To: Interested Parties

From: Will Fischer and Barbara Sard, Center on Budget and Policy Priorities

Re: **Renters' Credit Income Targeting**

Date: May 3, 2013

CBPP has proposed a new capped state-administered federal tax credit to help low-income renters afford housing. (For additional information on the proposal, see www.cbpp.org/rentercredit.) This memo discusses the income targeting framework we have proposed for the credit, and explains our decision to modify our original proposal to require a lower overall eligibility limit in some low-income counties.

Overview of Renters' Credit Targeting Framework

The renters' credit is designed to help the neediest low-income households, while also giving states a flexible tool to advance a range of policy priorities. To balance these goals, we have proposed a two-tiered income targeting framework, under which states would have to ensure that:

1. At least 75 percent of families assisted through the credit have incomes below a *deep targeting limit* at the higher of 30 percent of the local median income or 100 percent of the federal poverty guideline; and

2. All families assisted have incomes below an *overall eligibility limit* at the higher of 60 percent of median income or 150 percent of the poverty line.

Both limits would apply only when a family is first assisted under the credit. There would be no ongoing eligibility limit, but the credit formula would typically phase credits out at modest incomes.

This approach is supported by data showing that renters who pay large shares of their income for housing are heavily concentrated below the proposed deep targeting limit, but that there is also a significant population with high cost burdens between the deep targeting and overall eligibility limits. According to the American Housing Survey, 74 percent of renter households that paid more than half of their income for housing in 2011 had incomes below the higher of 30 percent of median income or the poverty line. Another 23 percent had incomes above that level, but below the higher of 60 percent of median or 150 percent of the poverty line.

Our proposed deep targeting limit is identical to the limit that the Administration's fiscal year 2014 budget and several bipartisan bills have proposed for use in HUD's rental assistance programs. Today, 75 percent of admissions to the Section 8 voucher program and 40 percent of admissions to public housing and project-based Section 8 are targeted on families with incomes not exceeding 30 percent of the local median income. Under the proposed change, the targeting levels in the rental assistance programs would rise to the higher of 30 percent of median income or the poverty line.

This is intended to address concerns that in the lowest-income areas targeting assistance below 30 percent of the local median impedes efforts to help working poor families. For example, in the poorest counties in Mississippi, 30 percent of median income for a three-person family is $11,350, just 75 percent of the earnings of someone working 40 hours a week at the minimum wage. A floor at the poverty line would raise the three-person targeting level in those counties to $19,530.

Rationale for Lowering Floor on Eligibility Limit to 150 Percent of Poverty

Our initial July 2012 version of the renters' credit proposal included an overall eligibility limit at the higher of 60 percent of median income or 200 percent of the poverty line. We proposed a floor at 200 percent of the poverty line (rather than simply setting the limit at 60 percent of median income) to ensure that states consistently have some flexibility to assist families with incomes modestly above the deep targeting limit. In a significant number of counties, 60 percent of median income is close to or even below the poverty line, so an overall eligibility limit at 60 percent of median with no poverty-based adjustment would not have achieved this goal.

On closer examination, however, there are significant drawbacks to raising the limit all the way to 200 percent of poverty ($39,060 for a family of three) in low-income areas. Doing so would extend eligibility to many families who are unlikely to face severe housing cost burdens. In 2011, just over 1 million renter households had incomes above 60 percent of the local median income and below 200 percent of the poverty line, but only 3 percent of these households paid more than half of their income for housing. By comparison, 67 percent of households with incomes below our proposed deep targeting limit and 25 percent of households with incomes between the deep targeting limit and 60 percent of median paid more than half of their income for housing.

In addition, an eligibility limit at 200 percent of the poverty line would be quite high compared to the median income in some areas. In more than 1,000 counties around the country, 200 percent of the poverty line for a family of three exceeds 80 percent of median income, the upper limit for eligibility under most HUD rental assistance programs. An eligibility limit at that level would mean that the renters' credit would expand eligibility for rental assistance up the income scale, rather than focusing on lower-income families that the existing programs target but cannot reach due to funding limitations.

An eligibility limit at the higher of 150 percent of the poverty line ($29,295 for a family of three) or 60 percent of the local median would strike a better balance between the goals of state flexibility and need-based targeting. As shown in the attached table, this approach would raise the three-person eligibility limit above 60 percent of median in 35 percent of the nation's counties. In the poorest counties, the increase would be sizeable, exceeding $3,000 in portions of 15 states.

Yet the increase would rarely raise eligibility above 80 percent of the local median income, and nationally it would do little to divert assistance away from the neediest families. Overall, extending eligibility to households with income above 60 percent of median but below 150 percent of the poverty line would make just 129,000 additional renter households of any size eligible, and raise the national average income limit for a family of three (weighted by the number of renter households in a county) by only $242.

A third alternative would have been to set the eligibility limit at the higher of 60 percent of the local median income or 60 percent of the national non-metropolitan median income. This approach, which is used to set income limits for "9 percent" Low-Income Housing Tax Credit projects in rural areas, would set eligibility levels close to the higher of 60 percent of the local median or 150 percent of poverty on average (though somewhat higher for small families and lower for large families). But incorporating the national non-metropolitan median income into eligibility calculations would also create some added complexity. Setting a floor at 150 percent of the poverty line instead, as we propose, has the advantage of be similar conceptually to the floor on the deep targeting level at 100 percent of poverty, making the targeting framework as a whole more consistent and easier to understand.

Impact of Extending Renters' Credit Eligibility to Households with Incomes Above 60 Percent of Area Median Income (AMI) but Below 150 Percent of Federal Poverty Line				
State	Share of Counties Where 150% of Poverty Line Exceeds 60% of AMI for a 3-Person Family[1]	60% of AMI for a 3-Person Family, Statewide Weighted Average[2]	Higher of 150% of Poverty Line or 60% of AMI Level for a 3-Person Family, Statewide Weighted Average[3]	Renter Households of Any Size with Incomes Above 60% of AMI but Below 150% of Poverty Line[4]
Total	**35%**	**$37,978**	**$38,220**	**128,857**
Alabama	70%	$30,263	$31,444	3,454
Alaska	0%	$45,252	$45,252	0
Arizona	60%	$32,832	$33,082	4,628
Arkansas	85%	$28,508	$30,652	7,157
California	0%	$43,508	$43,508	6,567
Colorado	0%	$40,615	$40,615	362
Connecticut	0%	$48,498	$48,498	0
Delaware	0%	$39,634	$39,634	0
District of Columbia	0%	$57,960	$57,960	0
Florida	40%	$32,948	$33,132	7,063
Georgia	67%	$32,428	$33,229	9,974
Hawaii	0%	$49,953	$49,953	257
Idaho	52%	$30,894	$31,219	1,353
Illinois	0%	$38,237	$38,237	593
Indiana	27%	$32,913	$33,008	1,081
Iowa	0%	$36,223	$36,223	517
Kansas	0%	$34,557	$34,557	491
Kentucky	67%	$30,785	$32,002	4,811
Louisiana	55%	$31,136	$31,755	3,983
Maine	50%	$34,455	$34,579	770
Maryland	0%	$50,236	$50,236	0
Massachusetts	0%	$47,996	$47,996	0
Michigan	52%	$33,866	$33,970	1,796
Minnesota	0%	$41,178	$41,178	842
Mississippi	85%	$27,191	$29,776	7,689
Missouri	66%	$33,886	$34,499	5,164
Montana	0%	$32,919	$32,919	391
Nebraska	0%	$36,002	$36,002	106
Nevada	0%	$35,572	$35,572	202

State	Share of Counties Where 150% of Poverty Line Exceeds 60% of AMI for a 3-Person Family[1]	60% of AMI for a 3-Person Family, Statewide Weighted Average[2]	Higher of 150% of Poverty Line or 60% of AMI Level for a 3-Person Family, Statewide Weighted Average[3]	Renter Households of Any Size with Incomes Above 60% of AMI but Below 150% of Poverty Line[4]
New Hampshire	0%	$43,184	$43,184	0
New Jersey	0%	$47,253	$47,253	0
New Mexico	73%	$30,962	$32,220	3,569
New York	0%	$44,955	$44,955	667
North Carolina	60%	$31,986	$32,648	7,548
North Dakota	0%	$37,590	$37,590	0
Ohio	36%	$33,689	$33,774	3,275
Oklahoma	60%	$30,736	$31,250	2,827
Oregon	42%	$34,040	$34,184	1,780
Pennsylvania	0%	$37,251	$37,251	1,043
Rhode Island	0%	$39,691	$39,691	0
South Carolina	61%	$30,575	$31,397	3,204
South Dakota	0%	$34,576	$34,576	355
Tennessee	74%	$30,526	$31,518	8,637
Texas	58%	$33,979	$34,254	22,578
Utah	0%	$36,376	$36,376	1,387
Vermont	0%	$37,863	$37,863	0
Virginia	27%	$43,335	$43,487	770
Washington	0%	$40,512	$40,512	654
West Virginia	75%	$29,675	$31,139	1,264
Wisconsin	0%	$37,174	$37,174	47
Wyoming	0%	$40,770	$40,770	0

Sources:
[1] 2013 Federal Poverty Guidelines and HUD Section 8 income limits.
[2] 2013 HUD Section 8 income limits, weighted by number of renter households according to 2010 Census data.
[3] 2013 Federal Poverty Guidelines and HUD Section 8 income limits, weighted by number of renter households according to 2010 Census data.
[4] 2011 Federal Poverty Guidelines, HUD Section 8 income limits, and American Community Survey data on family income levels.