NAHMAnalysis
NATIONAL AFFORDABLE HOUSING MANAGEMENT ASSOCIATION

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March 30, 2018 NAHMAnalysis 2018-0330

Affordable Housing and Community Development Programs: Appropriations for Fiscal Year 2018

Background

On Friday, March 23rd, Congress enacted legislation to fund the federal government through Fiscal Year 2018, significantly boosting affordable housing and community development programs. Following months of spending negotiations – including a series of short-term stopgap measures and two temporary shutdowns since the start of the fiscal year in October – deliberations for the $1.3 trillion spending bill culminated in the Senate's 65-32 vote early Friday morning, followed by the President's signature in the afternoon. The House vote on final passage was 256 – 167.

By raising funding levels for both HUD and USDA affordable housing programs and approving provisions to strengthen the Housing Credit, the bipartisan appropriations bill represents a win for NAHMA, the affordable housing industry, and the communities we all serve. This NAHMAnalysis examines funding and policy provisions for affordable housing programs in the Fiscal Year 2018 omnibus bill, and provides an outlook for Fiscal Year 2019.

1. LIHTC provisions in the Fiscal Year 2018 Appropriations Act

The FY18 omnibus bill includes two key provisions from the Affordable Housing Credit Improvement Act (S. 548 / H.R. 1661), a bipartisan bill that NAHMA strongly supports:

- 12.5 percent increase in Housing Credit allocation for four years
- Permanent authorization of income-averaging

The enactment of these provisions comes at a critical time: The country's affordable housing crisis is expected to be exacerbated by the effects of a recently lowered corporate tax rate on Housing Credit investment. As the first credit allocation increase in ten years, the 12.5% expansion for years 2018-2021 could help offset – although not fully make up for – the projected decline in Housing Credit equity as a result of tax reform. If not extended by Congress beyond the four years, the allocation will revert to the current level after 2021.

In addition, income-averaging is made permanent by the bill, allowing the 60% Area Median Income (AMI) ceiling to apply to the average of all units in a project, rather than to each individual Housing Credit apartment. The adjustment allows for more flexibility to serve a range of low-income households: Under the income-averaging option, Credit-qualified units can serve households earning up to 80% of AMI, offsetting deeper targeting in units serving extremely low- and very low-income households.

NAHMA members have voiced strong support for the Affordable Housing Credit Improvement Act to lawmakers in Washington; the bill, spearheaded by Senators Cantwell (D-WA) and Hatch (R-UT), Representatives Curbelo (R-FL) and Neal (D-MA), and former Representative Tiberi (R-OH), strengthens and expands the Housing Credit program at a time when more than 11 million households across the country pay more than half of their income on rent.

Since its first introduction in 2016, the Affordable Housing Credit Improvement Act has gained the support of more than 180 bipartisan Members of Congress. While there are other important provisions in the bill that NAHMA continues to support, the enactment of these key provisions is a critical step.

2. Appropriations for HUD's Affordable Housing Programs

With a roughly 10% agency-wide funding increase for HUD, the FY18 omnibus provides increased funding levels for nearly all of HUD's affordable housing and community development programs. After industry-wide opposition to the President's Budget Request for this fiscal year, which had proposed funding levels insufficient to renew Section 8 contracts and eliminated funding for certain community development programs, NAHMA welcomes the much-needed boost for Project-based Rental Assistance (PBRA) and other programs outlined below.

Project-Based Rental Assistance (PBRA)

The omnibus bill provides $11.515 billion for project-based rental assistance (PBRA), an 8% increase over FY17 that is sufficient to renew all contracts, as well as an additional $400 million available beginning on October 1, 2018. The bill provides $285 million for PBCA oversight, a $50 million increase over FY17.

Regarding HUD's recent cancellation of its HAP Contract National Support Services and HAP Contract Regional Support Services solicitations (HAPNSS and HAPRSS, also known as the PBCA rebid), the bill's report includes the following language:

> The House and Senate Committees on Appropriations find such action appropriation. In keeping with the Administration's direction, the [omnibus] agreement supports the cancellation of these solicitations for the remainder of the fiscal year. In addition, the agreement directs the Department to report to the House and Senate Committees on Appropriations within 90 days of enactment of this Act on the staffing and funding requirements…that would be necessary to undertake and oversee a state-by-state contracting methodology, as compared to the cancelled proposals.

NAHMA continues to monitor the PBCA process closely and expects updates from HUD before the end of the fiscal year. Current PBCA contracts will continue in the meantime.

The bill continues to allow private owners of PBRA properties to make Family Self-Sufficiency (FSS) programs available to residents; the bill maintains funding of the FSS program at $75 million and allows multifamily owners to use funding from residual receipts to hire program coordinators.

Housing and Urban Development Fiscal Year 2018 Appropriations Act ($ in millions)			
HUD Affordable Housing and Community Development Programs	**FY17 Enacted**	**FY18 Enacted**	**Percent Change**
Tenant-Based Rental Assistance	20,292	**22,015**	+8%
Contract Renewals	*18,355*	***19,600***	+6%
Project-Based Rental Assistance	10,622	**11,515**	+8%
Housing for the Elderly (Section 202)	502	**678**	+35%
Capital Advance	*10*	***105***	+950%
Service Coordinators	*75*	***90***	+20%
Supportive Housing for Persons with Disabilities (Section 811)	146	**230**	+57%
Capital Advance		***83***	New funding
Community Development Fund	3,000	**3,365**	+12%
HOME	950	**1,362**	+43%

Tenant-Based Rental Assistance – Housing Choice Vouchers (HCV)

The omnibus spending bill provides $22.015 billion for tenant-based rental assistance (or Housing Choice Vouchers, HCV), which represents an 8% increase over FY17 enacted levels and significantly more than requested by the Administration. The increased funding provides $19,600 billion for voucher renewals and also adds new vouchers for specific purposes, including Tenant Protection Vouchers, Veterans Affairs Supportive Housing (VASH), Tribal HUD-VASH, and the Family Unification Program. Section 811 mainstream vouchers see the biggest increase in funding for new vouchers ($505 million in FY18 compared with $120 million in FY17).

Physical Inspections

As with FY17, the omnibus includes language requiring HUD to take actions against property owners who do not maintain decent, safe, and sanitary properties. The bill continues the new 15-day period for owners to correct deficiencies on properties receiving a UPCS score of 60 or less (or a 3-day period for properties with Exigent Health and Safety deficiencies); if violations remain, HUD will issue to the owner a "Notice of Default with a specified timetable…for correcting all deficiencies."

In these instances, the bill again authorizes HUD to replace the property's management agent with one approved by HUD; impose civil monetary penalties; change HUD's contract with the property owner until the problem is resolved; transfer the property or contract to a new owner; relocate tenants; and other actions.

Lastly, the bill also requires HUD to report to Congress quarterly on properties that receive deficient or unsatisfactory REAC or MOR scores, a deviation from FY17. The report is to include HUD's enforcement and improvement plans for the properties, as well as any actions taken to protect the properties' tenants.

Housing for the Elderly, Section 202

HUD Section 202, Housing for the Elderly, received $678 million, a striking 35% increase over FY17. Much of the increase ($105 million) is allotted for new capital advances and project-based rental assistance awards, compared with just $10 million for new construction in FY17, which represented the first funding for new construction in the 202 program since FY11.

The bill also increases funding for service coordinators to $90 million (compared with $75 in FY17) and allows Section 202 Project Rental Assistance Contracts (PRAC) properties to convert under the Rental Assistance Demonstration. NAHMA advocated for each of these improvements to the 202 program and applauds the much-needed support for elderly housing.

Housing for Persons with Disabilities, Section 811

Similar to Section 202, HUD Section 811 receives significant capital advance funding ($82.6 million) under the omnibus bill. Overall, the program funding is increased from $146 million in FY17 to $229.6 million in FY18, an increase of 57%.

HOME Investment Partnerships Program and the Community Development Fund

After being targeted for elimination under the President's FY18 Budget Request, both the HOME and Community Development Block Grant (CDBG) programs received a significant funding boost under the omnibus spending bill: Funding for HOME was increased to $1.362 billion – a 43% increase over FY17 and the highest funding level for the program in seven years – with a continued suspension of the 24-month funding commitment deadline, which had previously led to funding being lost.

The bill increases funding for the Community Development Fund by 12% to a new total of $3.365 billion, of which $3.3 billion is for CDBG formula funding and $65 million for Indian tribes. The bill language also encourages HUD to continue using zip code-level data for calculating the most impacted areas and distressed communities under the Community Development Block Grant – Disaster Recovery (CDBG-DR) program, a method that has been criticized as too far removed to capture certain demographics.

Public Housing Capital Fund

The omnibus includes new resources to help public housing address the backlog of capital repairs through a 42% increase in the Public Housing Capital Fund; the total amount of $2.75 billion includes $22 million for Emergency/Disaster Grants, and $15 million for the Jobs Plus program. The Public Housing Operating Fund was also increased to $4.55 billion, compared to $4.4 billion in FY17.

Fair Housing

While funding for HUD's Office of Fair Housing and Equal Opportunity is maintained at $65 million, the omnibus bill prohibits HUD from directing local governments to undertake specifies changes to existing zoning laws as a result of the Affirmatively Furthering Fair Housing rule or notice.

Other Notable Housing Provisions

The omnibus consolidates HUD's two lead hazard reduction funding programs into a single grant program, providing $230 million for lead hazard control (of which $45 million is available for the healthy homes initiative). The 59% increase over FY17 underscores lead hazard mitigation as a priority for Secretary Carson.

For the Rental Assistance Demonstration (RAD) Program, the cap on units that can convert under RAD is more than doubled (from 225,000 to 455,000 units) and the program's sunset date is extended to 2024; in addition, the bill allows Section 202 Project Rental Assistance Contracts to convert (RAD for PRAC). The mark to market (M2M) program is also extended until 2022 to help preserve the affordability and availability of federally-insured multifamily properties.

In addition, the omnibus bill extends the National Flood Insurance Program (NFIP) until July 31, 2018, and extends the U.S. Interagency Council on Homelessness (USICH) for two years; both the NFIP and the USICH were set to expire at the end of FY17 and had been temporarily extended through Continuing Resolutions.

Lastly, the bill also omits funding for the EnVision Center Demonstration sought by Secretary Carson, as well as the "rent reform" provisions sought by the Administration. NAHMA expects the reforms to resurface during the Fiscal Year 2019 spending negotiations.

3. Appropriations for USDA Rural Housing Programs

In the FY18 omnibus, most of USDA's rural housing programs also see an increase over Fiscal Year 2017 enacted levels. The funding levels are sufficient to renew affordable housing contracts.

Section 521 Rental Assistance (RA)

The omnibus bill provides $1.345 billion for the Section 521 Rental Assistance (RA) program, which represents a slight decrease due to program attrition (4%). The bill does not contain language that would prevent an RA contract from being renewed within its one-year term.

Agriculture, Rural Development, and Food and Drug Administration Rural Development Fiscal Year 2018 Appropriations Act ($ in millions)			
RHS Programs	**FY17 Enacted**	**FY18 Enacted**	**Percent Change**
Section 521 Rental Assistance	1,405	**1,345**	-4%
Section 515 Rental Housing Direct Loans	35	**40**	+14%
Multifamily Revitalization	41	**47**	+14%
Preservation Demonstration	*22*	***22***	No Change
Section 542 Rural Housing Vouchers	19	**25**	+31%
Section 538 Loan Guarantee	230	**230**	No Change

Section 515 Rental Housing Direct Loans

Lawmakers continue to pay more attention to the impending number of Section 515 properties that are reaching their mortgage maturity dates. The omnibus provides a 14% increase to the program, totaling $40 million (compared with $35 million in FY17). NAHMA strongly supports the funding increases for Section 515, which had been eliminated under the President's FY18 Budget Request.

Multifamily Revitalization and Rural Housing Vouchers

Despite the Administration's request to zero out funding for the Multifamily Revitalization Program, the omnibus bill provides a 14% increase to the program. The new total funding level of $47 million maintains $22 million for the Preservation Demonstration (including $10.524 million for repair, rehabilitation, and new construction of Section 515 rental housing), while funding for Rural Housing Vouchers is increased to $25 million (compared with $19 million in FY17, a 31% increase).

In order to further address rural housing preservation, the bill directs USDA's Secretary to incentivize PHAs and non-profits to take over ownership of rental housing properties and ensure continued affordability; the bill allows for a return on investment and asset management fee of up to $7,500 per property.

Lastly, Section 528 Loan Guarantee remains flat at $230 million.

4. Outlook for Fiscal Year 2019

Although behind schedule, the FY18 omnibus bill represents a clear victory for affordable housing. NAHMA strongly supports the funding increases in the bill, and applauds Members of Congress for enacting bipartisan legislation to invest in affordable housing and community development programs. A thank you is also due to our members, who have emphasized the value of affordable housing programs to the legislators both in-district and in Washington.

However, we are still in the midst of an affordable housing crisis, and continued funding will be required to meet our country's housing needs. Although Congress recently increased the overall spending caps for fiscal years 2018 and 2019, the President's Budget Request for FY19 falls short of the funding levels required to renew contracts and continue to invest in communities across the country.

We ask that NAHMA members continue to advocate for funding above the FY18 enacted levels for the next fiscal year, which begins October 1st, 2018. NAHMA will keep members up-to-date as funding negotiations unfold throughout the summer and early fall, and we look forward working to together on our forthcoming grassroots alerts.