NAHMAnalysis
NATIONAL AFFORDABLE HOUSING MANAGEMENT ASSOCIATION

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

National Affordable Housing Management Association – 400 N. Columbus Street, Suite 203 - Alexandria, VA 22314
Phone 703-683-8630 - Fax 703-683-8634 - www.nahma.org

May 20, 2013 NAHMAnalysis-2013-0520

Beyond the Numbers: Programmatic Changes and New Policy Approaches in the Fiscal Year 2014 Federal Budget

Effective Date

Funding levels in the budget request are proposed for Fiscal year 2014, beginning on October 1, 2013. The budget request is subject to the approval of Congress.

Background

On April 10, 2013, President Obama submitted his Fiscal Year (FY) 2014 budget request to Congress. The Presidential budget is normally delivered in February; however this budget was delayed by two months. Under regular order, submission of the budget would begin the budget discussions for the upcoming fiscal year.

Congress would normally adopt a non-binding "budget resolution" by April 15, which would set spending caps for the upcoming fiscal year. Each chamber has passed its own budget resolution, but it is unlikely that Congress will resolve differences between the two versions and pass a final budget resolution. Meanwhile, Congress has also held hearings addressing the President's budget, signaling the beginning of the FY 2014 appropriations process. Since there doesn't seem to be any more negotiations on the budget resolution, it is likely that Congress will simply move to writing the appropriations bills without a finalized budget resolution to serve as the blueprint for spending and revenue bills.

Summary

For FY 2014, the Obama Administration is proposing a HUD budget of $47.6 billion, an increase of $2.8 billion from the FY 2013 request, and roughly $3.6 billion above the FY 2013 appropriations. However, this budget assumes that sequestration will be repealed; this assumption affects the actual level of funding that would be available under the budget.

This NAHMAnalysis will primarily focus on the proposed regulatory and legislative changes within the budget. Many of the proposals were originally introduced in the FY 2013 budget, whereas others are new for HUD.

For the rental assistance programs, the Obama Administration is proposing several new cross-cutting program changes, including: increasing the threshold for the deduction of medical and related care expenses, redefining "extremely low-income", improving the process for establishing Fair Market Rents, authorizing the biennial inspection for HCV units, and reducing the utility allowance payments to over-housed families.

The Obama Administration also plans to submit a comprehensive HCV reform legislative package to Congress in 2014 that includes: an expansion of Moving to Work programs, authorization of triennial certifications for fixed-income families, altering the PHA Annual Plan process, improving the Project-Based Voucher program, and limits on sponsor-basing of voucher programs. The budget also requests new authority to allow HUD to make more funds available for expansion through residual receipt collections, recaptures, and other balances in both Section 202 and Section 811 properties.

For the project-based rental assistance (PBRA) program, the Administration is proposing to implement two new projects including a Flexible Portfolio Demonstration program, and a Pay for Success demonstration program. Another proposal seeks to align owner distribution policies in LIHPRHA properties with other PBRA properties.

The FY 2014 budget request for the Treasury calls for five reforms to the LIHTC program, including: income averaging, authorizing states to convert PAB volume cap into LIHTCs, a modification and permanent fix to the Congress' temporary 9% credit floor provisions (this proposal to improve the computation of allocated credit rates will revise the present value formula for allocated LIHTCs to increase the annual credit percentage rate and more accurately reflect market practice), adding preservation of federally assisted affordable housing to allocation criteria, and permitting a Real Estate Investment Trust (REIT) that receives LIHTCs to designate as tax exempt some of the dividends that it distributes.

For the USDA Rural Housing Service (RHS), current focus is on preserving existing multifamily rural housing, rather than the construction of new properties. However, the budget proposes direct funding for the Section 515 program, which was not requested in the FY 2013 budget. The budget also contains a legislative proposal for RHS employees to have access to the Health and Human Services National Database of New Hires as well as the IRS' data.

Funding and Program Alterations for Specific Multifamily Housing Programs

Tenant-Based Section 8 - FY 2014 HUD Budget Request: $19.989 billion

HUD has requested a total of $19.989 billion for the Section 8 Housing Choice Voucher (HCV) Program for FY 2014. With this request, the Department believes it will continue to serve 2.2 million low-income families with housing assistance.

Of this total, $17.968 billion is slated for contract renewals, $1.685 billion will be available for administrative fees, and $225 million would be provided for new vouchers. These new vouchers will consist of $75 million for the HUD-Veterans Affairs Supportive Housing (VASH) Program and $150 million for tenant protection actions (this amount is double than what was requested in FY 2013).

HUD has actively pursued an overall improvement of cash management procedures for the disbursement of HCV funding. For example, the Department is seeking to re-establish HUD-held reserves by disbursing only the funds required to meet current Housing Assistance Payment (HAP) Contracts. The unused HAP funds will remain obligated but undisbursed at the HUD level, rather than held by PHAs. HUD believes this procedure will reduce program risk and provide for greater accountability. This procedure is one of the first steps in HUD's ongoing Next Generation Management System (NGMS) development, an overall system migration and increase of cash management policies and processes.

The Department has undertaken a comprehensive review of PHA requests for HUD to reduce the various requirements related to the operation of PIH programs, and several of these requests were included in the FY 2014 budget request:

1. Increase the threshold for deduction of medical and related care expenses from 3 to 10 percent of a family's income. This is a cross-cutting proposal which applies across rental assistance programs. HUD estimates that this will produce approximately $30 million in savings for FY 2014.
2. Define "extremely low-income" in a manner that increases access to HUD rental assistance for working poor families (in rural areas in particular). This proposal is also a cross-cutting measure intended to apply to all rental assistance programs; it was proposed in the Affordable Housing and Self Sufficiency Act of 2012 as well. HUD estimates this will generate savings of approximately $155 million in FY 2014.
3. Improve the process for establishing Fair Market Rents (FMRs) by removing the statutory requirement that FMRs be published for comment in the federal register. This will make it possible for HUD to publish FMRs online, along with any proposed material changes in methodology.
4. Authorize biennial inspections for HCV units, which will reduce some administrative and financial burdens for property owners. Residents would retain their right to request an inspection. This provision would also offer PHAs the option of complying with the inspection requirement through an alternative inspection method, such as an inspection conducted under the requirements of the Low Income Housing Tax Credit (LIHTC), or under the requirements of other federal, state, or local housing assistance programs. This request would also allow the Secretary to adjust the frequency of required inspections for mixed-finance properties assisted with project-based vouchers to facilitate the use of alternative inspection methods.
5. Reduce the Utility Allowance payments to over-housed families by changing the utility allowance for the size of the unit actually leased by the family to a utility allowance based on no more than the bedroom size that the family qualifies for under the PHA subsidy standards.

The Obama Administration also plans to submit to Congress a comprehensive legislative package to reform the Housing Choice Voucher program. Below are highlights of these legislative proposals:

1. A substantial expansion of Moving to Work (MTW) programs to high capacity PHAs. With partnership from HUD, participating PHAs will design and implement innovative policies related to housing preservation, family self-sufficiency, mobility, cost-effectiveness, and other priority areas. PHAs will be subject to rigorous reporting and evaluation requirements.
2. The authorization of triennial re-certifications for fixed-income families. Eligible families would be defined as those for whom at least 90 percent of their income is from fixed sources such as Social Security, pension plans (federal, state, local, and private), or the supplemental security income program. This is a cross-cutting proposal.
3. Eliminating the requirement that PHAs complete and submit PHA Annual Plans, replacing these Annual Plans with processes for resident feedback, including the requirement that PHAs hold meetings with residents and the public related to significant changes to PHA policies and the proposals of major activities, such as demolition of housing.
4. Improve the Project-Based Voucher (PBV) program by simplifying administration and increasing the flexibility to maximize participation from PHAs. Also this proposal seeks to leverage the program model to address vulnerable population, such as homeless families or veterans.
5. Limiting sponsor-basing of voucher assistance. A proposal to permit voucher agencies to sponsor-base up to 5 percent of their eligible voucher units to serve homeless families was included in the Department's FY 2013 budget, and the FY 2014 proposal will include a similar model in order to achieve the same goals.

Project-Based Rental Assistance – FY 2014 HUD Budget Request: $10.272 billion

HUD is requesting $10.272 billion to meet Project-Based Rental Assistant (PBRA) program needs in FY 2014. However, this amount assumes that sequestration will be repealed. If sequestration is not repealed, $11.5 billion will be necessary to meet program obligations, and to avoid short funding of contracts. The PBRA program is one of three major federal rental assistance programs for providing low-income families with decent, safe, and affordable housing; it currently provides affordable housing for over 1.2 million families. The program provides residence for different vulnerable populations, including:

- The elderly (47 percent);
- Families with children (29 percent); and
- Persons with disabilities (17 percent).

The Department is proposing up to $265 million for Performance-Based Contract Administrators (PBCAs) in FY 2014.

HUD plans to use its regulatory authority in applying residual receipt accounts to offset assistance payments for new and old regulation contracts. As in the FY 2013 request, HUD proposes to use these funds to offset a portion of the Section 8 subsidy payments.

Project-Based Rental Assistance Proposals in the FY 2014 budget request:

1. HUD will implement a Flexible Portfolio Demonstration that would offer regulatory and administrative flexibilities to high-performing multifamily owners in exchange for commitments to provide costs savings and to preserve property affordability. The Department plans to release a *Federal Register* notice on this proposal later this year.
2. The Department will introduce legislation to establish Pay for Success demonstration programs that allow the Department to enter multi-year agreements to repay investors who provide upfront funding for energy efficiency retrofits of HUD-assisted housing.
3. HUD will also introduce legislation to facilitate the refinance and recapitalization of projects that have use agreements imposed by the Low-Income Housing Preservation and Resident Homeownership Act (LIHPRHA). This proposal will align owner distribution policies in LIHPRHA-governed properties with other PBRA-assisted properties in order to facilitate preservation transactions.

Multifamily housing assisted by PBRA stabilizes neighborhoods and contributes to local economic bases. The PBRA program, through its 17,500 contracts with owners/agencies, directly contributes to job creation and retention in the fields of property management, maintenance, general construction, and contract vendors (such as landscapers, security companies, exterminators, etc.). It is estimated that the program directly supports approximately 55,000 jobs annually at projects throughout the country.

Section 202 – FY 2014 HUD Budget Request: $400 million

The Department's request for $400 million in FY 2014 is $23 million more than what was appropriated in FY 2013 (after sequestration). HUD notes that the demand for housing for low-income seniors is enormous, and it is expected to rise in the years ahead as generations of Americans age. The current supply of housing for independent senior living is not enough to keep up with present demand. Accordingly, the Department is proposing to maximize the effectiveness of Section 202 funds by giving states the option to identify target populations that would most benefit from this assistance and to layer Section 202 operating assistance into their pipeline of elderly-only affordable housing.

The budget requests new authority to allow HUD to make more funds available for expansion activities (which HUD sources tell us could include new capital advance awards and PRAC-only awards) through residual receipt collections, recaptures, and other balances. It also proposes language to expand facilitating provisions of Section 202 operating assistance-only contracts to fund supportive housing units aligned with State health care priorities. The proposed "operational assistance" program is a similar proposal that was issued in the Obama Administration's budget for FY 2013. Under this operational assistance program, state housing agencies (in partnership with state health care agencies) would act as HUD's delegated processing agent for awarding and administering Section 202 funds.

Under this proposal, applications in those states would be submitted to a state agency that has jurisdiction over the area where the proposed project would be located, generally as part of a competition process for LIHTCs, HOME funds, or other state and local housing funding. Those selected for funding must meet program requirements and demonstrate their capacity to perform, describe the financial resources and partnerships that will be used (projects must be fully leveraged without capital resources), illustrate the need for affordable elderly housing in the proposed location, and demonstrate the project's readiness to proceed. HUD may also elect to provide funds directly to nonprofit sponsors through a separate Notice of Funding Availability. The Department estimates this authority could support as many as 3,400 new units.

HUD is currently funding research jointly with the Department of Health and Human Services' (HHS) Office of the Assistant Secretary for Planning and Evaluation and the Administration on Aging to design an "Aging in Place" demonstration program for seniors in affordable housing. HUD expects this study will provide new information about the health care use of seniors that reside in assisted housing. Overall, the study will compare the type of assisted housing, the level of service enrichment, and the health care use patterns of seniors.

Section 811 – FY 2014 HUD Budget Request: $126 million

This request includes $106 million for Project Rental Assistance Contracts (PRAC) and Project Assistance Contracts (PAC) renewals and amendments to support all existing units; as well as $20 million for new project rental assistance awards to support an estimated 700 integrated supportive housing units for persons with disabilities. HUD has also separately requested funding in the Transformation Initiative to evaluate outcomes from the Section 811 Project Rental Assistance Demonstration (PRAD) program initiated in FY 2012.

The HUD budget again requests new authority to allow HUD to make more funds available for expansion activities (which HUD sources tell us could include new capital advance awards and housing with services demonstration authority) through residual receipts collections, recaptures, and other unobligated balances. The Department will review residual receipts collections, recaptures, and other balances to determine whether additional funds are available to make new funding investments.

HOME – FY 2014 HUD Budget Request: $950 million

The funding request for HOME is $50 million less than the FY 2013 HUD proposal. The budget claims the funding reduction in the HOME program is mitigated by an investment of $1 billion in mandatory funding for the Housing Trust Fund to finance the development, rehabilitation, and preservation of affordable housing for extremely-low income families. At this funding level, HUD claims HOME will provide grants to State and local governments to supply almost 40,000 additional units of affordable housing.

Community Development Block Grant (CDBG) – FY 2014 Budget Request: $2.798 billion

This request is below what was proposed in the FY 2013 budget. To compensate, the Department is proposing legislation in FY 2014 that would reduce the number of entitlement grantees under the CDBG program.

First, HUD proposes to establish a minimum grant threshold in order for a jurisdiction to receive a direct CDBG entitlement allocation:

- Based on the requested program funding level, and jurisdictions that received fiscal year 2012 CDBG entitlement allocations, HUD estimates that 239 local governments would fall below the 0.0125 percent minimum grant threshold that is proposed (or $348,875).
- The proposed language also establishes a minimum threshold of $500,000 for new or returning entitlement communities in fiscal year 2014 or thereafter.

Second, HUD proposes to eliminate the "grandfathering" provision and halt entitlement grants to jurisdictions that cannot currently qualify as a CDBG entitlement community.

- The Department estimates that this would eliminate CDBG entitlement grants to an additional 57 local governments.
- The Department acknowledges that communities are currently supporting multi-year community and economic development activities on the ground with current and anticipated CDBG funding, and to minimize disruption to these efforts, this proposal would be phased-in and would not be fully implemented until 2019.
- This legislation is designed to transition affected grantees to non-entitlement status by providing full allocations until fiscal year 2018 with no grant in fiscal year 2019.

Over the last decade, CDBG economic development activities have directly created or retained more than 355,794 permanent jobs and sustained an additional 861,000 jobs. Jobs sustained by the program include construction workers responsible for the rehabilitation of public facilities, infrastructure, and housing, and the state and local agency and non-profit administrators responsible for carrying out local CDBG programs. CDBG creates jobs on both direct and indirect basis, and HUD estimates the FY 2014 CDBG request will create and support 71,864 jobs.

IRS/Treasury

LIHTC Reforms

The FY 2014 HUD budget request proposes five reforms to the Low-Income Housing Tax Credit (LIHTC) program. NAHMA is already on record in support of two of these proposals, which were included in the FY 2013 proposal. The three new proposals are being examined under NAHMA's public policy approval process.

1. The Treasury has proposed to allow states to convert private activity bond volume cap (PAB volume cap) into LIHTCs that the state can allocate. Under this proposal, states would be authorized to convert a portion of their PABs to be received for a calendar year into LIHTC allocation authorization applicable to the same year. The conversion ratio

would be reset each calendar year to respond to changing interest rates. The reason for the change is that bond-derived credits might facilitate the development of some buildings, but other buildings can be built only with the higher credit rates that are available with allocated credits. Each year, states are provided with a limited amount of LIHTCs that may be allocated. State housing finance agencies in charge of allocating LIHTCs are often confronted with more deserving projects than they can support. In the case of bond-derived credits, the credit rate is lower than the credit rate that applies to state-allocated credits.

The aggregate amount of PAB volume that each state may convert with respect to a calendar year is 7 percent of PAB volume cap that the state receives for that year. The proposal would be effective with respect to PAB volume cap to be received in and additional LIHTC allocation authority received for, calendar years beginning after the date of enactment.

2. The second proposal would encourage mixed income occupancy by allowing LIHTC-supported projects to elect a criterion employing a restriction on average income. Currently, a minimum portion of the units in a building must be rent restricted and occupied by low-income tenants in order for the building to qualify for the LIHTC. Either 20 percent of the units must be rent restricted and occupied by tenants with income at or below 50 percent of area median income (AMI), or at least 40 percent of the units must be rent restricted and occupied by tenants with incomes at or below 60 percent of AMI (qualifying income standards are adjusted for family size). The proposal would add a third criterion in which 40 percent of the units must be occupied by tenants with incomes that average no more than 60 percent AMI. No rent restricted unit could be occupied by a tenant with income over 80 percent AMI.

   HUD and the Treasury claim this proposal for new LIHTC projects will allow greater income-mixing at the project level and it will align LIHTC with HUD and USDA affordable housing programs. This income averaging proposal for new construction was first introduced in the FY 2012 budget request, and it was again proposed in the FY 2013 request. The proposal for FY 2014 has proposed expanding the income-averaging tool to projects rehabilitated with LIHTCs that receive other federal assistance subsidies, such as rental assistance, operating subsidies, and interest subsidies. NAHMA supports the income averaging proposal.

3. The third proposal would change the formulas for 70 percent present value credit rate and 30 percent present value credit rate LIHTCs. It would allow the 9-percent temporary minimum applicable percentage to expire at the end of 2013 and would increase the discount rate used in the present value calculation for allocated LIHTCs. The Obama Administration believes the new discount rate would better reflect the private-market discount rates. The change would apply to both 70 percent and 30 percent allocated LIHTCs. Under the proposal, the discount rate to be used would be the average of the mid-term and long-term applicable Federal rates for the relevant month, plus 200 basis points. However, the 30-percent present value credit rate for LIHTCs that result from

bond financing would continue to be computed under current law. The proposal would be effective for allocations made after December 31, 2013.

4. Another new proposal would add preservation of federally assisted affordable housing to allocation criteria. Currently each state must adopt a qualified allocation plan (QAP) to guide the allocation of LIHTCs. There are now ten selection criteria that every QAP must include, such as project location and project characteristics. The reason for the change is that preservation and rehabilitation of existing affordable housing is often a more efficient way of supplying affordable housing than is new construction. In addition, public resources may have already been expended in the development of existing affordable housing. To encourage preservation of federally assisted affordable housing, this proposal would add preservation of federally assisted affordable housing as the eleventh selection criterion that QAPs must include.

5. The final proposal would permit a Real Estate Investment Trust (REIT) that receives LIHTCs to designate as tax exempt some of the dividends that it distributes. Dividends so designated would be excluded from the gross income of the shareholders that receive them. The amount so designated could not exceed the quotient of the REIT's LIHTCs for the year (divided by the highest corporate tax rate). The proposal continues that if there are insufficient earnings and profits to pay this amount of dividends, the unused authority to designate tax-exempt dividends could be carried forward indefinitely. Also, if a REIT or regulated investment company (RIC) is a shareholder that receives these tax-exempt dividends, the recipient could designate as exempt a corresponding amount of dividends that it distributes. In the case of any compliance failure, the REIT would be responsible for recapture as if it had used the credit to reduce its own tax liability. Under the proposal, the passive-loss and at-risk rules would not apply to the receipt of the exempt dividends. The proposal would be effective for taxable years of a REIT that end after the date of enactment. NAHMA publicly supports this proposal.

USDA-RHS

Multi-Family Preservation and Revitalization (MPR) Program: $32.6 million

The Obama Administration's FY 2014 budget request for the Multifamily Preservation and Revitalization (MPR) program is below USDA's FY 2013 request. RHS has stated that their current focus is on preserving existing multifamily rural housing, rather than the construction of new properties. Preservation activities are slated for $20 million, which RHS expects will leverage a greater amount of assistance based on how it is disbursed between the various strategies approved under the MPR Demonstration program. A legislative proposal from FY 2013 is included in this budget, which would make the MPR program permanent. Funding for rural housing vouchers is proposed at $12.6 million, a figure consistent with the proposal for FY 2013. Currently, RHS' portfolio includes about 15,000 projects that provide housing for about 411,000 households, consisting of approximately 700,000 low-income individuals, many of whom are elderly.

Section 515 Multifamily Housing Direct Loans: $28 million.

The budget proposal for Section 515 is reassuring, considering that USDA's FY 2013 budget proposal requested no funding for the program. RHS plans to focus its multifamily direct loan funding on the revitalization and repair of the section 515 loan portfolio through the multifamily preservation and revitalization demonstration program.

Section 521 Rural Rental Assistance: $1.015 billion

RHS believes this request is sufficient to accommodate renewals. This amount is much high than the $907 million request from the FY 2013 budget. Also consistent with the FY 2013 budget is the legislative proposal for RHS employees to have access to the Health and Human Services National Database of New Hires as well as the IRS' data. HUD currently has this authority and RHS believes this will help reduce improper payments in its means-tested programs, especially the Rental Assistance grant program.

Section 538 Multifamily Housing Loan Guarantees: $150 million loan level

The Section 538 multifamily housing loan program currently operates at no subsidy cost; therefore, no budget authority is required to provide the proposed loan level. The budget does not request funding for the Housing Preservation Grant program due to the increased loan level in Section 538.

<u>Issues of Importance to NAHMA</u>

Project-Based Section 8 Contract Renewal Funding

NAHMA is deeply concerned that the request for project-based Section 8 contract renewals is insufficient, and will again cause contract short funding in FY 2014. The Obama Administration's budget assumes that sequestration (the mandatory across-the-board spending cuts required by the Budget Control Act of 2011) will be reversed. If the sequestration cuts were repealed or replaced, the budget request for project-based Section 8 contract renewals would be sufficient for HUD to meet its obligations to property owners by fully funding the 12-month contracts at renewal. However, the reversal of sequestration seems very unlikely; Congress is instead granting leniency to certain agencies such as the FAA.

Short-funding on Housing Assistance Payment (HAP) contracts is a "budget gimmick" that offers owners incremental, partially funded contract payments. This gimmick will not reduce the long-term cost of the contracts, but it will increase the time and paperwork associated with processing contract renewals. The FY 2013 CR, coupled with sequestration, will cause a $1.2 billion shortfall in the program. This shortfall will extend into FY 2014 if sequestration is not repealed, or unless the program receives increased funding at $11.5 billion.

HUD has claimed that short-funding would not reduce or delay payments to landlords, nor would it impact the number of families served in the project-based Section 8 program. However, prior to 2009, HUD had requested enough funding to cover the program for the length of the federal fiscal year (Oct. 1-Sept. 30) rather than full-funding for all 12-months of the contracts. This short-funding method resulted in the growth of a $2 billion funding gap in the program, causing property owners to receive partial and/or delayed housing assistance payments. Owners had to defer payments on property operations, including mortgages, maintenance, staff salaries, and utilities. These consequences of short-funding jeopardized the financial and physical health of the properties. Contactors in the surrounding communities were also negatively affected because modernization and rehabilitation plans were postponed or cancelled.

Project-based Section 8 is a successful program that provides housing to over 1.2 million low-income households and it creates jobs for over 100,000 people annually. As the economic recovery slowly inches forward, now is not the time for HUD to ignore the positive impacts of project-based Section 8 program by reverting to the erratic stop-and-go, partial funding of HAP contracts. Even allowing for improved contract forecasting, NAHMA reminds policy makers that short funding requires HUD staff to process funds on the same contract multiple times. We question whether HUD will truly be able to avoid late payments when it will have fewer staff taking an increased workload if the Department proceeds with plans for a massive restructuring of its multifamily field operations. Overall, returning to the practice of short-funding is irrational and unnecessary.

NAHMA has submitted testimony to the House and Senate Subcommittee on Transportation, Housing and Urban Development, and urged its members to support funding the project-based Section 8 contracts at $11.5 billion for FY 2014.

Residual Receipt Collection

NAHMA has substantial concerns regarding the savings policies HUD included in its FY 2014 budget request. We believe that HUD's efforts to generate savings—by reducing residual receipt accounts and limiting rent increases—may result in unintended consequences that could destabilize the operation, finances, and long-term preservation of project-based Section 8 properties and Section 202 and 811 properties.

The Department has regulatory authority under 24 C.F.R. §§ 880.205(e), 881.205(e) and 883.306(e) to use the residual receipts from new regulation Section 8 properties to offset HAP contracts. NAHMA will continue working to ensure that sweeping the residual receipts from new regulation properties does not deplete the accounts and leave the properties without contingency funds for unforeseen events.

NAHMA is concerned about HUD's plans for old regulation recaptures because it has been long understood that the receipts in older regulation properties belong to the owners. NAHMA remains unconvinced that HUD has authority to collect residual receipts from older properties.

Section 202 and 811

The budget request for Section 202 properties includes an "operational assistance" proposal in which state housing agencies (in partnership with state health care agencies) would act as HUD's delegated processing agent for awarding and administering 202 funds. While NAHMA is interested in finding new, more effective ways of using government funding to expand the availability of housing for elderly populations, we remain unsure of how these proposals will work in practice. We would prefer this proposal to be conducted as a Section 202 pilot program in addition to the Section 202 capital advance program.

In the testimony submitted to both the House and Senate Subcommittee on Transportation, Housing and Urban Development, NAHMA urged the committee members to support the Section 202 and 811 funding levels requested in the Obama Administration's FY 2014 budget, plus any additional funds necessary to ensure there are no program or contract shortfalls due to the FY 2013 sequester.

HOME and CBDG

NAHMA supports the HOME and Community Development Block Grant (CBDG) programs. Both programs can be vital as gap financing in LIHTC development deals, and it is concerning that the FY 2014 budget requests decreased funding for them.

IRS/Treasury Proposals to LIHTC

NAHMA supports both the income averaging proposal and the Real Estate Investment Trust (REIT) proposal that would allow REITS receiving LIHTCs to designate some of the dividends that it distributes as tax exempt. The three other proposals are new. It is worth noting that most of these proposals have been well-received by LIHTC supporters. However, the present value credit rate changes were not proposed by stakeholders in the industry; rather, these requests originated within the IRS. NAHMA is currently in consultation with our members to define the organization's stance on the three new requests.

USDA – Rural Housing Service

The Rural Housing Service (RHS) believes the FY 2014 request of $1.015 billion is sufficient to accommodate renewals for Section 521 Rural Rental Assistance. However, due to the mandatory cuts ushered in by sequestration, NAHMA believes that this request will not be sufficient to fully fund the FY 2014 renewals and cover any shortfalls resulting from recessions in FY 2013. According to an April 16, 2013 letter to stakeholders, RHS Under Secretary Dallas Tonsager wrote:

> "Given the variables affecting rental assistance usage, it will be some time before we know how far the remaining funding can be extended to accommodate renewals. Rural Development will continue to fully renew RA contracts as they expire. However, we anticipate that funding will run out before the end of the fiscal year."

NAHMA is extremely concerned that RHS expects to run out of funding for renewals before October 1, but they have announced no concrete plans to manage the expected RA shortfalls, except for its May 1, 2013 announcement that the transfer of all RA must be approved by the National Office prior to the transfer. As it stands, property owners whose contracts expire later in

FY 2013 do not know when, or if, their contracts will be renewed. This uncertainty makes it extremely difficult to plan for even normal property operations such as paying the mortgage, utility bills and meeting payroll. Similarly, property owners whose contracts expire in FY 2014 do not know how the FY 2013 shortfall will affect their contracts. NAHMA submitted written testimony to the Senate Subcommittee on Agriculture, Rural Development and the FDA, strongly urging the Subcommittee to conduct thorough oversight on this matter in order to determine exactly how much RHS needs in additional appropriations to fund the full 12-month terms of RA contracts in FY 2013. NAHMA believes that if the funding cannot be supplemented in FY 2013, then it is imperative to include the necessary funds as part of the FY 2014 Agriculture appropriations bill.

NAHMA Position

NAHMA remains gravely concerned that the sequestration cuts in 2013 will have a negative ripple effect in important housing programs in FY 2014. Similarly, tight budget caps in FY 2014 will affect the appropriations available to fund affordable housing programs.

NAHMA strongly opposes the shortfalls in the project-based Section 8 and Rural Rental Assistance programs caused by the sequester. It is the responsibility of Congress and the Administration to address these cuts and ensure funding is obligated at the time of renewal for the full 12-month contract terms.

For more information, please see NAHMA's testimony delivered to the T-HUD and Agriculture appropriations committees. Also, be sure to check our Grassroots Action webpage to get the latest talking points in support of project-based Section 8 and other important housing programs.