

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

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### FY 2007 Budget Request for Affordable Rental Housing Programs

#### Effective Date or Deadline

Funding levels in the budget request are proposed for Fiscal Year 2007, which begins on October 1, 2006. The budget request is subject to the approval of Congress.

#### Background

On February 6, President Bush submitted his Fiscal Year 2007 budget request to Congress. Submission of the budget begins a process which, if it runs smoothly, will be resolved before October 1, with all of the annual appropriations bills signed into law.

The problem is that the budget process almost never runs smoothly. It has now become routine for the new fiscal year to begin without a finalized budget for that year. Congress and the President then fund the government through temporary spending measures known as “continuing resolutions.”

Between now and October, Congress is likely to go through the following exercises:

- Hold hearings on the President’s budget (through March);
- Approve another supplemental appropriations bill for hurricane disaster relief;
- Adopt a “budget resolution” which sets spending caps (targeted date is April);
- Begin the FY 2007 appropriations process (May through September or until completed); and
- Resolve outstanding differences on the House and Senate versions of HR 4297, which includes roughly \$70 billion tax cuts carried over from last year as part of the “budget reconciliation” process.

#### Summary

Not surprisingly, affordable multifamily housing is not among the top priorities listed in the President’s request. Budget priorities remain: winning the war on terrorism; strengthening homeland security; continuing economic growth (i.e. tax cuts); holding the growth of overall discretionary spending below

inflation; reducing non-security discretionary spending below last year's level; and achieving savings and reforms to entitlement programs, especially Social Security and Medicare. A new goal listed in the Overview of the President's Budget is "advancing the cause of freedom across the globe."

In total, the President requested \$33.6 billion for HUD in FY 2007. Most of HUD's budget priorities are quite similar to last year's. Increasing homeownership tops the list. The Department will request statutory changes to the National Housing Act that will allow FHA single family insurance programs to be updated and provide an alternative to high-cost sub-prime loans. The budget again commits to the goal of ending chronic homelessness and requests increased funds for homeless assistance programs. Proposed increases are also noted for the project-based and tenant-based Section 8 programs. Budget documents state the funding requests for both Section 8 programs will be sufficient to renew existing Section 8 contracts. Of course, the Administration is also calling for Congress to approve its Section 8 voucher "reform" bill, the State and Local Housing Flexibility Act. Multifamily production programs fared quite poorly this year, with Section 202 joining Section 811, CDBG and HOPE VI slated for cuts. Additional "reform" legislation will be requested for CDBG and the homeless assistance continuum of care grants. The Office of Fair Housing and Equal Opportunity will concentrate on enforcement of fair housing laws, with a particular focus on ensuring the rights of hurricane evacuees from the Gulf Coast.

The request for RHS multifamily programs is abysmal. Section 515 would be zeroed out, and rental assistance (RA) would be slashed with contracts reduced from four years in length to two. While money is proposed for preservation and tenant protection vouchers, key components of a preservation program, such as debt restructuring, have not yet been authorized by Congress. Finally, Section 538 loan guarantees would be nearly doubled.

#### **Funding for Specific Multifamily Housing Programs:**

##### **HUD**

#### **Tenant-Based Section 8: \$15.92 billion total funding; \$14.436 billion for contract renewals**

HUD proposed a \$502 million overall increase for the Housing Choice Voucher Program and a \$487 million increase for contract renewals. Additionally, the Administration will continue to push for Section 8 "reform" as represented by the State and Local Housing Flexibility Act (S 771 and HR 1999).

#### **Project-based Section 8: \$5.676 billion total; \$5.526 billion for contract renewals**

HUD is requesting a \$639 million increase in total Section 8 Project-Based rental assistance, with \$636 million of the increase directed to contract renewals. Corresponding FY 2006 appropriations were \$5.037 billion in total and \$4.890 billion for contract renewals.

#### **Section 202: \$545 million**

A huge cut below the \$735 million appropriation for FY 2006, this recommendation is on trend with requests for other multifamily production programs. Budget documents suggest this cut is being rationalized by the development delays and cost overruns in the program which delay the units being brought online. Within the request, \$45 million is for PRAC renewals, \$25 million is for rehab grants / assisted living conversion, and \$59 million is provided for service coordinator grants, and \$2 million will be transferred to the working capital fund. This leaves roughly \$414 million for new construction, which the Administration estimates will produce 2700 new units.

#### **Section 811: \$119 million**

Funding would be cut nearly in half from the FY 2006 appropriation of \$237 million. Of the total funds, \$15 million will be directed toward PRAC renewals, and \$75 million is for mainstream voucher renewals,

\$15 million for incremental mainstream vouchers and \$1 million for the working capital fund. Only about \$13.2 million would be available for new construction.

**HOME: \$1.917 billion**

A 7 percent (\$123 million) increase is recommended for HOME, most of which is explained by the substantial \$75 million increase for homeownership assistance in the American Dream Downpayment Initiative (ADDI). Within the HOME program, \$100 million is proposed for the ADDI, \$3 million would be transferred to the Working Capital Fund, and \$10 million would be used for technical assistance. The formula grant would receive about \$1.8 billion, representing a slight increase above the \$1.6 billion of FY 2006. HUD estimates HOME will make 83,750 affordable housing units available through new construction, rehab or acquisition at this level of funding.

**HOPE VI: \$0**

No new funding is proposed for FY 2007, and rescission of the \$99 million remaining from FY 2006 is requested.

**Community Development Block Grant (CDBG): \$3.032 billion**

The good news is the Administration has retreated from last year's proposal to eliminate CDBG and consolidate its functions into a new economic development program administered by the Department of Commerce. The bad news is they are proposing a roughly 25 percent cut below the FY 2006 enacted level of \$4.178 billion. Approximately \$2.975 billion is available for formula grants (compared to \$3.711 billion in FY 2006).

Additionally, HUD informed industry partners it will seek four major CDBG changes. Three that will require statutory changes would revise the distribution formula intended to redirect funds to neediest communities, create a new \$200 million competitive challenge grant fund within the program, and consolidate "duplicative" programs such as Section 108 loan guarantees. Additionally, HUD is developing program performance measures which it hopes to publish this month.

**USDA-RHS**

**Section 515: \$0**

No new funding is proposed for Section 515. Last year, Congress appropriated about \$99 million.

**Section 521 Rural Rental Assistance: \$486 million**

In FY 2006, about \$647 million was appropriated for RA. Much of the cut in this request is explained by the Administration's proposal to reduce the length of RA contracts from four years to only two years.

**Section 538 Multifamily Housing Loan Guarantees: \$198 million**

The request for this program is nearly doubled; it received about \$99 million in FY 2006. It is clear that the Administration prefers this loan guarantee program to the direct loans of Section 515.

**Multifamily Housing Revitalization & Tenant Protection Vouchers: \$74 million**

These appropriations are requested mainly to provide tenant-protection vouchers in cases of pre-payment or opt-out of RHS programs and to preserve the RHS affordable portfolio. This request assumes authorization of a preservation bill that would provide RHS with revitalization options such as debt restructuring for properties. Congress appropriated \$16 million for these purposes in FY 2006.

## **Positive Aspects of This Budget Request**

Funding for several programs would be increased, including Project-Based and Tenant-Based Section 8, HOME and Section 538 RHS loan guarantees. However, there is not likely to be any significant growth in either Section 8 program, since most of the increases requested will go toward contract renewals. The budget claims the funding request will cover all renewals in both Section 8 programs. While NAHMA would certainly support growth of the Section 538 loan guarantee program, this indirect assistance is not likely to substitute for the Section 515 program in serving rural families most in need of housing assistance.

The Administration apparently has accepted that Congress will not go along with any proposal to kill CDBG outright. NAHMA finds the proposed cuts unacceptable, but it is worth acknowledging that HUD has conceded defeat on last year's plan to terminate CDBG and create an obscure new economic development program at Commerce.

At this time, it does not appear any budget proposals should have a negative affect on the Low Income Housing Tax Credit.

The Administration is seeking a variety of statutory changes to the Section 8 voucher program, CDBG, and homeless assistance programs, as well as asking for preservation tools to revitalize the Section 515 portfolio. The pressure HUD exerts on Congress to get a housing bill or bills may present us with an opportunity to advance some of our own priorities. NAHMA's Preservation Task Force is considering ideas that would have minimal cost to the government and would help maintain units at risk of loss to the HUD and RHS portfolio as affordable housing. Likewise, input from the Preservation Task Force and Federal Affairs Committee will inform NAHMA's strategy for determining the appropriate legislative vehicle for our own recommendations.

## **Issues of Concern to NAHMA**

**Cuts to multifamily housing grant/direct loan production programs.** The Administration is proposing cuts below the 2006 appropriated funding levels for key multifamily housing programs, including: Section 202 housing for the elderly; Section 811 housing for the disabled; CDBG, and the Section 515 rural housing program. NAHMA unequivocally opposes cuts to these important programs, and we will work vigorously to ensure Congress does not adopt them.

For the tenant-based Section 8 Housing Choice Voucher Program, the Administration continues to seek separate legislation to give public housing agencies (PHAs) more "flexibility" to manage their dollar-based budgets. NAHMA has opposed the Administration's overall reform package, the State and Local Housing Flexibility Act, although some aspects of this bill are intriguing.

**PART Scorecards.** Beyond the numbers, NAHMA remains particularly concerned about the Office of Management and Budget's (OMB) Program Assessment Rating Tool (PART) scorecards. OMB has set a goal to examine the effectiveness of every federal program. Based on evaluations of the program's purpose, planning, management, and results, a rating of effective, moderately effective, adequate, ineffective or results not demonstrated is assigned to each program. The PART ratings are also used to guide funding and policy decisions.

To date, OMB has assessed 793 (about 80 percent of all) Federal programs, and it expects all programs will have been evaluated by the end of this year. Overall, OMB determined 15 percent were effective, 29 percent were moderately effective, 28 percent were adequate, 4 percent were ineffective and 24 percent had results not demonstrated.

PART scorecards have become a mainstay of the federal budget. Below are highlights of PART ratings which may be of interest to NAHMA members. The list is not all inclusive. Furthermore, not all programs are reevaluated every year. The list represents the most recent PART information available for these programs. Additional details can be found at: [www.expectmore.gov](http://www.expectmore.gov).

### **PART Ratings of Interest for FY 2007**

#### **HOME Program: Moderately Effective**

OMB believes the program has “excellent” management, its “program purpose and flexible design enable HOME to have a potentially significant impact on affordable housing problems,” (particularly because it leverages \$3 dollars for every one dollar in HOME funds), and it “...has made progress towards its annual performance goals and demonstrated improve efficiency over time.”

#### **Community Development Block Grant: Ineffective**

OMB feels this program needs a full scale overhaul. The scorecard called for improvements in clarifying the very purpose of the program, targeting the funds, and developing performance measures for success.

HUD is working to develop performance measures that will address OMB’s criticisms. Additionally, the Administration will ask Congress for statutory changes described in the summary section of the NAHMA analysis.

#### **HOPE VI: Ineffective**

OMB believes this program has achieved its original purpose of demolishing 100,000 severely distressed public housing units. The program has been consistently recommended for termination in budget request from FY 2004 onward.

#### **Section 202 Elderly Housing: Results not Demonstrated**

OMB slammed the program for development delays, cost increases, and an inability to demonstrate it has improved the well-being of poor elderly individuals. OMB believes the program’s performance can be improved by developing performance measures and reducing delays in development.

#### **Section 811 Housing: Results not Demonstrated**

OMB slammed this program for having inadequate long-term measures to “determine what impact the program has on poor disabled individuals.” In particular, the program was criticized for not tracking “the extent to which recipients find and stay in their housing.” OMB also criticized the cost-effectiveness of the capital grant portion of this program, development delays and cost overruns.

Action items for improving the program included “Working with the Congress to streamline the delivery of new housing assistance to provide more housing units for very low-income disabled persons under more flexible terms,” and developing program performance measures.

#### **Housing Vouchers: Moderately Effective**

Vouchers were deemed a cost-effective form of housing assistance. OMB particularly liked the new budget-based funding structure, and noted that HUD made substantial progress in reducing improper subsidy payments within this program.

Nevertheless, OMB asserted it will continue to seek more “flexibility” in the program from Congress. Additionally, the Administration will continue efforts to eliminate erroneous subsidy payments through implementation of the Upfront Income Verification program.

**Project-Based Rental Assistance: Ineffective**

OMB asserts “The program has poor financial controls. There is little incentive to control costs as these are passed onto the federal government and many properties are subsidized above the market rents in the metropolitan area where they are located.” Additionally, OMB slammed this program because assisted tenants lose their subsidy if they move, and there are no specific performance targets for achieving tenant self-sufficiency.

Specific action items for improving the performance in this program include, “Stepping up enforcement action against substandard properties, including conversion of assistance to vouchers,” and “Developing strategies and measures for improving the economic well-being of residents.”

**RHS Multifamily Housing Direct Loans and Rental Assistance: Moderately Effective**

These programs received an upgrade in their PART score from the previous “Results not Demonstrated” rating. OMB was pleased with the annual performance measures and long-term outcome based performance measures.

It will seek to improve the program by issuing regulations which “will require the property owners to maintain an appropriate reserve for capital repairs,” and pursuing legislation to “help address dilapidated properties currently within the portfolio.”

**NAHMA’s Position**

NAHMA is strongly and unequivocally opposed to cuts in federal affordable multifamily housing funds. We believe HUD and RHS production programs should be increased—at least for inflation. Furthermore, we believe the Section 8 Housing Choice Voucher Program should be funded at the level which allows PHAs to issue up to their authorized levels of vouchers.

NAHMA will work with interested members of Congress to prevent cuts to federal housing assistance. We also invite NAHMA members to use the resources available on our grassroots advocacy center webpage to take a stand for affordable housing. Members are strongly encouraged to write their elected leaders and ask them to oppose cuts to federal affordable multifamily housing programs. Additionally, we hope members will take advantage of the opportunity to visit with their senators and representatives during the NAHMA Winter Meeting.