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NATIONAL AFFORDABLE HOUSING MANAGEMENT ASSOCIATION

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2006 Federal Budget Request for Multifamily Housing Programs

Effective Date

Funding levels in the budget request are proposed for Fiscal Year 2006, which begins on October 1, 2005. The budget request is subject to the approval of Congress.

Background

On February 7, President Bush submitted his Fiscal Year 2006 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:

- Continue to hold hearings on the President's budget (through March);
- Approve a supplemental appropriations bill to fund military operations in Iraq and Afghanistan as well as tsunami relief; (the President has already requested $81.9 billion);
- Adopt a "budget resolution" which sets spending caps (targeted date is April);
- Begin the FY 2006 appropriations process (May through September or until completed).

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, strenghtening homeland security and continuing economic growth. Overhaul of the Social Security system is also a high priority. The

President hopes continued economic growth and restrained discretionary spending will cut the federal deficit in half by 2009. In fact, the Overview of the President's 2006 Budget notes,

> "The Administration proposes to tighten spending further this year by limiting the growth in overall discretionary spending, even after significant increases in defense and homeland security, to 2.1 percent—less than the projected rate of inflation. In other words, under the President's 2006 Budget, overall discretionary spending will see a reduction in real terms. In non-security discretionary accounts, the President proposes to cut spending by nearly 1 percent—the tightest such restraint proposed since the Reagan Administration."

Secretary Jackson's March 2 written testimony submitted to the House Financial Services Committee summarized the 2006 HUD Budget request as follows:

> "HUD's $28.5 billion in new net budget authority for FY 2006 seeks to build on our success and lend a compassionate hand to individuals in need, while also using taxpayer money more wisely and reforming programs in need of repair. The HUD budget proposed by the President reflects this intent through three broad, yet focused strategic goals: promoting economic opportunity and ownership, serving society's most vulnerable and making government more effective.
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> In his February 2 State of the Union Address, the President underscored the need to restrain spending in order to sustain our economic prosperity. As part of this restraint, it is important that total discretionary and non-security spending be held to levels proposed in the FY 2006 Budget. The budget savings and reforms in the Budget are important components of achieving the President's goal of cutting the budget deficit in half by 2009 and we urge the Congress to support these reforms. The FY 2006 Budget includes more than 150 reductions, reforms, and terminations in non-defense discretionary programs, of which eight affect HUD programs. The Department wants to work with the Congress to achieve these savings."

The Department's top priority is increasing homeownership. HUD is again proposing two new FHA mortgage products for first-time low income homebuyers. The Zero Downpayment Mortgage allows buyers with good credit to finance 100% of the purchase price and closing costs. The Payment Incentives program would allow borrowers with weaker credit histories to get a loan with higher initial premiums which are reduced after a period of on-time payments. The budget again commits to the goal of ending chronic homelessness. An increase of $200 million is proposed for Homeless Assistance Grants.

Funding for Specific Multifamily Housing Programs:

HUD

Section 8: **$15.8 billion total tenant-based assistance; $5.07 billion total project-based assistance**
As per the 2005 appropriations bill, accounts for tenant-based and project-based Section 8 are separate.

Tenant-based Housing Choice Vouchers: The Administration announced it will seek separate legislation to give public housing agencies (PHAs) more "flexibility" so they can live within their dollar-based budgets. Unlike last year, the Administration has not incorporated assumptions about cost savings from Section 8 reform as part of the budget. For contract renewals, $14.09 billion is requested—an increase of about $1.1 billion above FY 2005.

NAHMA will reserve judgment on the Administration's planned voucher flexibility legislation until the specific details are available. However, the FY 2006 Budget Summary for HUD (available at http://www.hud.gov/about/budget/fy06/fy06budget.pdf) offers a rough outline of the future legislation:

> "When Congress passed HUD's 2005 Budget, lawmakers converted Section 8 funding from a unit-based system to a dollar-based distribution. For the dollar-based system to work, we need to simplify program requirements and provide Public Housing Authorities (PHAs) with greater flexibility.
>
> The Section 8 reform proposal that HUD will re-propose in 2006 returns flexibility to local agencies. For example, PHAs will be able to set and adjust subsidies based on local market rents, rather than depend on HUD-determined rents. PHAs will be encouraged to design their own tenant rent policies to reward work, and HUD will eliminate many of the complex forms that are now required. PHAs will be rewarded for good management through performance-based incentives.
>
> The Section 8 reform proposal eliminates the quota system which requires that Section 8 vouchers go almost exclusively to families making less than 30 percent of area median income. Assistance would still be limited to low-income families, but housing agencies would no longer have to discriminate against those moving up the economic ladder."

Project-based Vouchers: Cuts are proposed for this side of Section 8. Only $4.923 billion is requested for contract renewals; $5.195 billion was appropriated for FY 2005. HUD officials explained that much of this $226 million proposed reduction is explained by HUD's decision not to seek its customary 3% cushion above what they think is needed for renewals. HUD claims the RHIPP Initiative has cut subsidy errors by 30%, and combined with the PBCA efforts, HUD expects erroneous payments to be reduced even further, eliminating the need to ask for more money than they believe is necessary.

Section 202: $741 million
The program is flat-lined at the 2005 enacted level. HUD believes the same funding level can build more units because they are proposing elimination of the $18 million predevelopment grants. Length of PRACs will be reduced from 5 years to 3. Within the request, $10 million is for PRAC renewals, $30 million is for rehab grants / assisted living conversion, and $53 million is provided for service coordinators.

Section 811: $120 million
Funding would be cut nearly in half from the FY 2005 appropriation of $238 million to $119.9 million. No funding is designated for capital advances (i.e. no new construction). Full funding is proposed for the mainstream voucher program. HUD officials mentioned there is controversy within the disabled community about whether project or tenant-based assistance is more appropriate. Of the total funds, $5 million will be directed toward PRAC renewals, and $80 million is for mainstream voucher renewals.

HOME: $1.941 billion (total) $1.741 billion (formula grant)
Although total funding through HOME would rise from $1.9 billion to $1.941 billion under the request, most of this increase is accounted for by raising down payment assistance funds from $50 million to $200 million. Aside from the American Dream Downpayment Act assistance, HOME would be reduced from $1.865 billion to $1.741 billion.

FHA Multifamily Mortgage Insurance:
Reduced premiums for tax credit and refi properties will be effective in October. All other premiums will remain the same.

HOPE VI: $0
No new funding is proposed. HOPE VI received $143 million for FY 2005.

Community Development Block Grant (CDBG): $0
CDBG will be eliminated and its functions consolidated in a new economic development program administered by the Department of Commerce. Some of the set-asides within CDBG will remain at HUD. Total FY 2005 funding for CDBG was about $4.85 billion. The new Strengthening America's Communities Grant Program would be funded at $3.7 billion.

USDA-RHS

Section 515: $27 million
Funds are limited to repair and rehab purposes. In 2005, the program received $100 million.

Section 521 Rural Rental Assistance: $650 million
The request is a considerable increase above the $592 million provided for FY 2005.

Section 538 Multifamily Housing Loan Guarantees: $200 million
The request for this program is doubled; it received about $100 million in FY 2005.

Tenant Protection Vouchers: $214 million
These appropriations are requested to provide tenant-protection vouchers in cases of pre-payment / opt-out of RHS programs.

Positive Aspects of This Budget Request

With the exception of Section 515, RHS programs are increased in this budget. NAHMA is pleased that the Administration has requested an increase for Rural Rental Assistance. We support doubling the Section 538 Guaranteed Rural Rental Housing Program (GRRHP). Additionally, we welcome the $214 million request for tenant protection vouchers when owners of Section 515 rural projects prepay their mortgages and/or opt-out of RHS multifamily programs. NAHMA believes tenant protection is an important part of any comprehensive preservation strategy for the rural properties.

The Flexible Voucher Program (i.e. the tenant-based Section 8 Housing Choice Voucher block grant to PHAs described in the FY 2005 budget) was not included in this budget. Unlike last year, the request for Section 8 voucher funding does not assume savings from programmatic changes.

Issues of Concern to NAHMA

Cuts. The Administration is proposing cuts below the 2005 appropriated funding levels for key multifamily housing programs, including: project-based Section 8; Section 811 housing for the disabled; the HOME Formula grant and the Section 515 Rural housing program.

Severe cuts are proposed for project-based Section 8 (-$226 million), which we fear will not cover the costs of this program. Section 811 housing for the disabled would be cut in half, and no money is proposed for new construction (-$118 million). Although total funding through HOME would rise by $41 million, most of this increase is accounted for by additional funds for the American Dream Downpayment Initiative; the HOME Formula Grant, which can be used homeownership programs, or affordable multifamily housing construction or rental assistance would be reduced (-$124 million). The Section 515 Rural Housing Program would be cut by nearly three quarters (-$73 million), with no new construction.

For the tenant-based Section 8 Housing Choice Voucher Program, the Administration will seek separate legislation to give public housing agencies (PHAs) more “flexibility” to manage their dollar-based budgets. While NAHMA remains open to Section 8 reform proposals, we will strongly oppose any legislation to block grant the Housing Choice Voucher Program. For contract renewals, an increase of about $1.1 billion is requested. We are concerned about whether this request will fully fund the cost of vouchers in use. The budget request should allow PHAs to issue up to their authorized level of vouchers.

Defunding production of new affordable multifamily housing grants/direct loans. HUD and RHS multifamily production programs did not fare well. In this budget, Section 202 is flat lined; no funding is proposed for Section 811 capital advances; HOPE VI is zeroed out; the HOME formula grant is reduced; and the Section 515 rural housing program is decimated.

Fairness requires mentioning that loan guarantee programs for production seem to be the preferred policy. The Section 538 program would be doubled, and some premiums for FHA loans are slated for reduction**.**

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.

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 were reevaluated. The list represents the most recent PART information available for these programs. Additional details can be found at: http://www.whitehouse.gov/omb/budget/fy2006/part.html.

PART Ratings of Interest Included in the FY 2006 Budget

HOME Program: Moderately Effective

The “primary shortcoming” noted in the 2004 budget was the lack of long-term outcome goals. Upon reevaluation, HOME seems to have remained at the “moderately effective” rating because its new long-term performance goals were “only recently been identified, [and] little progress has been made to date” in achieving those goals. Achieving annual performance goals was another area identified for improvement. Additionally, OMB does not believe the program is “designed so that it is not redundant or duplicative of any other Federal, state, local or private effort.”

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.

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 providing less than 6,000 new housing units annually while more than 1 million elderly families have severe housing needs. Other sticking points for OMB included "unclear long-term outcome goals, insufficient performance measures… [and] higher costs compared to alternative housing programs for this population . . . ."

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." The agency also notes that the program provides only 3,000 new housing units annually, while as many as 1.4 million very low-income disabled families have severe housing needs. OMB also criticized the cost-effectiveness of the capital grant portion of this program.

Housing Vouchers: Moderately Effective

Vouchers were deemed "a cost-effective alternative to other forms of housing assistance." Citing voucher utilization issues, OMB called some PHAs who administer the vouchers "poor managers."

Project-Based Rental Assistance: Ineffective

OMB asserts this program "has a poor focus on program outcomes and produces poor results relative to alternative forms of housing." There is "poor control of rents paid to landlords," and non-mobility for tenants. A pervasive sticking point for OMB is the program costs more than other rental assistance such as vouchers, HOME, and the low income housing tax credit. OMB believes these programs could achieve the "same or greater benefits at comparable cost."

RHS Multifamily Housing Direct Loans and Rental Assistance: Results not Demonstrated

OMB believes the RHS multifamily programs are "generally well-run" and the program "achieves what it was designed to do." However, the program ". . . is inefficient in that funds needed to show an effect on the problem to the economy as a whole would be prohibitively expensive."

<u>NAHMA's Position</u>

NAHMA is strongly and unequivocally opposed to cuts in federal affordable multifamily housing funds. At a time when nearly 5 million unassisted renters have worst-case housing needs—that is, paying more than 50 percent of their income toward rent or living in substandard housing—now is not the time to cut assistance. 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.