CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 16, 2009

H.R. 3045
Section 8 Voucher Reform Act of 2009

As ordered reported by the House Committee on Financial Services on July 23, 2009

SUMMARY

H.R. 3045 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 authorize funding for 150,000 new housing vouchers; alter calculations of tenant 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 $7.6 billion over the 2010-2014 period, assuming appropriation of the necessary amounts. Enacting the bill would not affect direct spending or revenues.

H.R. 3045 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3045 is shown in the following table. The costs of this legislation fall within budget function 600 (income security).

ESTIMATED BUDGETARY IMPACT OF H.R. 3045

	By Fiscal Year, in Millions of Dollars					
	2010	2011	2012	2013	2014	2010-2014
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Income Determination Changes						
Earned Income Disregard						
Estimated Authorization Level	332	333	333	334	366	1,698
Estimated Outlays	199	332	333	334	353	1,551
Imputed Return on Assets						
Estimated Authorization Level	15	15	15	15	15	75
Estimated Outlays	9	15	15	15	15	69
Changes to Allowances						
Elderly and Disabled Allowance						
Estimated Authorization Level	234	234	234	234	252	1,188
Estimated Outlays	140	234	234	234	245	1,087
Medical Expense Allowance						
Estimated Authorization Level	-214	-222	-231	-241	-253	-1,161
Estimated Outlays	-128	-218	-227	-237	-248	-1,058
Child Care Allowance						
Estimated Authorization Level	-113	-114	-116	-117	-118	-578
Estimated Outlays	-68	-114	-115	-116	-117	-530
Dependent Allowance						
Estimated Authorization Level	23	23	23	23	23	115
Estimated Outlays	14	23	23	23	23	106
Targeting and Eligibility Changes						
Targeting						
Estimated Authorization Level	-58	-118	-179	-181	-183	-719
Estimated Outlays	-35	-94	-154	-180	-182	-645
Income Eligibility						
Estimated Authorization Level	22	45	45	46	47	205
Estimated Outlays	13	36	45	46	47	187
Asset Eligibility						
Estimated Authorization Level	*	*	*	*	*	1
Estimated Outlays	*	*	*	*	*	1

(Continued)

CONTINUED

	By Fiscal Year, in Millions of Dollars					
	2010	2011	2012	2013	2014	2010-2014
Other Provisions						
Incremental Vouchers	1,155	1,176	1,193	1,211	1,235	5,970
Estimated Authorization Level	1,010	1,173	1,191	1,209	1,232	5,815
Estimated Outlays						
Enhanced Vouchers						
Estimated Authorization Level	16	76	186	254	335	868
Estimated Outlays	10	52	142	227	303	734
Family Self-Sufficiency Coordinators						
Estimated Authorization Level	22	23	23	24	25	117
Estimated Outlays	13	23	23	24	24	107
Tenant Protection Vouchers						
Estimated Authorization Level	10	10	10	10	10	50
Estimated Outlays	6	10	10	10	10	46
Resident Technical Assistance						
Estimated Authorization Level	10	10	10	10	10	50
Estimated Outlays	2	10	10	10	10	42
Enhanced Vouchers for Georgetown Homes						
Estimated Authorization Level	4	4	4	4	4	20
Estimated Outlays	3	4	4	4	4	19
Housing Innovation Program Evaluation						
Estimated Authorization Level	15	0	0	0	0	15
Estimated Outlays	2	2	2	2	2	10
U.S. Interagency Council on Homelessness						
Estimated Authorization Level	0	0	3	3	3	9
Estimated Outlays	0	0	2	3	3	8
Family Self-Sufficiency Program						
Estimated Authorization Level	10	0	0	0	0	10
Estimated Outlays	1	1	1	1	1	5
Total Changes in Spending Subject to Appropriation						
Estimated Authorization Level	1,484	1,496	1,554	1,628	1,771	7,934
Estimated Outlays	1,191	1,490	1,539	1,608	1,724	7,554

Note: Components may not sum to totals because of rounding; * = between zero and $500,000.

BASIS OF ESTIMATE

Implementing H.R. 3045 would lead to a net increase in discretionary spending for housing assistance, primarily by increasing the number of tenant-based vouchers, reducing the amount of income that is used to calculate tenant rent contributions, 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 costs of $7.6 billion over the 2010-2014 period. All such changes would be subject to appropriation actions.

Background

Almost 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. Tenants who receive assistance 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 deductions, the average adjusted income is approximately 10 percent lower than the average gross income. In 2008, the average family rent payment was about $280 per month and the average subsidy payment was about $550 per month.

For this estimate, CBO assumes that H.R. 3045 will be enacted near the end of fiscal year 2009 and that spending will follow historical outlay patterns. In cases where the tenant rent contribution would change, CBO assumes that appropriations will be adjusted to reflect the costs of such 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

Section 3 would require PHAs and property owners to change the way they calculate income for determining housing assistance. In total, those changes would cost $1.6 billion over the 2010-2019 period, assuming appropriation of the necessary amounts.

Earned Income Disregard. Section 3 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 $9,000 in 2010 dollars. The $9,000 threshold would be inflated each year, rounded down to the nearest multiple of $1,000. Approximately 30 percent of tenants in HUD's rental assistance programs report earned income. The total earned income for those families is about $24 billion each year. Changing the amount disregarded to 10 percent of the first $9,000 of earned income would reduce income (that is counted for purposes of determining housing assistance) by about $1.2 billion, and would lower tenant rent contributions by about $340 million each year. Assuming appropriation of the necessary amounts, CBO estimates that this provision would cost nearly $1.6 billion over the 2010-2014 period. About half of this cost would be for 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 over 9 percent of families (about 460,000) 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 $69 million over the 2010-2014 period.

Changes to Allowances

This bill would change how allowances are used to lower income to determine housing assistance; on net, CBO estimates that implementing these provisions would reduce outlays by $458 million over the 2010-2014 period, assuming appropriation actions consistent with the bill.

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 $1 billion over the 2010-2014 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 2008, CBO estimates that 17 percent of families claim an average allowance of $2,000 each (for a total of $1.6 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 by roughly one third. Assuming that appropriations are reduced accordingly, CBO estimates that implementing this provision would save about $1 billion over the 2010-2014 period.

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 change current law to only allow such families to deduct child care expenses that exceed 10 percent of their annual family income. Based on data provided by HUD, CBO estimates that about 5 percent of assisted families (about 220,000) claim child care allowances of about $3,100 each. Assuming that appropriations are reduced accordingly, CBO estimates that altering the child care allowance would reduce outlays by $530 million over the 2010-2014 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 $106 million over the 2010-2014 period.

Targeting and Eligibility Changes

H.R. 3045 would affect how household income and assets are used to target assistance and determine eligibility. On net, CBO estimates that implementing these provisions would reduce outlays by $458 million over the 2010-2014 period, assuming that appropriations are adjusted accordingly.

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. Currently, 73 percent of the tenant-based population has income below 30 percent of the area median income. Adjusting the targeting limit to include the poverty line would increase the number of tenants below the limit to 77 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 required level, CBO estimates that approximately 50,000 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 $3,300 lower than the families being replaced. Assuming that appropriations are reduced accordingly, CBO estimates that the change in voucher targeting would save $645 million over the 2010-2014 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 73 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.

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 7,200 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 families with average income would cost the government an additional $6,000 each. Assuming appropriation of the necessary amounts, CBO estimates that this provision would cost $187 million over the 2010-2014 period.

Asset Eligibility. Section 4 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 elderly and disabled families as well as all families living in public housing. Based on HUD data, CBO estimates that about 700 families would become ineligible for assistance. Assuming appropriation of the necessary amounts, CBO estimates that this provision would cost $1 million over the 2010-2014 period.

Other Provisions

H.R. 3045 would affect federal housing assistance programs in a number of other ways including an increase in the total number of vouchers issued and a reduction in the percent of household income that some families pay for rent. In total, implementing those changes would cost $6.8 billion over the 2010-2014 period, assuming appropriation of the necessary amounts.

Incremental Vouchers. Section 18 would authorize the appropriation of such sums as are necessary to fund 150,000 new tenant-based vouchers. Based on HUD data, CBO estimates that the average annual cost of a tenant-based voucher is currently about $7,500. 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 150,000 by 2014 would cost $5.8 billion over the 2010-2014 period.

Enhanced Vouchers. Section 16 would require HUD, subject to the availability of appropriated funds, to issue housing vouchers to certain families assisted though the below-market interest rate and interest reduction payment programs upon maturation of a property's HUD insured mortgage. Based on data provided by HUD, CBO estimates that about 40,000 families would become eligible for the enhanced vouchers over the next five years. Assuming appropriation of the necessary amounts, CBO estimates that implementing this provision would cost $734 million over the 2010-2014 period.

Tenant Protection Vouchers. Section 6 would require HUD, subject to the availability of appropriated funds, 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 units that have been occupied within the past 24 months. Over the past five years, HUD has issued an average of 25,000 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 $7,500. Assuming appropriation of the necessary amounts, CBO estimates that implementing this provision would cost $45 million over the 2010-2014 period.

Family Self-Sufficiency Administrative Costs. Section 7 would establish a new formula to calculate fees paid to public housing agencies to cover the costs of employing family self-sufficiency coordinators. Based on data provided by HUD, CBO estimates that approximately 930 coordinators would be funded under the new formula. The average annual full-time compensation for family self-sufficiency coordinators was

$63,000 in 2003. In 2009, $50 million was appropriated for funding family self-sufficiency coordinators. Assuming appropriation of the necessary amounts and adjusting for projected changes in salary over time, CBO estimates that this provision would cost $378 million above the levels currently authorized over the 2010-2014 period.

Additional Provisions. CBO estimates that implementing other provisions of H.R. 3045 would cost a total of $84 million over the 2010-2014 period, assuming appropriation of the authorized amounts. That amount includes:

- $42 million to provide technical assistance to low-income families participating in a PHA's process of developing an annual plan as part of the Housing Innovation Program,
- $19 million to provide enhanced voucher assistance to certain tenants of the New Georgetown Homes development in Boston, MA,
- $10 million for evaluations of PHAs participating in the Housing Innovation Program,
- $8 million for the U.S. Interagency Council on Homelessness, and
- $5 million for an evaluation of the Family Self-Sufficiency Program.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3045 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.

ESTIMATE PREPARED BY:

Federal Costs: Chad Chirico
Impact on State, Local, and Tribal Governments: Lisa Ramirez-Branum
Impact on the Private Sector: Patrick Bernhardt

ESTIMATE APPROVED BY:

Peter H. Fontaine
Assistant Director for Budget Analysis