

NAHMAanalysis

NATIONAL AFFORDABLE HOUSING MANAGEMENT ASSOCIATION

Ensuring NAHMA Members Receive the Latest News and Analysis of Breaking Issues in Affordable Housing

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Rural Development Appropriations for Fiscal Year 2016

Background

On Wednesday, June 17, the House Appropriations Agriculture, Rural Development and Related Agencies Subcommittee released its fiscal year 2016 Agriculture Appropriations bill, H.R.3049. The Senate Appropriations Agriculture Subcommittee followed suit on July 14 with its funding bill, S.1800, for FY 2016.

Both bills contain funding levels which are below the amounts requested in the Obama Administration’s proposed budget for Rural Development (RD) programs in the upcoming fiscal year. Below are the funding figures from the Senate and House appropriations bills as compared to the Obama Administration’s budget request for FY 2016 and the current appropriations levels for FY 2015:

	Section 515	Section 521 Rental Assistance	Section 538 (Loan Level)	Revitalization and Rural Housing Vouchers
FY 2016 House Bill (H.R. 3049)	\$28.39 Million	\$1.167 Billion	\$150 Million	\$24 Million/ R HVs: \$7 Million
FY 2016 Senate Bill (S.1800)	\$28.39 Million	\$1.167 Billion	\$200 Million	\$24 Million/ R HVs: \$7 Million
FY 2016 Budget Request	\$42.27 Million	\$1.172 Billion	\$200 Million	\$34 Million/ R HVs: \$15 Million
FY 2015 Current Level	\$28.40 Million	\$1.088 Billion	\$150 Million	\$24 Million/ R HVs: \$7 Million

Section 521 Rental Assistance

For the Section 521 Rental Assistance program, the House and Senate have both targeted \$1.167 billion for FY 2016, an amount which is approximately \$8 million above the FY 2015 enacted level but is \$5 million below the Obama Administration's budget request.

One of NAHMA's main concerns for FY 2016 is that the funding for the Section 521 Rental Assistance (RA) program in any appropriations bill must provide adequate funding to ensure full 12-month funding for all contracts. While the slated \$1.67 billion in both the Senate and House bills exceeds the current funding level in FY 2015 (\$1.088 billion), NAHMA is concerned if RD has the correct calculation for the true cost of the program. The Senate Appropriations Agriculture Subcommittee also has the same concern – in the [committee report](#) that accompanies each appropriations bill, lawmakers highlighted their concerns for this program:

“The Committee has lost confidence in USDA's ability to accurately estimate rental assistance needs. The Department has a well-established history of faulty calculations and subsequent ad-hoc, informal, requests for additional funds to cover shortfalls. This behavior places very low- and low-income rural households at risk of untenable rent increases, and undermines the credit soundness of Rural Development's \$11,000,000,000 multi-family housing loan portfolio. The Secretary is directed to effect process changes that will result in the fiscal year 2017 budget request revealing the true amount needed to renew all expiring rental assistance contracts. . .In addition, the Committee has engaged the Government Accountability Office to perform a comprehensive review and to provide recommendations.”

Additionally, the Senate and House appropriations bills rejected a change to program authorizing language in the President's budget request that RA contracts would be funded for “up to one year” rather than the current policy that contracts be funded “for a 1-year period”. The Senate Committee Report noted this proposed change:

“The Committee does not concur with the President's budget request regarding changes to the required time frame for which contracts must be renewed, and thus retains the currently enacted language requiring that RA agreements entered into or renewed during the current fiscal year shall be funded for a 1-year period.”

The Senate and House bills also rejected a controversial change to program language that contracts would be renewed “at the discretion of the Secretary [of the USDA]”. However, both bills do include language that “rental assistance contracts will not be renewed within the 12-month contract period.” RD believes that barring contracts from renewing within the 12-month contract period will provide greater predictability in the RA budget, but NAHMA has opposed this provision since it was enacted in the FY 2015 Omnibus Appropriations bill (H.R.83). Barring contracts from renewing within the 12-month contract period provides no recourse for owners to recover RA payments for months when RD cannot, or will not, renew contracts. This language has already proven to be problematic.

In the past month, some property owners whose RA funding has been prematurely exhausted have received letters from RD stating that their RA agreement is not eligible for renewal during FY 2015. But NAHMA believes this issue is not caused exclusively by the language change that contracts will not be renewed within the 12-month contract period; a contributing factor is that

RD based its RA use for FY 2015 on an outdated formula which in turn has underfunded contracts and now the total funding for the RA program is running out before the end of the one-year term of the contracts. These budgeting issues could roll over into FY 2016 and may lead to the displacement of residents and increased financial strain at property developments.

NAHMA is actively following this issue and is in close communication with RD and Congressional staff to receive updates on the situation. To avoid inviting this unnecessary uncertainty into the program, NAHMA strongly urged both the House and Senate to repeal the prohibition on renewing contracts within their 12-month contract periods in [testimony](#) submitted to the Appropriations Committees in March of this year. NAHMA also suggested that an advanced appropriation would offer a more straightforward mechanism to ensure RD has the necessary funding for contract renewals in one fiscal year.

While NAHMA is encouraged that lawmakers in the Senate recognize the budgeting issues in the Rental Assistance program, lawmakers must do more beyond report language to address the serious issues in the agency.

Section 515

For the Section 515 program, the House and Senate have slated \$28.39 million for FY 2016, an amount which is \$1 million below the FY 2015 enacted level and \$13.9 billion below the Obama Administration's budget request. NAHMA believes that the President's requested figure would support more affordable housing development in rural areas.

A major area of concern for rural housing programs is the number of properties financed through the section 515 program which are now reaching the end of their mortgage. According to RD, loans on more than 11,500 properties will mature by the year 2024. This represents nearly 333,845 units of affordable housing.

Under current law, when a Section 515 mortgage expires, Section 521 RA also expires. The loss of RA causes rent increases, and would likely make the units too expensive for low-income residents to afford. Over 400,000 low-income residents live in rental housing financed through Section 515, so the loss of units would be devastating for rural communities.

NAHMA and other industry groups have been actively raising awareness of this issue with lawmakers and stakeholders. The Senate Appropriations Committee is now addressing our concerns with the Section 515 portfolio. In the committee report which accompanied the agriculture appropriations bill, lawmakers highlighted the challenges in Section 515 and the first steps meant to address the issue:

“The Committee is concerned about the increasing number of Section 515 multi-family housing loans that are reaching maturity and being paid off. As these loans mature and the projects leave the affordable housing program, low- and very low-income rural households could face untenable rent increases and possible eviction. The Committee has engaged the Government Accountability Office [GAO] to analyze the circumstances and provide recommendations to stabilize the situation. In addition, the Secretary is directed to continue efforts to maintain the affordable multi-family housing portfolio and protect low- and very low-income rural residents from unmanageable rent increases.”

The GAO analysis requested by the committee seeks answers on the number of properties that could lose their affordability and RD's preservation strategies for the portfolio. NAHMA hopes that this report will shed more light on the issues in the 515 portfolio and will identify solutions to ensure that no residents lose their homes.

Multifamily Revitalization Program and Rural Housing Vouchers

For FY 2016, both the House and Senate have targeted a total of \$24 million for the Multifamily Revitalization Program and Rural Housing choice vouchers. Of this amount, \$7 million would be reserved for the vouchers and the remaining \$17 million is for revitalization purposes. While this funding level is consistent with the enacted FY 2015 level, it is a total of \$10 million below the Obama Administration's budget request.

In light of the issues facing the Section 515 portfolio, the funding for Rural Housing Vouchers is especially critical for FY 2016 and beyond. These vouchers may be used by residents of rental housing projects financed through Section 515 loans that have been prepaid after September 30, 2005. They allow tenants to remain in existing communities or move to other rental housing. NAHMA supports expanding the use of Rural Housing Vouchers to protect tenants in properties with maturing Section 515 mortgages, and we have urged lawmakers to ensure the appropriations language achieves this goal. However, NAHMA is concerned that the \$7 million will not be sufficient to meet the demand for these Rural Housing Vouchers in FY 2016 from both prepaid and mature mortgages.

Multifamily Housing Guarantees - Section 538

The Section 538 Multifamily Loan Guarantee program provides loan guarantees which encourage construction, acquisition, or rehabilitation of rural multifamily housing for low-income residents.

NAHMA supports the Senate's figure of \$200 million for this program; this amount was also requested in the President's budget for FY 2016. This amount is \$50 million more than what is provided in the House bill and the FY 2015 enacted level. There were no program changes proposed in either the Senate or House bills.

Conclusion

Considering the budgeting issues across RD's rural housing portfolio, NAHMA is concerned that the multifamily housing programs may not be fully funded and properly administered through the House and Senate Agriculture Appropriations bills. Like HUD's affordable housing programs, much of the rural housing programs funding levels have been obstructed by arbitrary spending caps placed on federal discretionary programs.

NAHMA hopes that lawmakers will soon work together on a bipartisan budget agreement to lift the tight budget caps and eliminate the possibility of sequestration. Additionally, NAHMA continues to encourage its members to meet with their elected officials to discuss the challenges facing rural housing programs. Our overall message to lawmakers for affordable rural housing programs in FY 2016 is that any funding legislation must ensure adequate funding for these programs so that property owners and managers and the tenants they serve will not be negatively impacted.

We can reflect back to 2013 when sequestration was implemented and all federal discretionary programs were arbitrarily cut by five percent. The impacts to Section 521 Rental Assistance were enormous. In September that year, RD ran out of funds for the RA program and could not uphold the binding contracts it had made with some property owners and managers. Thus these properties did not receive funding that month; the unpaid RA was never retroactively provided, and owners and managers could not raise rents to offset costs. This was an unprecedented event for any affordable housing program, and NAHMA seeks to ensure that it will never happen again.

Additional Resources

[House fiscal year 2016 Agriculture Appropriations bill \(H.R. 3049\)](#)

[Senate fiscal year 2016 Agriculture Appropriations bill \(S.1800\)](#)

[House Appropriations Committee Report](#)

[Senate Appropriations Committee Report](#)