasing the number of tenant-based vouchers eligible for federal assistance, reducing the amount of income that is counted in determining eligibility for such assistance, and increasing allowable deductions for the elderly and disabled. The increase in costs for those provisions (along with other smaller increases) would be partially offset by savings for other program changes, leading to an estimated net increase in cost of $2.4 billion over the 2008-2012 period. All such changes would be subject to appropriation actions.

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 30 percent of their adjusted 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 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 at least annually thereafter. Current law allows various adjustments to income prior to calculating a family's rent payment. Families may deduct any medical expenses over 3 percent of income and all child care expenses. In addition, households may deduct $400 from gross income if they include an elderly or disabled member, 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 2006, the average family rent payment was about $260 per month and the average subsidy payment was about $530 per month.

For this estimate, CBO assumes the bill will be enacted near the end of fiscal year 2007. In cases where the tenant rent contribution changes, CBO assumes that appropriations will be adjusted to reflect the costs of the changes. In addition, CBO assumes that these changes would not affect the funding requirements for about 300,000 public housing or voucher units covered by Moving-to-Work agreements because those PHAs are funded pursuant to their 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 less 10 percent of the lower of earnings in the prior year or $10,000. Currently, certain tenants in assisted 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 those families is about $20 billion each year. Changing the amount disregarded to 10 percent of the first $10,000 of earned income would reduce income (that is counted for purposes of determining housing assistance) by about $1 billion, and would lower tenant rent contributions by about than $330 million each year. Assuming appropriation of the necessary amounts, CBO estimates that this provision would cost $197 million in 2008 and $1.5 billion over the 2008-2012 period. About half of this cost is from the Housing Choice Voucher Program, with the other half split roughly 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 from assets, half of which include an imputed return on assets. Under the bill, asset income counted for determining housing assistance would decrease by about $48 million per year. Assuming appropriation of the necessary amounts, CBO estimates that excluding the imputed return on assets would cost about $9 million in 2008 and $72 million over the 2008-2012 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 $935 million over the 2008-2012 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 HUD data, CBO estimates that this allowance is currently claimed for about 4 million dependents. About 8 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 $14 million in 2008 and $158 million over the 2008-2012 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 HUD data for 2005, 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 $1,500 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 implementing this provision would save $115 million in 2008 and $974 million over the 2008-2012 period.

Elderly and Disabled Allowance. Section 3 would increase the amount that can be deducted by elderly and disabled households from $400 to $725, 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 $134 million in 2008 and $1 billion over the 2008-2012 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 the median at any annual income certification, but would make enforcement of this provision discretionary for families living in public housing or project-based units.

Based on data provided by HUD, CBO estimates that approximately 3,000 families currently receiving assistance (primarily in the tenant-based program) would lose their subsidy. 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 an additional $5,400 each (or $450 per month). Assuming appropriation of the necessary amounts, CBO estimates that this provision would cost $5 million in 2008 and $74 million over the 2008-2012 period.

Asset Eligibility. Section 4 also would make any family with over $100,000 in assets ineligible for assistance, but would leave the enforcement of this provision up to the discretion of the PHAs for families living in public housing. Based on HUD data, CBO estimates that about 5,000 families would become ineligible for assistance. Replacing these families with average families would cost the government about $800 each. Assuming appropriation of the necessary amounts, CBO estimates that this provision would cost $1 million in 2008 and $18 million over the 2008-2012 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. Approximately 76 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 81 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 (i.e., near 75 percent), CBO estimates that approximately 84,000 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 $3,000 lower than the families being replaced. Assuming that appropriations are reduced accordingly, CBO estimates that the change in voucher targeting would save $54 million in 2008 and $1 billion over the 2008-2012 period.

Section 5 would make a similar change to the targeting requirements for public housing and project-based vouchers. Currently, at least 40 percent of families initially provided assistance through these programs must have incomes that do not exceed 30 percent of the area median income. The bill would change this targeting requirement so that at least 40 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. About 75 percent of families in these programs have incomes below 30 percent of the area median. CBO does not anticipate any savings from the change as housing authorities and property owners could currently increase the number of tenants with incomes above 30 percent of the area median and still meet the targeting requirements.

Other Provisions

Tenant Protection Vouchers. Section 6 would require HUD, subject to the availability of appropriations, to issue tenant-protection vouchers to replace dwelling units that cease to be available as assisted housing. Currently, HUD only issues tenant-protection vouchers for occupied units. Over the past five years, HUD has issued an average of 26,000 tenant-protection vouchers each year. Based on information provided by HUD, CBO estimates that about 1,300 additional vouchers would be issued each year (assuming a 95 percent occupancy rate for properties losing assistance) at an average cost of $6,700. Assuming appropriation of the necessary amounts, CBO estimates that this provision would cost $5 million in 2008 and $44 million over the 2008-2012 period.

Program Evaluations. Sections 7 and 16 would authorize the appropriation of a total of $25 million to conduct evaluations of the Family-Self-Sufficiency (FSS) and Housing Innovation programs. Reports to Congress on the FSS program would be due after four and eight years. Reports on the Housing Innovation Program, which would be the successor to the Moving-to-Work program, would be due one year after half of the program's participants have been selected. Assuming appropriation of the authorized amounts, CBO estimates that conducting the program evaluations would cost $16 million over the 2008-2012 period, with additional amounts spent in later years.

Rent Burdens. Section 12 would direct HUD to monitor rent burdens in the Housing Choice Voucher program and report each year on the percentage of families who pay more than 30 percent and 40 percent of their adjusted incomes for rent. A family may pay more than 30 percent of adjusted income if the rent for their unit is greater than the voucher's payment standard. In those instances, the PHA will pay the difference between 30 percent of the family's adjusted income and the payment standard, and the family will pay the difference between the payment standard and the rent (in addition to 30 percent of their adjusted monthly income). PHAs that are above the national average in either category would be required to increase their payment standard or explain their reasons for not making an adjustment. Under current law, PHAs can set payment standards between 90 and 110 percent of the Fair Market Rent (FMR) without HUD approval and can set their payment standards higher or lower with HUD approval. The FMR typically represents the 40th percentile rent in a PHA's local market. Under this provision, PHAs with above-average rent burdens could set payment standards up to 120 percent of the FMR without approval from HUD.

Based on HUD data, CBO estimates that nearly one-half of families in the voucher program pay more than 30 percent of their adjusted income for rent and about one in five pay more than 40 percent. Approximately 60 percent of PHAs (administering about 60 percent of vouchers) have rent burden averages above the national average in at least one category and would be required to increase payment standards or provide a explanation for not doing so. About 17 percent of the vouchers at PHAs with above average rent burdens have payment standards at 110 percent of FMR, the current maximum possible without HUD approval. CBO assumes that some PHAs with above average rent burdens would increase the payment standard beyond 110 percent to reduce rent burdens and improve the rate at which families who are issued vouchers succeed in finding units to rent and some will decide to not increase the payment standard in order to stretch available funding to cover more families. CBO estimates that, assuming appropriation of the necessary amounts, this provision would increase the payment standard for those vouchers at the current maximum by an average of 5 percentage points.

Increasing the payment standard by 5 percentage points for vouchers at the national limit at PHAs with rent burdens above the national average would increase the Housing Assistance Payment (HAP) for 47 percent of those units (or about 5 percent of total vouchers) by an average of $470 per year. The remaining 53 percent of the units at those PHAs would not have a HAP change because the rent is below the existing payment standard. Because PHAs may currently set payment standards up to 110 percent without HUD approval, CBO does not estimate a change in authorization levels for vouchers that have payment standards below that maximum.

The estimated changes to payment standards and increases in HAP would lower the percent of the program's families paying more than 30 percent of adjusted income for rent by about 1 percentage point (down to 45 percent). In the following years, the majority of PHAs that are currently above the national rent burden average would remain above average. CBO estimates that about 2 percent of PHAs, administering about 2 percent of vouchers, would have rent burdens above the national average for the first time in the year following the initial payment standard changes. CBO estimates that the payment standards and HAPs for those vouchers would change in a manner similar to those that changed in the first year. Thereafter, CBO estimates that this provision will not significantly change the national average of families paying more than 30 percent of income in rent as few PHAs will be newly above average each year.

In addition to increasing the HAP for some existing vouchers, CBO estimates that increasing the payment standard above 110 percent of FMR will also increase the average HAP for the 10 percent of vouchers that turn over each year. The current average payment standard for the units estimated to have a payment standard increase is about $860 and the average HAP is $535. After increasing the payment standard by an average of 5 percentage points of FMR the new average would be about $900. Assuming a similar ratio between payment standard and HAP, CBO estimates that the average HAP for turnover vouchers would be about $560, an increase of about $25 per month.

In total, CBO estimates that, assuming appropriation of the necessary amounts, the rent burden provision would cost $12 million in 2009 and $153 million over the 2009-2012 period.

Resident Technical Assistance. Sections 16 would authorize the appropriation of $10 million for each of fiscal years 2008 through 2012 to provide technical assistance to low-income families assisted under the Housing Innovation Program. Such assistance is intended to help families participate in a housing authority's process of developing an annual plan. Assuming appropriation of the authorized amounts, CBO estimates that providing resident technical assistance would cost $42 million over the 2009-2012 period.

Incremental Vouchers. Section 18 would authorize the appropriation of such sums as are necessary to assist 20,000 new tenant-based vouchers per year for each of fiscal years 2008 thorough 2012. Based on HUD data, CBO estimates that the average annual cost of a tenant-based voucher is currently about $6,700. Assuming appropriation of the necessary amounts and adjusting for projected changes in rents and tenant incomes, CBO estimates that increasing the total number of vouchers by 100,000 by 2012 would cost $2.1 billion over the 2008-2012 period.

Interactions Among Provisions

The overall increase in estimated costs of H.R. 1851 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. On balance, the interactions among the provisions of H.R. 1851 would reduce outlays by $18 million over the 2008-2012 period, assuming appropriation actions consistent with the bill's provisions.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1851 contains no intergovernmental or private-sector mandates as defined in UMRA. State, local, and tribal governments would benefit from housing assistance activities authorized in the bill. Any costs those governments incur to comply with grant requirements would result from conditions of federal assistance.

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