



June 12, 2014

Kris Cook, CAE  
Executive Director  
National Affordable Housing Management Association (NAHMA)  
400 North Columbus Street, Suite 203  
Alexandria, VA 22314

**Re: *Budgetary Impact of Policy Changes to  
Federal Rental Assistance Policies***

Dear Ms. Cook:

In the attached policy analyses, we have examined the cost impact to the Federal government of policy proposals under consideration by the National Affordable Housing Management Association (NAHMA). These analyses do not attempt to make a judgment on the overall merits of the policy proposals. Instead, they focus on the Federal budget impact. This focus is tied directly to the concepts behind the Statutory Pay-As-You-Go Act of 2010, passed in February 2010, pursuant to which the pay-as-you-go budgeting rules used by Congress from 1990 until 2002 were reinstated. Under this “budget neutrality” framework, where spending decisions must be offset by cuts or revenue elsewhere in the budget, the cost impact of any proposal is a major consideration in evaluating its potential prospects.

Given the tie to Congressional budgeting considerations, these cost analyses are based on the Congressional Budget Office (CBO) scoring and cost estimating procedures. We have replicated, with some simplification, the approach and methods the CBO uses, based on our research regarding the CBO process. Attached to this report is Exhibit A – Methodology, which further details Recap’s procedures.

While the focus of these analyses is the cost implications to the Federal government, Recap has also provided some indication of the financial implications of the proposal on the other key housing stakeholders – the residents and the housing owners and property management agents. The cost estimates are, of course, subject to significant modification as the details of the policy proposals get refined and the implications emerge more clearly. The specific proposals analyzed are the following:

Proposal	Cost Estimate 2014-2023
<p><b>1. Eliminate income-driven interims for mid-year increases in income.</b> This proposal would eliminate the requirement for residents to have interim recertifications after increases in income. Instead, the income increase would be captured at the resident’s annual recertification, and subsidy would be adjusted at that time.</p>	<p>\$1.123 billion <b>cost</b> to the Federal government</p>

- |  |   |
|--|---|
| <p><b>2. Eliminate income-driven interims for mid-year increases in income of less than \$700, and decreases in income of less than \$300.</b><br/> This proposal would eliminate interims on income increases of less than \$700 per month, and income decreases of less than \$300 per month. Any change in income would be captured at the resident's annual recertification, and subsidy would be adjusted at that time.</p> | <p>\$178.1 million<br/> <u>cost</u><br/> to the Federal<br/> government</p> |
| <p><b>3. Eliminate income-driven interims for mid-year increases in income of less than \$500, and decreases in income of less than \$200.</b><br/> This proposal would eliminate interims on income increases of less than \$500 per month, and income decreases of less than \$200 per month. Any change in income would be captured at the resident's annual recertification, and subsidy would be adjusted at that time.</p> | <p>\$74.4 million<br/> <u>cost</u><br/> to the Federal<br/> government</p>  |
| <p><b>4. Eliminate income-driven interims for mid-year increases in income of less than \$400, and decreases in income of less than \$100.</b><br/> This proposal would eliminate interims on income increases of less than \$400 per month, and income decreases of less than \$100 per month. Any change in income would be captured at the resident's annual recertification, and subsidy would be adjusted at that time.</p> | <p>\$59.8 million<br/> <u>cost</u><br/> to the Federal<br/> government</p>  |
| <p><b>5. Eliminate income-driven interims for mid-year increases in income of less than \$200, and decreases in income of less than \$50.</b><br/> This proposal would eliminate interims on income increases of less than \$200 per month, and income decreases of less than \$50 per month. Any change in income would be captured at the resident's annual recertification, and subsidy would be adjusted at that time.</p>   | <p>\$11.4 million<br/> <u>cost</u><br/> to the Federal<br/> government</p>  |

Thank you very much for the opportunity to work on this effort and please don't hesitate to contact me with any questions or concerns.

Sincerely,



Thomas R. Davis  
Senior Vice President

## EXHIBIT A

### COST ESTIMATING METHODOLOGY

The policy analyses attempt to replicate, with some simplification, the methodology used by the Congressional Budget Office (CBO) to score or cost estimate legislative proposals.

In these cases, the analyses are technically cost estimates, not “scoring.” Under the CBO Scoring Guidelines, a “direct,” or mandatory, expenditure is scored. Any expenditure which is discretionary and subject to Congressional appropriations receives a cost estimate, subject to qualifications that the costs can be adjusted by the annual appropriations process.

The CBO also distinguishes between budget authority and outlays. In many cases, this distinction is one of a lag time between when funds are appropriated and when they are actually spent. Recap has determined that this distinction is not relevant at the level of detail of these analyses.

In the housing arena, the CBO employs several global practices which have impacted the cost estimates presented. These include:

- Not making a distinction among residents with the assumption that any new occupancy is going to mirror, in general terms, the income profile of the current occupant, unless the proposal specifically changes eligibility requirements.
- In many cases, relying on a data set provided by HUD which compiles 50058 and 50059 data on residents of assisted housing. In the absence of this data, Recap has attempted to replicate the data set with information from a few NAHMA members.
- Assuming a global inflation factor, often but not exclusively the GDP inflator, unless the facts of the particular situation dictate an alternative structure. Recap has used a 3% inflation factor based on the CPI-U.
- Assuming no differential between income growth and rental revenue growth unless specific situations indicate an alternative assumption is warranted.

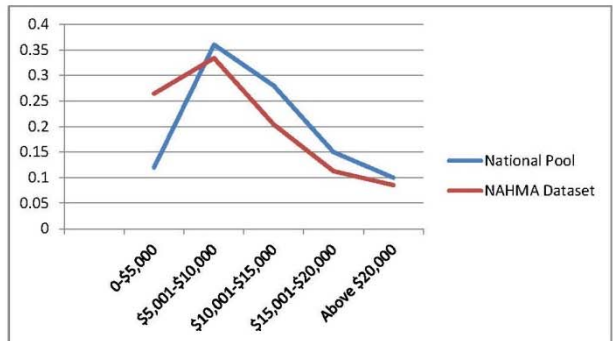
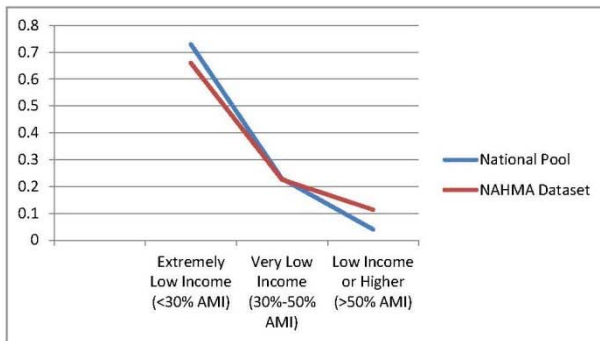
Having built a baseline understanding of the CBO process, from documentary research and interviews with staff at the CBO responsible for housing policy efforts, Recap sought to specify the policy options in sufficient detail to make the cost estimate feasible, practical, and defensible. Recap looked first to guidance from NAHMA staff and a small group of NAHMA members to understand in greater detail the nature of each policy proposal and then, as necessary, made additional assumptions reflected in the notations.

Recap subsequently researched publicly available baseline information regarding variables impacting the policy options in question. Often, the sources were HUD reports, HUD databases, Congressional Research Service reports or other similar governmental publications. When governmental publications did not address the research need, Recap turned to other publicly available data.

When governmental or other publicly available data proved insufficient, Recap supplemented those sources with large sample data sources provided by NAHMA members. The primary large sample data source was data collected from three NAHMA members regarding income, rent and subsidy figures for

units in their own portfolios. This data set includes information about 21,368 assisted households in multifamily assisted housing properties geographically distributed throughout the United States. One of the members was also able to provide data for the same households in two consecutive years, and this data set of almost 11,906 households was particularly relevant for studies of income recertifications and changes in income. As noted above, this data set attempts to replicate the HUD 50059 data which CBO typically uses in its analysis. There are modest differences in income distribution between the sample set and the national pool: on an AMI basis, the NAHMA sample appears to reflect a slightly higher-income pool than the national data, but on a dollar basis, the NAHMA sample appears to reflect a slightly lower-income pool. However, the variations are modest and Recap has assumed that these households are a relatively representative sample of the 1.6 million households in privately owned assisted housing.

	HUD Picture of Subsidized Households for 2012 US Total Section 8 New Construction or Substantial Rehabilitation (including 202/811) <sup>1</sup>	Full NAHMA Data Set
Extremely Low Income (<30% AMI)	75%	66%
Very Low Income (30-50% AMI)	22%	23%
Low Income or Higher (>50% AMI)	3%	11%
\$0-\$5,000 Household Income (HHI)	11%	26%
\$5,001-\$10,000 HHI	35%	33%
\$10,001-\$15,000 HHI	28%	20%
\$15,001-\$20,000 HHI	15%	11%
Above \$20,000 HHI	11%	9%



When publicly available data was unavailable and the issue was not addressed in the large sample data from NAHMA members, Recap used anecdotal data sources. In those instances, Recap attempted to cross-reference the anecdotal information against data from the publicly available information for

<sup>1</sup> Pulled from <http://www.huduser.org/portal/datasets/picture/yearlydata.html#download-tab>.

purposes of a “reality check.” Finally, in some instances, Recap made an assumption which is detailed in the policy notations.

For each policy option, Recap built relatively simple, yet defensible cost estimate models and populated the model with the results of the research. Recap assumed, in all instances, that the policy could be implemented quickly which, while not an achievable schedule, provided simplicity in modeling. Please note that, given the dictates of the computer software, there may be a perception of false precision in some of the backup worksheets.

Recap has provided cost estimates for the policy proposals themselves, but not for transition costs such as drafting, issuing, receiving comment on, and promulgating regulations or modifying computer systems. CBO analyses vary as to whether they include these costs in their estimates. If the legislation being evaluated actually appropriates money to promulgate implementing regulations or develop technology solutions, CBO includes an estimate of these expenses in the cost estimate for the proposal as a whole. If not, the CBO practice is less clear-cut. The policy proposals studied would necessitate regulatory changes, and the cost of those changes would vary based on the complexity of the regulatory reform. For example, the Rental Policy Working Group has estimated that the cost of merging computer systems and aligning standards with respect to the site inspections component is \$1.08 million. As another reference point for the order of magnitude of these costs, CBO estimated that the Environmental Protection Agency spent \$2 million over a three-year period to develop and finalize new emissions standards. As it would be a highly qualitative judgment and as it is not uniformly a part of CBO’s cost estimating protocols, Recap has not included the cost of transition in any of the analyses.

Finally, these analyses do not attempt to make a judgment on the overall merits of the policy proposals. The cost estimates are, of course, subject to significant modification as the details of the policy proposals get refined and the implications emerge more clearly.

**POLICY TO ELIMINATE INTERIM RECERTIFICATIONS FOR  
MID-YEAR INCREASES IN HOUSEHOLD INCOME  
ASSUMPTIONS AND COST ESTIMATE**

Residents recertify their household's eligibility for assistance annually, documenting their income, income deductions and household size. In Section 8 properties, this information determines the resident's rent payment. An interim recertification documents any major mid-year changes to those characteristics. Interim recertifications require significant staff time and often result in only minor changes to tenant-paid rent.

This proposal would allow owners to eliminate interim recertifications if the household income goes up mid-year, which would eliminate mid-year increases in the tenant-paid rent portion. Each household would remain eligible for an interim recertification with a decline in income, which protects the resident from economic hardship. The policy change will result in increased Federal subsidy payments. The policy change will also generate administrative savings to the owners, some of which will flow to the Federal government in connection with budget-based subsidy contracts. Finally, eliminating interim recertifications on increases in income may provide an incentive – or eliminate a perceived disincentive – for residents to increase their earnings. Such an incentive has been explored under the Moving to Work rules implemented by some public housing authorities.

**Cost Estimate and Impact on Stakeholders:**

Recap estimates that implementing this proposal would generate a **net cost to the Federal government of \$1.123 billion** over the 2014-2023 ten-year period. This figure is comprised of a cost to the Federal government of \$1.148 billion over the ten year period of 2014-2023 for the direct subsidy payment, which is modestly offset by an administrative savings to the Federal government of \$24.9 million over the same ten-year period. This estimate assumes that the savings are not redirected elsewhere through appropriations. Enacting this proposal would not affect "direct spending" (i.e., mandatory spending not subject to appropriations review) or revenues. The modeling of the budgetary impact of this proposal is attached.

This proposal would have a significant positive impact on the residents of multifamily assisted housing, as residents would not experience a rent increase when their incomes rise. Any rent increases would occur only annually, in connection with the annual recertification. As a result, the residents would have some period of time – from a few months to almost a year – with additional discretionary income. The benefit to the low-income residents of assisted housing is estimated at \$1.148 billion over the same ten-year period. The residents would also see a reduction in reporting requirements imposed by the owner.

The owners of multifamily assisted housing would see administrative savings of \$125 million over ten years from the implementation of this proposal.

**Key Assumptions and Methodology:**

Recap compared year-on-year income recertification data from a study group of households who were continuously housed in the same units between 2012 and 2013, and who had an interim recertification resulting from a change of income in 2013. One NAHMA member provided certification records for households in its portfolio in 2012 and 12 months later in 2013. This data set included 14,900 certifications in 2012 and 14,904

certifications in 2013. Recap excluded records for households who moved in or out of their unit during the study period, or who were missing a certification from either year. This narrowed the study group to 11,906 households, all of which had income certification data from both years.

In order to control for variables other than income changes, Recap eliminated from the study group households that gained or lost household members between 2012 and 2013 and households which did not experience a change in income. Interim recertifications for those households would be due to other causes and would not be affected by the proposed policy as currently formulated.

The data set yielded 1,357 households with income-based interim recertifications during the 2013 year, or 11.4% of the 11,906 households who were continuously housed in this NAHMA member’s portfolio during the study period. The properties represented in the sample are geographically distributed throughout the United States. Recap believes the variations between this sample set and the national pool of affordable housing renters are sufficiently modest to assume that these households are a relatively representative sample of the 1.6 million households living in privately-owned assisted housing and Recap extrapolated from these figures to the nationwide inventory.

Subsidy Calculation

The 1,357 households with income-based interim recertifications were separated into groups according to the amount of the monthly income change between 2012 and 2013. Recap assumed that all of the income change was captured during the interim recertification, which may slightly overstate the impact of the policy change; if some of the change occurred sufficiently close to the date of the 2013 annual recertification, no interim recertification would be necessary. The interim recertifications were broken down into the following levels of income changes:

	Type and Magnitude of Monthly Income Change	Households in the Study Group	% of All Households	Projected to Estimate Households Nationwide
INCREASE	\$700 +	274	2.3%	38,637
	\$500 – 699	105	0.9%	14,806
	\$400 – 499	47	0.4%	6,628
	\$200 – 399	105	0.9%	14,806
	\$1 – 199	218	1.8%	30,740
DECREASE	\$1 – 49	45	0.4%	6,345
	\$50 – 199	41	0.3%	5,781
	\$100 – 199	63	0.5%	8,884
	\$200 – 299	70	0.6%	9,871
	\$300 +	389	3.3%	54,853
	TOTAL	1,357	11.4%	191,352

Recap calculated the average change in monthly tenant paid rent and in monthly housing assistance subsidy associated with the households within each tier – whether an increase or a decrease in subsidy. As the interim recertifications can occur at any point during the year, Recap assumed that the interim recertifications are evenly distributed between the first and second halves of the year and consequently assumed that the average monthly change in subsidy would, on average, apply for six months of the year until the next annual recertification. Finally, Recap applied the average of the subsidy changes for each level of income change to the number of subsidized

households nationwide. This yielded an estimate of the subsidy cost or savings for each type of interim recertification.

### Administrative Savings Calculation

In addition to the base calculations about rental and subsidy amounts, Recap estimated the cost impact on the Federal government from reduced site administration of the income calculations. By comparing a property's staffing levels, provided by a NAHMA member, before and after the overlay of low-income housing tax credits on a Section 8 property, Recap estimated the cost differential of two income certifications rather than one. Recap used this value as an estimate of what it costs per interim recertification per unit. The administrative cost was estimated at \$120 per interim recertification. Extrapolating this data to the national portfolio based on the projected number of interim recertifications in each analytic grouping, Recap calculated the cost of the interim income recertifications for each scenario.

These administrative savings would flow to the owners of the properties. However, at properties with budget-based rents, there would be an impact on the HUD subsidy levels over time. Recap requested NAHMA working group members to identify how many of their units receive budget-based rents. Out of a sample of over 15,000 units, 33% were under a budget-based rent framework. Consequently, in determining the potential cost/savings implications for HUD, Recap multiplied the total potential owner savings by 33%.

At many budget-based properties under MAHRA, owners can either receive an OCAF rent adjustments or justify the need for a budget-based increase, provided that the rent is not higher than market as determined by a periodic rent comparability study. In practice, this means that owners likely pursue budget based rent increases only when the OCAF factor is lower than the increase in the cost of operations. Administrative savings would mean that owners could not justify the budget based rent increase, and would rely on the OCAF adjustment instead. Recap has assumed that the difference between the OCAF factor and the Consumer Price Index – All Urban Consumers is an appropriate proxy for this comparison. The OCAF formula was recently recalculated, so Recap has compared the OCAF and CPI values for 2010 and 2011. The average OCAF over these two years was 1.75% and the average CPI was 3.32%. Assuming that future years trend along similar tracks, owners and management agents will be incentivized to seek to justify rent increases based on their actual budgets, rather than simply take the OCAF factor.<sup>2</sup>

In calculating the potential cost implications to HUD under this budget-based scenario, Recap discounted the potential cost/savings implications for HUD based on an assumption that 50% of the properties were capped by their market rents, yielding a potential savings at budget-based properties where the potential rent increase was not capped by the market. Recap then compared what an annual OCAF rent adjustment would be against an annual budget-based rent adjustment assuming budgets inflated at the CPI. The difference between these two figures is the potential budget based rent increase which could no longer be justified due to the savings in site operations. The savings reported as accruing to the Federal government is the lesser of this figure or the total potential savings from the intervention.

At some budget-based properties, specifically those subject to "Option 4" under the Section 8 Renewal Policy Guide, the rent adjustment is slightly different – it is the lesser of a) the current rent plus the OCAF factor or b) the budget-based rent. Assuming that the current rent is equal to the current budget, any potential savings from reduced administrative costs would reduce the future budget-based rent and be a direct savings to the Federal

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<sup>2</sup> These figures were the basis for Recap's calculations in the report issued December 13, 2012. As this analysis is a supplement to the earlier analysis and in order to minimize variation between the two analyses, Recap did not update these OCAF and inflation figures.

government. If the current rent is higher than the current budget, then the savings to the Federal government would actually exceed the potential savings from reduced administrative costs.

For purposes of this analysis, both calculations yield the same effect on the HUD subsidy – savings from administrative costs would reduce the budget and either reduce the potential to claim a budget-based increase (under the standard MAHRA calculation) or reduce the actual amount of the budget-based rent under the “lesser of” test (under the Option 4 calculation).

Recap assumed an inflation factor of 3%.

**Eliminate Interim Recertifications for Households with Increases in Income**

By Fiscal Year, in Millions of Dollars

	Data Year											Total Cost/(Savings)	
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2018	2014-2023
Impact on Rent Subsidy	97.2	100.1	103.1	106.2	109.4	112.7	116.1	119.5	123.1	126.8	130.6	531.5	1,147.7
Impact of Administrative Savings	(2.1)	(2.2)	(2.2)	(2.3)	(2.4)	(2.4)	(2.5)	(2.6)	(2.7)	(2.8)	(2.8)	(11.5)	(24.9)
<b>Total</b>	<b>95.1</b>	<b>97.9</b>	<b>100.9</b>	<b>103.9</b>	<b>107.0</b>	<b>110.2</b>	<b>113.5</b>	<b>116.9</b>	<b>120.5</b>	<b>124.1</b>	<b>127.8</b>	<b>520.0</b>	<b>1,122.8</b>
Impact on Residents	(97.2)	(100.1)	(103.1)	(106.2)	(109.4)	(112.7)	(116.1)	(119.5)	(123.1)	(126.8)	(130.6)	(531.5)	(1,147.7)
Impact on Property Owners	(10.6)	(10.9)	(11.2)	(11.5)	(11.9)	(12.2)	(12.6)	(13.0)	(13.4)	(13.8)	(14.2)	(57.8)	(124.7)

**POTENTIAL SUBSIDY IMPACT FROM INCOME-DRIVEN RECERTIFICATIONS**

Type and Magnitude of Monthly Income Change	Study Group	% of All Households	Interims in Assisted Housing Nationwide	Average Change in Monthly Subsidy	Average Change in Annual Subsidy (Assume 6 months)	Change in Federal Subsidy Budget Cost or (Savings)
INCREASE	\$700 +	2.3%	38,637	304	1,827	70,574,513
	\$500 – 699	0.9%	14,806	160	959	14,202,893
	\$400 – 499	0.4%	6,628	108	651	4,311,547
	\$200 – 399	0.9%	14,806	64	382	5,662,713
	\$1 – 199	1.8%	30,740	13	80	2,448,512
	<b>749</b>	<b>6.3%</b>	<b>105,617</b>			<b>97,200,179</b>

**POTENTIAL ADMINISTRATIVE COST IMPACT FROM INCOME-DRIVEN RECERTIFICATIONS**

Type and Magnitude of Monthly Income Change	Study Group	% of All Households	Interims in Assisted Housing Nationwide	(Savings) Per Avoided Interim	(Savings) from Interims Nationwide	(Savings) at Budget-Based Properties (33% of Total)	Administrative (Savings) Which Flow Back to the Federal Govt from Budget-Based Properties
INCREASE	\$700 +	2.3%	38,637	(120)	(4,636,436)	(1,543,933)	(771,967)
	\$500 – 699	0.9%	14,806	(120)	(1,776,737)	(591,653)	(295,827)
	\$400 – 499	0.4%	6,628	(120)	(795,301)	(264,835)	(132,418)
	\$200 – 399	0.9%	14,806	(120)	(1,776,737)	(591,653)	(295,827)
	\$1 – 199	1.8%	30,740	(120)	(3,688,843)	(1,228,385)	(614,192)
	<b>749</b>	<b>6.3%</b>	<b>105,617</b>	<b>(120)</b>	<b>(12,674,054)</b>	<b>(4,220,460)</b>	<b>(2,110,230)</b>

Note: Roughly 33% of the units are estimated to be in properties under budget-based contracts. Of these units, roughly 50% are estimated to be at properties with rents capped at the market. The potential savings to the Federal government stems from reduced subsidy at properties not already capped at the market.

Potential Savings at Budget-Based Properties not Capped by Market (indicated as a negative number, above)	\$	2,110,230
Annual OCAF Rent Increase at Budget Based Properties	\$	91,769,126
Annual Increase at Budget Based Properties if Rise in Expenses Tracks CPI-U	\$	173,939,616
Unjustifiable Budget Based Rent Increase due to Savings	\$	82,170,490
Savings to Federal Government: Lesser of Potential Savings or Unjustifiable Budget Based Rent Increase	\$	2,110,230

**POLICY TO ELIMINATE INTERIM RECERTIFICATIONS FOR MID-YEAR  
INCREASES IN HOUSEHOLD INCOME BELOW \$700 AND DECREASES BELOW \$300,  
INCREASES BELOW \$500 AND DECREASES BELOW \$200,  
INCREASES BELOW \$400 AND DECREASES BELOW \$100, AND  
INCREASES BELOW \$200 AND DECREASES BELOW \$50  
ASSUMPTIONS AND COST ESTIMATE**

Residents recertify their household’s eligibility for assistance annually, documenting their income, income deductions and household size. In Section 8 properties, this information determines the resident’s rent payment. An interim recertification documents any major mid-year changes to those characteristics. Interim recertifications require significant staff time and often result in only minor changes to tenant-paid rent.

This proposal would allow owners to eliminate interim recertifications if the household income changes mid-year and the change, as self-certified by the resident, does not exceed a specified dollar threshold in either direction. The analysis considered four different sets of thresholds – income increases of less than \$700 per month and decreases of less than \$300 per month, income increases of less than \$500 per month and decreases of less than \$200 per month, income increases of less than \$400 per month and decreases of less than \$100 per month, and income increases of less than \$200 per month and decreases of less than \$50 per month. The policy change will also generate administrative savings to the owners, some of which will flow to the Federal government in connection with budget-based subsidy contracts.

**Cost Estimate and Impact on Stakeholders:**

Recap estimates that implementing this proposal would generate a **net cost to the Federal government of between \$11.4 million and \$178.1 million** over the 2014-2023 ten-year period. The differential thresholds for increases and decreases was used as NAHMA determined that decrease thresholds equal to the increase threshold would be overly burdensome on the residents. Under all four scenarios the Federal government’s cost for direct subsidy increases. However, the increased cost is offset by the administrative savings to the Federal government. The specific figures are listed below:

Interim Recertification Increase Threshold	Interim Recertification Decrease Threshold	Cost to Federal Government from Increased Subsidy Payments	(Savings) to Federal Government from Administrative Savings at Budget-Based Properties	Net Cost to the Federal Government
\$700	(\$300)	\$201.2 million	(\$23.1 million)	\$178.1 million
\$500	(\$200)	\$91.7 million	(\$17.3 million)	\$74.4 million
\$400	(\$100)	\$73.4 million	(\$13.6 million)	\$59.8 million
\$100	(\$50)	\$20.1 million	(\$8.7 million)	\$11.4 million

This estimate assumes that the savings are not redirected elsewhere through appropriations. Enacting this proposal would not affect “direct spending” (i.e., mandatory spending not subject to appropriations review) or revenues. The modeling of the budgetary impact of this proposal is attached.

This proposal would have a mixed impact on the residents of multifamily assisted housing. Residents with an increase in income would benefit, but residents who suffered a decrease in income up to the threshold would suffer. The residents would see a reduction in reporting requirements imposed by the owner.

The owners of multifamily assisted housing would see administrative savings of up to \$116 million over ten years from the implementation of this proposal.

### **Key Assumptions and Methodology:**

Recap compared year-on-year income recertification data from a study group of households who were continuously housed in the same units between 2012 and 2013, and who had an interim recertification resulting from a change of income in 2013. One NAHMA member provided certification records for households in its portfolio in 2012 and 12 months later in 2013. This data set included 14,900 certifications in 2012 and 14,904 certifications in 2013. Recap excluded records for households who moved in or out of their unit during the study period, or who were missing a certification from either year. This narrowed the study group to 11,906 households, all of which had income certification data from both years.

In order to control for variables other than income changes, Recap eliminated from the study group households that gained or lost household members between 2012 and 2013 and households which did not experience a change in income. Interim recertifications for those households would be due to other causes and would not be affected by the proposed policy as currently formulated.

The data set yielded 1,357 households with income-based interim recertifications during the 2013 year, or 11.4% of the 11,906 households who were continuously housed in this NAHMA member’s portfolio during the study period. The properties represented in the sample are geographically distributed throughout the United States. Recap believes the variations between this sample set and the national pool of affordable housing renters are sufficiently modest to assume that these households are a relatively representative sample of the 1.6 million households living in privately-owned assisted housing and Recap extrapolated from these figures to the nationwide inventory.

### Subsidy Calculation

The 1,357 households with income-based interim recertifications were separated into groups according to the amount of the monthly income change between 2012 and 2013. Recap assumed that all of the income change was captured during the interim recertification, which may slightly overstate the impact of the policy change; if some of the change occurred sufficiently close to the date of the 2013 annual recertification, no interim recertification would be necessary. The interim recertifications were broken down into the following levels of income changes:

	Type and Magnitude of Monthly Income Change	Households in the Study Group	% of All Households	Projected to Estimate Households Nationwide
INCREASE	\$700 +	274	2.3%	38,637
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	\$400 – 499	47	0.4%	6,628
	\$200 – 399	105	0.9%	14,806
	\$1 – 199	218	1.8%	30,740
DECREASE	\$1 – 49	45	0.4%	6,345
	\$50 – 199	41	0.3%	5,781
	\$100 – 199	63	0.5%	8,884
	\$200 – 299	70	0.6%	9,871
	\$300 +	389	3.3%	54,853
	TOTAL	1,357	11.4%	191,352

Recap calculated the average change in monthly tenant paid rent and in monthly housing assistance subsidy associated with the households within each tier – whether an increase or a decrease in subsidy. As the interim recertifications can occur at any point during the year, Recap assumed that the interim recertifications are evenly distributed between the first and second halves of the year and consequently assumed that the average monthly change in subsidy would, on average, apply for six months of the year until the next annual recertification. Finally, Recap applied the average of the subsidy changes for each level of income change to the number of subsidized households nationwide. This yielded an estimate of the subsidy cost or savings for each type of interim recertification.

#### Administrative Savings Calculation

In addition to the base calculations about rental and subsidy amounts, Recap estimated the cost impact on the Federal government from reduced site administration of the income calculations. By comparing a property’s staffing levels, provided by a NAHMA member, before and after the overlay of low-income housing tax credits on a Section 8 property, Recap estimated the cost differential of two income certifications rather than one. Recap used this value as an estimate of what it costs per interim recertification per unit. The administrative cost was estimated at \$120 per interim recertification. Extrapolating this data to the national portfolio based on the projected number of interim recertifications in each analytic grouping, Recap calculated the cost of the interim income certifications for each scenario.

These administrative savings would flow to the owners of the properties. However, at properties with budget-based rents, there would be an impact on the HUD subsidy levels over time. Recap requested NAHMA working group members to identify how many of their units receive budget-based rents. Out of a sample of over 15,000 units, 33% were under a budget-based rent framework. Consequently, in determining the potential cost/savings implications for HUD, Recap multiplied the total potential owner savings by 33%.

At many budget-based properties under MAHRA, owners can either receive an OCAF rent adjustments or justify the need for a budget-based increase, provided that the rent is not higher than market as determined by a periodic rent comparability study. In practice, this means that owners likely pursue budget based rent increases only when the OCAF factor is lower than the increase in the cost of operations. Administrative savings would mean that

owners could not justify the budget based rent increase, and would rely on the OCAF adjustment instead. Recap has assumed that the difference between the OCAF factor and the Consumer Price Index – All Urban Consumers is an appropriate proxy for this comparison. The OCAF formula was recently recalculated, so Recap has compared the OCAF and CPI values for 2010 and 2011. The average OCAF over these two years was 1.75% and the average CPI was 3.32%. Assuming that future years trend along similar tracks, owners and management agents will be incentivized to seek to justify rent increases based on their actual budgets, rather than simply take the OCAF factor.<sup>3</sup>

In calculating the potential cost implications to HUD under this budget-based scenario, Recap discounted the potential cost/savings implications for HUD based on an assumption that 50% of the properties were capped by their market rents, yielding a potential savings at budget-based properties where the potential rent increase was not capped by the market. Recap then compared what an annual OCAF rent adjustment would be against an annual budget-based rent adjustment assuming budgets inflated at the CPI. The difference between these two figures is the potential budget based rent increase which could no longer be justified due to the savings in site operations. The savings reported as accruing to the Federal government is the lesser of this figure or the total potential savings from the intervention.

At some budget-based properties, specifically those subject to “Option 4” under the Section 8 Renewal Policy Guide, the rent adjustment is slightly different – it is the lesser of a) the current rent plus the OCAF factor or b) the budget-based rent. Assuming that the current rent is equal to the current budget, any potential savings from reduced administrative costs would reduce the future budget-based rent and be a direct savings to the Federal government. If the current rent is higher than the current budget, then the savings to the Federal government would actually exceed the potential savings from reduced administrative costs.

For purposes of this analysis, both calculations yield the same effect on the HUD subsidy – savings from administrative costs would reduce the budget and either reduce the potential to claim a budget-based increase (under the standard MAHRA calculation) or reduce the actual amount of the budget-based rent under the “lesser of” test (under the Option 4 calculation).

Recap assumed an inflation factor of 3%.

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<sup>3</sup> These figures were the basis for Recap’s policy calculations in the report issued December 13, 2012. As this analysis is a supplement to the earlier analysis and in order to minimize variation between the two analyses, Recap did not update these OCAF and inflation figures.

**Eliminate Interim Recertifications for Increases in Household Income of Less Than \$700, Decreases in Household Income of Less than \$300**

By Fiscal Year, in Millions of Dollars

	By Fiscal Year, in Millions of Dollars											Total Cost/(Savings)	
	Data Year 2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2018	2014-2023
Impact on Rent Subsidy	17.0	17.5	18.1	18.6	19.2	19.7	20.3	21.0	21.6	22.2	22.9	93.2	201.2
Impact of Administrative Savings	(2.0)	(2.0)	(2.1)	(2.1)	(2.2)	(2.3)	(2.3)	(2.4)	(2.5)	(2.6)	(2.6)	(10.7)	(23.1)
<b>Total</b>	<b>15.1</b>	<b>15.5</b>	<b>16.0</b>	<b>16.5</b>	<b>17.0</b>	<b>17.5</b>	<b>18.0</b>	<b>18.5</b>	<b>19.1</b>	<b>19.7</b>	<b>20.3</b>	<b>82.5</b>	<b>178.1</b>
Net Impact on Residents	(17.0)	(17.5)	(18.1)	(18.6)	(19.2)	(19.7)	(20.3)	(21.0)	(21.6)	(22.2)	(22.9)	(93.2)	(201.2)
Impact on Property Owners	(9.8)	(10.1)	(10.4)	(10.7)	(11.0)	(11.3)	(11.7)	(12.0)	(12.4)	(12.8)	(13.2)	(53.5)	(115.6)

**POTENTIAL SUBSIDY IMPACT FROM INCOME-DRIVEN RECERTIFICATIONS**

Type and Magnitude of Monthly Income Change	Study Group	% of All Households	Interims in Assisted Housing Nationwide	Average Change in Monthly Subsidy	Average Change in Annual Subsidy (Assume 6 months)	Change in Federal Subsidy Budget Cost or (Savings)
<b>INCREASE</b>						
\$700 +	274					
\$500 – 699	105	0.9%	14,806	160	959	14,202,893
\$400 – 499	47	0.4%	6,628	108	651	4,311,547
\$200 – 399	105	0.9%	14,806	64	382	5,662,713
\$1 – 199	218	1.8%	30,740	13	80	2,448,512
<b>DECREASE</b>						
\$1 – 49	45	0.4%	6,345	(20)	(117)	(742,845)
\$50 – 199	41	0.3%	5,781	(33)	(199)	(1,153,187)
\$100 – 199	63	0.5%	8,884	(52)	(311)	(2,759,864)
\$200 – 299	70	0.6%	9,871	(83)	(500)	(4,933,405)
\$300 +	389					
	<b>1,357</b>	<b>5.8%</b>	<b>97,862</b>			<b>17,036,365</b>

**POTENTIAL ADMINISTRATIVE COST IMPACT FROM INCOME-DRIVEN RECERTIFICATIONS**

Type and Magnitude of Monthly Income Change	Study Group	% of All Households	Interims in Assisted Housing Nationwide	(Savings) Per Avoided Interim	(Savings) from Interims Nationwide	(Savings) at Budget-Based Properties (33% of Total)	Administrative (Savings) Which Flow Back to the Federal Govt from Budget-Based Properties
<b>INCREASE</b>							
\$700 +	274						
\$500 – 699	105	0.9%	14,806	(120)	(1,776,737)	(591,653)	(295,827)
\$400 – 499	47	0.4%	6,628	(120)	(795,301)	(264,835)	(132,418)
\$200 – 399	105	0.9%	14,806	(120)	(1,776,737)	(591,653)	(295,827)
\$1 – 199	218	1.8%	30,740	(120)	(3,688,843)	(1,228,385)	(614,192)
<b>DECREASE</b>							
\$1 – 49	45	0.4%	6,345	(120)	(761,459)	(253,566)	(126,783)
\$50 – 199	41	0.3%	5,781	(120)	(693,773)	(231,027)	(115,513)
\$100 – 199	63	0.5%	8,884	(120)	(1,066,042)	(354,992)	(177,496)
\$200 – 299	70	0.6%	9,871	(120)	(1,184,491)	(394,436)	(197,218)
\$300 +	389						
	<b>1,357</b>	<b>5.8%</b>	<b>97,862</b>	<b>(120)</b>	<b>(11,743,382)</b>	<b>(3,910,546)</b>	<b>(1,955,273)</b>

Note: Roughly 33% of the units are estimated to be in properties under budget-based contracts. Of these units, roughly 50% are estimated to be at properties with rents capped at the market. The potential savings to the Federal government stems from reduced subsidy at properties not already capped at the market.

Potential Savings at Budget-Based Properties not Capped by Market (indicated as a negative number, above)	\$ 1,955,273
Annual OCAF Rent Increase at Budget Based Properties	\$ 91,769,126
Annual Increase at Budget Based Properties if Rise in Expenses Tracks CPI-U	\$ 173,939,616
Unjustifiable Budget Based Rent Increase due to Savings	\$ 82,170,490
Savings to Federal Government: Lesser of Potential Savings or Unjustifiable Budget Based Rent Increase	\$ 1,955,273

**Eliminate Interim Recertifications for Increases in Household Income of Less Than \$500, Decreases in Household Income of Less than \$200**

By Fiscal Year, in Millions of Dollars

	Data Year											Total Cost/(Savings)	
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2018	2014-2023
Impact on Rent Subsidy	7.8	8.0	8.2	8.5	8.7	9.0	9.3	9.6	9.8	10.1	10.4	42.5	91.7
Impact of Administrative Savings	(1.5)	(1.5)	(1.6)	(1.6)	(1.6)	(1.7)	(1.7)	(1.8)	(1.9)	(1.9)	(2.0)	(8.0)	(17.3)
<b>Total</b>	<b>6.3</b>	<b>6.5</b>	<b>6.7</b>	<b>6.9</b>	<b>7.1</b>	<b>7.3</b>	<b>7.5</b>	<b>7.8</b>	<b>8.0</b>	<b>8.2</b>	<b>8.5</b>	<b>34.5</b>	<b>74.4</b>
Net Impact on Residents	(7.8)	(8.0)	(8.2)	(8.5)	(8.7)	(9.0)	(9.3)	(9.6)	(9.8)	(10.1)	(10.4)	(42.5)	(91.7)
Impact on Property Owners	(7.3)	(7.5)	(7.8)	(8.0)	(8.2)	(8.5)	(8.7)	(9.0)	(9.3)	(9.6)	(9.8)	(40.0)	(86.4)

**POTENTIAL SUBSIDY IMPACT FROM INCOME-DRIVEN RECERTIFICATIONS**

Type and Magnitude of Monthly Income Change	Study Group	% of All Households	Interims in Assisted Housing Nationwide	Average Change in Monthly Subsidy	Average Change in Annual Subsidy (Assume 6 months)	Change in Federal Subsidy Budget Cost or (Savings)
INCREASE	\$700 +	274				
	\$500 – 699	105				
	\$400 – 499	47	0.4%	6,628	108	4,311,547
	\$200 – 399	105	0.9%	14,806	64	5,662,713
	\$1 – 199	218	1.8%	30,740	13	2,448,512
DECREASE	\$1 – 49	45	0.4%	6,345	(20)	(742,845)
	\$50 – 199	41	0.3%	5,781	(33)	(1,153,187)
	\$100 – 199	63	0.5%	8,884	(52)	(2,759,864)
	\$200 – 299	70				
	\$300 +	389				
	1,357	4.4%	73,185			7,766,877

**POTENTIAL ADMINISTRATIVE COST IMPACT FROM INCOME-DRIVEN RECERTIFICATIONS**

Type and Magnitude of Monthly Income Change	Study Group	% of All Households	Interims in Assisted Housing Nationwide	(Savings) Per Avoided Interim	(Savings) from Interims Nationwide	(Savings) at Budget-Based Properties (33% of Total)	Administrative (Savings) Which Flow Back to the Federal Govt from Budget-Based Properties	
INCREASE	\$700 +	274						
	\$500 – 699	105						
	\$400 – 499	47	0.4%	6,628	(120)	(795,301)	(264,835)	(132,418)
	\$200 – 399	105	0.9%	14,806	(120)	(1,776,737)	(591,653)	(295,827)
	\$1 – 199	218	1.8%	30,740	(120)	(3,688,843)	(1,228,385)	(614,192)
DECREASE	\$1 – 49	45	0.4%	6,345	(120)	(761,459)	(253,566)	(126,783)
	\$50 – 199	41	0.3%	5,781	(120)	(693,773)	(231,027)	(115,513)
	\$100 – 199	63	0.5%	8,884	(120)	(1,066,042)	(354,992)	(177,496)
	\$200 – 299	70						
	\$300 +	389						
	1,357	4.4%	73,185	(120)	(8,782,155)	(2,924,458)	(1,462,229)	

Note: Roughly 33% of the units are estimated to be in properties under budget-based contracts. Of these units, roughly 50% are estimated to be at properties with rents capped at the market. The potential savings to the Federal government stems from reduced subsidy at properties not already capped at the market.

Potential Savings at Budget-Based Properties not Capped by Market (indicated as a negative number, above)	\$ 1,462,229
Annual OCAF Rent Increase at Budget Based Properties	\$ 91,769,126
Annual Increase at Budget Based Properties if Rise in Expenses Tracks CPI-U	\$ 173,939,616
Unjustifiable Budget Based Rent Increase due to Savings	\$ 82,170,490
Savings to Federal Government: Lesser of Potential Savings or Unjustifiable Budget Based Rent Increase	\$ 1,462,229

**Eliminate Interim Recertifications for Increases in Household Income of Less Than \$400, Decreases in Household Income of Less than \$100**

By Fiscal Year, in Millions of Dollars

	Data Year											Total Cost/(Savings)	
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2018	2014-2023
Impact on Rent Subsidy	6.2	6.4	6.6	6.8	7.0	7.2	7.4	7.6	7.9	8.1	8.4	34.0	73.4
Impact of Administrative Savings	(1.2)	(1.2)	(1.2)	(1.3)	(1.3)	(1.3)	(1.4)	(1.4)	(1.5)	(1.5)	(1.5)	(6.3)	(13.6)
<b>Total</b>	<b>5.1</b>	<b>5.2</b>	<b>5.4</b>	<b>5.5</b>	<b>5.7</b>	<b>5.9</b>	<b>6.0</b>	<b>6.2</b>	<b>6.4</b>	<b>6.6</b>	<b>6.8</b>	<b>27.7</b>	<b>59.8</b>
Net Impact on Residents	(6.2)	(6.4)	(6.6)	(6.8)	(7.0)	(7.2)	(7.4)	(7.6)	(7.9)	(8.1)	(8.4)	(34.0)	(73.4)
Impact on Property Owners	(5.8)	(5.9)	(6.1)	(6.3)	(6.5)	(6.7)	(6.9)	(7.1)	(7.3)	(7.5)	(7.8)	(31.5)	(68.1)

**POTENTIAL SUBSIDY IMPACT FROM INCOME-DRIVEN RECERTIFICATIONS**

Type and Magnitude of Monthly Income Change	Study Group	% of All Households	Interims in Assisted Housing Nationwide	Average Change in Monthly Subsidy	Average Change in Annual Subsidy (Assume 6 months)	Change in Federal Subsidy Budget Cost or (Savings)
INCREASE	\$700 +	274				
	\$500 – 699	105				
	\$400 – 499	47				
	\$200 – 399	105	0.9%	14,806	64	382
	\$1 – 199	218	1.8%	30,740	13	80
DECREASE	\$1 – 49	45	0.4%	6,345	(20)	(117)
	\$50 – 199	41	0.3%	5,781	(33)	(199)
	\$100 – 199	63				
	\$200 – 299	70				
	\$300 +	389				
	1,357	3.4%	57,673			6,215,194

**POTENTIAL ADMINISTRATIVE COST IMPACT FROM INCOME-DRIVEN RECERTIFICATIONS**

Type and Magnitude of Monthly Income Change	Study Group	% of All Households	Interims in Assisted Housing Nationwide	(Savings) Per Avoided Interim	(Savings) from Interims Nationwide	(Savings) at Budget-Based Properties (33% of Total)	Administrative (Savings) Which Flow Back to the Federal Govt from Budget-Based Properties
INCREASE	\$700 +	274					
	\$500 – 699	105					
	\$400 – 499	47					
	\$200 – 399	105	0.9%	14,806	(120)	(1,776,737)	(591,653)
	\$1 – 199	218	1.8%	30,740	(120)	(3,688,843)	(1,228,385)
DECREASE	\$1 – 49	45	0.4%	6,345	(120)	(761,459)	(253,566)
	\$50 – 199	41	0.3%	5,781	(120)	(693,773)	(231,027)
	\$100 – 199	63					
	\$200 – 299	70					
	\$300 +	389					
	1,357	3.4%	57,673	(120)	(6,920,812)	(2,304,630)	(1,152,315)

Note: Roughly 33% of the units are estimated to be in properties under budget-based contracts. Of these units, roughly 50% are estimated to be at properties with rents capped at the market. The potential savings to the Federal government stems from reduced subsidy at properties not already capped at the market.

Potential Savings at Budget-Based Properties not Capped by Market (indicated as a negative number, above)	\$ 1,152,315
Annual OCAF Rent Increase at Budget Based Properties	\$ 91,769,126
Annual Increase at Budget Based Properties if Rise in Expenses Tracks CPI-U	\$ 173,939,616
Unjustifiable Budget Based Rent Increase due to Savings	\$ 82,170,490
Savings to Federal Government: Lesser of Potential Savings or Unjustifiable Budget Based Rent Increase	\$ 1,152,315

**Eliminate Interim Recertifications for Increases in Household Income of Less Than \$200, Decreases in Household Income of Less than \$50**

By Fiscal Year, in Millions of Dollars

	Data Year											Total Cost/(Savings)	
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2018	2014-2023
Impact on Rent Subsidy	1.7	1.8	1.8	1.9	1.9	2.0	2.0	2.1	2.2	2.2	2.3	9.3	20.1
Impact of Administrative Savings	(0.7)	(0.8)	(0.8)	(0.8)	(0.8)	(0.9)	(0.9)	(0.9)	(0.9)	(1.0)	(1.0)	(4.1)	(8.7)
<b>Total</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>	<b>1.3</b>	<b>1.3</b>	<b>5.3</b>	<b>11.4</b>
Net Impact on Residents	(1.7)	(1.8)	(1.8)	(1.9)	(1.9)	(2.0)	(2.0)	(2.1)	(2.2)	(2.2)	(2.3)	(9.3)	(20.1)
Impact on Property Owners	(3.7)	(3.8)	(3.9)	(4.1)	(4.2)	(4.3)	(4.4)	(4.6)	(4.7)	(4.8)	(5.0)	(20.3)	(43.8)

**POTENTIAL SUBSIDY IMPACT FROM INCOME-DRIVEN RECERTIFICATIONS**

Type and Magnitude of Monthly Income Change	Study Group	% of All Households	Interims in Assisted Housing Nationwide	Average Change in Monthly Subsidy	Average Change in Annual Subsidy (Assume 6 months)	Change in Federal Subsidy Budget Cost or (Savings)	
INCREASE	\$700 +	274					
	\$500 – 699	105					
	\$400 – 499	47					
	\$200 – 399	105					
	\$1 – 199	218	1.8%	30,740	13	80	2,448,512
DECREASE	\$1 – 49	45	0.4%	6,345	(20)	(117)	(742,845)
	\$50 – 199	41					
	\$100 – 199	63					
	\$200 – 299	70					
	\$300 +	389					
	1,357	2.2%	37,086			1,705,667	

**POTENTIAL ADMINISTRATIVE COST IMPACT FROM INCOME-DRIVEN RECERTIFICATIONS**

Type and Magnitude of Monthly Income Change	Study Group	% of All Households	Interims in Assisted Housing Nationwide	(Savings) Per Avoided Interim	(Savings) from Interims Nationwide	(Savings) at Budget-Based Properties (33% of Total)	Administrative (Savings) Which Flow Back to the Federal Govt from Budget-Based Properties	
INCREASE	\$700 +	274						
	\$500 – 699	105						
	\$400 – 499	47						
	\$200 – 399	105						
	\$1 – 199	218	1.8%	30,740	(120)	(3,688,843)	(1,228,385)	(614,192)
DECREASE	\$1 – 49	45	0.4%	6,345	(120)	(761,459)	(253,566)	(126,783)
	\$50 – 199	41						
	\$100 – 199	63						
	\$200 – 299	70						
	\$300 +	389						
	1,357	2.2%	37,086	(120)	(4,450,302)	(1,481,951)	(740,975)	

Note: Roughly 33% of the units are estimated to be in properties under budget-based contracts. Of these units, roughly 50% are estimated to be at properties with rents capped at the market. The potential savings to the Federal government stems from reduced subsidy at properties not already capped at the market.

Potential Savings at Budget-Based Properties not Capped by Market (indicated as a negative number, above)	\$ 740,975
Annual OCAF Rent Increase at Budget Based Properties	\$ 91,769,126
Annual Increase at Budget Based Properties if Rise in Expenses Tracks CPI-U	\$ 173,939,616
Unjustifiable Budget Based Rent Increase due to Savings	\$ 82,170,490
Savings to Federal Government: Lesser of Potential Savings or Unjustifiable Budget Based Rent Increase	\$ 740,975