



News and Analysis of Breaking Issues in Affordable Housing

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The 2003 HUD Budget

This morning the President officially submitted his budget proposal to the Congress. At 2,409 pages if you include the appendix and analytical material it makes for heavy reading, both physically and mentally. The 6:00 PM news programs tonight will no doubt cover some aspects of the budget at a more macro level. The more superficial coverage will note that for the first time the Budget has a four color cover, and contains more photographs and tables to generate a bit more reader excitement in the document.

As to substance, it is an interesting document. The HUD Budget overall is proposed at \$31.4 Billion up from \$29.4 Billion this year. The Housing Certificate fund which includes Section 8 renewals is being increased from \$15.641 Billion to \$17.527 Billion an increase of \$1.8 Billion. The contract renewal accounts are being increased to \$16.864 Billion from \$15.971 Billion this year. HUD has indicated that every Section 8 contract is funded for renewal. The numbers we have seen suggest that the \$16.9 billion HUD has requested will be sufficient. The \$4.2 Billion advance appropriation to cover the 2004 fiscal portion of renewals is included again as it has been the last two years.

The Secretary has proposed adding 34,000 new vouchers next year at a cost of \$204 million. In this afternoon's briefing on the budget it was noted that the bulk of these vouchers will be specifically targeted. A number of them will be used to support the single family home purchase initiatives HUD is now pursuing.

The 202 and 811 programs have been flatlined at \$1.02 Billion. 202 gets \$683 million for production up \$4 million from 2002, 811 gets \$212 million which is down \$4 million¹. This is disappointing for two reasons. One- Building costs continue to move up, with no increase in funding the 202/811 units produced will decline next year, probably by something like 10%. Two- these are the only new construction programs HUD has left, and they are not anywhere near adequate to meet the need for affordable seniors and handicap housing. These programs should be funded at levels at least twice the current proposal.

¹ There is a difference in the production figures between the HUD summary of the budget and the Budget Appendix. This appears to be a reconciliation error, the numbers may move around slightly, the total program cost at \$1.02 billion agrees in both documents.

The Conversion to assisted living program is being cut back to \$30 million from \$50 million. This is due to the lack of interest on the part of participants, the applications for the program the last two years have been substantially less than the amount appropriated.

Service Coordinators are being renewed at \$53 million up \$3 million from last year. Of the \$53 million only \$44 million is new money, the remaining \$9 million must come from recaptures. That may prove to be harder than it appears.

Drug Grants are gone altogether, there is limited Neighborhood Network funding, but it is restricted to Public Housing.

The mortgage insurance premiums on new 221-d-4 mortgage loans is being dropped from 80 basis points to 57 basis points. FHA Commissioner Weicher promised the industry and Congressional committees that he would study the more recent loss rates in the multifamily lending program, and would adjust the premium if last year's increase was found unnecessary. They completed the study, found that they had indeed raised premiums too high, and have now adjusted them down. Credit subsidy remains budgeted at \$15 Million a year. We are concerned that this amount is too low to clear the processing pipeline of 221-d-3 refinancings which carry a credit subsidy requirement of 17% of the face of the loan. The senior HUD folks we spoke with today think that they have enough money between the \$15 Million and the additional 7 basis point MIP to clear out the pipeline.

For the first time in recent memory the Budget argues that Congressional Earmarks (generally known as Pork) are parochial and a generally bad idea. The budget even carried a box noting an \$80,000 wind sled² that was earmarked last year for Ashland, Wisconsin.

We think the box would have been more effective if it had carried NAHMA's Pork Provision winner for 2002, the Battleship Alabama. Nonetheless, the Administration has started the debate about earmarks which have gotten much bigger and more common in recent years. Having said that it is very unlikely that the Administration will have any impact on this habit, particularly in an election year.

Great debating point, no chance of action on it. The final version of HUD's budget will carry somewhere between \$300 and \$400 million of additional funding to cover the pork provisions that will be added in the House and Senate. We anticipate being able to select a 2003 pork provision



NAHMA's Pork Provision winner for 2002
\$ 500,000 for repair work on BB-60,
the USS Alabama

²A wind sled for those not conversant with the great white north, is a combination tricycle, boat, and swamp buggy used on the Great Lakes and other lake areas during the beginning and end of winter when ice is too strong for boats to navigate but too weak to support cars or snowmobiles. They are a lifeline to get from islands to the mainland. Minnesota, Wisconsin, and Michigan even have wind sleds painted school bus yellow to carry kids to class every day where the islands are too small to support a school.

winner.

Finally, in the last item related to the Multifamily Housing side of the budget, the Secretary goes into considerable detail on his priority to make sure that everyone in assisted housing gets the correct subsidy. The income matching program is noted, as is the RHIP working group. There have not been any meetings of this group since August of 2001. We understand that the program has now been transferred into the office of the Deputy Secretary. We have asked for an update meeting on this initiative, and will keep you posted on the results. When we met with Elizabeth Hanson, the new Director of REAC, recently we reminded them that if RHIP is to work at all it will require close cooperation between us, the software vendors that support our sites, and the Department. We need good lead time to ensure that when the system is ready to go we will be as well.

On the Public Housing side of the budget the Administration has decided to argue for vouchering out much of Public Housing over time. More specifically they are proposing a system to privatize the financing of PHA's capital needs by having the PHA split their portfolio into separate sites, and mortgage the real estate to generate funding for capital work. The proposal is novel, how well it will work remains to be seen, the details of how vouchers would be tied to a site, the length of funding, and method of backfilling vacancies with new vouchers as residents move all remain to be fleshed out. As we learned with Mark to Market, lenders will have little to no interest in financing properties if they don't see a stream of income to retire the debt. We will keep you posted on developments here as we move forward. In today's briefing it was clear that the policy makers are thinking about this approach but are not necessarily tied to it if it appears it will not work. At best this whole proposal is policy in incubation.

George's Spin - The proposed 2003 budget is adequate. Our major concern, Section 8 Renewals, are covered. The more troubling part of the budget is the slow drift downward that has been started in production. With the flatlining of the 202 and 811 budgets we will be building fewer units than has been the case the last few years. Secretary Martinez knows very well that we have a major problem with affordable housing, there is not nearly enough of it to fill the need, yet this budget is not going to increase the supply in any meaningful way.

The President has proposed adding \$50 Billion in spending to the Defense budget, from my view every nickel of that is justified. I was reading just today that one of our Aircraft carriers was headed to the Gulf to relieve one on station, but its departure has been delayed significantly since 3 of its 4 aircraft elevators were broken, 2 of the 4 catapults had problems, and only 5 of the 8 boilers were working, with one propeller shaft locked in place due to maintenance issues, and 3 of the 4 shafts leaking excessively. If the ship in question were subject to a REAC inspection it would get a 15 at best. The Officers and Enlisted Crew deserve better, and we need to devote money to that, we can't send people into harms way on rusty, broken tubs that need spare parts.

Having said that, we also need to devote more resources to housing those Americans that have low and moderate incomes. We need to add to the HUD Budget above and beyond sustaining existing operations. The fact is that there are 15 to 20 million American families that have critical housing needs. There are more than half a million families who spend more than half their income on housing, and many of those have no prospect of being able to get into assisted or affordable housing

in the next year or two.

If we were to add \$15 Billion in new money to HUD and RHS's budgets we could create 85,000 new units, and preserve another 225,000 through rehabilitation. Our uniformed services need the additional money that is going to the Pentagon. Families with critical housing needs can have their problems addressed on a quarter of the amount going to defense. Longer term, addressing those needs is as important as making sure we as a nation are secure.

This budget will get us through 2003, but we need to add resources and begin to seriously address the need through well designed production programs, project based assistance, and vouchers. It is not inexpensive, but think what additional funding could do.

We are a long way from October, the President has now Proposed..... It is up to Congress to Dispose, we will keep you posted as events progress. The debate has started, add your voice to it, this will be a pivotal year for housing.

All the currently available budget materials are on the NAHMA Web Site for download. As we move forward you will find a full library of material on the Legislative News pages. We will keep you posted. Our work up on Rural Housing's budget will follow later this week.