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2004 Budget Request

Effective Date

Funding levels in the budget request are for Fiscal Year 2004, which begins on October 1, 2003.

Background

On February 3, President Bush submitted his Fiscal Year 2004 budget request to Congress. Submission of the budget begins a process which, if it runs smoothly, will be resolved by October 1, with all of the annual appropriations bills signed into law.

The problem is that the budget process almost never runs smoothly. The statutory October 1 deadline is routinely missed. Congress and the President then fund the government through temporary spending measures known as "continuing resolutions." In fact, four months into FY 2003, the federal government is still operating on continuing resolutions based on 2002 funding levels. For the first time in recent memory, House and Senate appropriators were trying to finalize this year's final spending levels when the President submitted next year's budget.

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

* Finalize the 2003 appropriations;
* Adopt a "budget resolution" which sets spending caps;
* Consider a "supplemental appropriations bill" when they realize they did not adequately fund programs for 2003 in the regular process;
* Use the "budget reconciliation" process to consider the President's tax cut proposals;
* Consider the 2004 appropriations bills.

It is certain that the Administration will continue pressuring Congress to restrain spending. In his 2004 budget message, President Bush promised, "I will also insist on spending discipline in

Washington, D.C., so we can meet our priorities." It should be noted, however, that the President does not seem to consider $695 billion (revised Treasury estimate) in new tax cuts "spending."

Summary

As he mentioned in the State of the Union Address, the President proposed a budget with a 4 percent increase above the 2003 request in domestic discretionary spending. The 4 percent figure was chosen because it represents the growth in average household income. The President does not believe federal spending should increase more than the average family's income. Total funding requested for domestic discretionary programs in 2004 is $782 billion.

Not surprisingly, the President's budget message notes the three national priorities as "winning the war against terrorism, securing the homeland, and generating long term economic growth." Of course, the third priority is accurately translated as "tax cuts." The large deficits OMB acknowledged in the budget ($307 billion in 2004 if the budget is adopted as is) are downplayed as "modest and manageable." Balancing the budget is characterized as a goal secondary to advancing the aforementioned goals.

The President also vowed to be results-oriented in funding programs. He noted, "If federal programs cannot show results, they should be overhauled, or retired." He is not kidding, and we must pay close attention to this admonition. This budget is accompanied by scorecards both for federal agencies and now, for certain federal programs as well. Multifamily housing programs did not fare well in the ratings. See the "Issues of Concern" section for greater discussion.

The only specific mention of housing in the President's two-page budget message was a claim that his budget is ". . . bridging the gap for low-income families, so they can buy affordable homes."

Specific figures for key multifamily housing programs follow:

Overall HUD budget: $31.3 billion

The budget request represents an increase of 1.3 % above the FY 2003 request. The largest proposed increases are for Section 8, homeless assistance programs, the public housing capital fund, and the HOME program. Programs for which NO funding have been requested include HOPE VI, which HUD believes has served its purpose and should not continue to receive funding, and the Brownfields Redevelopment Program (BEDI), which was transferred to the Environmental Protection Agency.

The President has renewed his call for a $200 million downpayment assistance initiative and a new homeownership tax credit for developers to build homes for sale to low income families in low income areas.

With half of its workforce eligible for retirement in the next five years, HUD has requested funding to hire 200 new Full Time Employees (FTEs).

Section 8: $4.7 billion for project-based renewals, $13.6 billion to block grant the vouchers

Section 8 is proposed to be split into 2 parts. The project-based funding would remain under HUD's administration. The vouchers would be redirected to the states as the Housing Assistance for the Needy (HANF) block grant.

HUD believes giving states control of the tenant-based component of rental assistance will allow for greater coordination with the welfare program Temporary Assistance for Needy Families (TANF), promote self-sufficiency for tenants, and allow for better management of the housing money. HUD officials consider the block grant a solution to the $1 billion per year Section 8 recapture problem. Every year, HUD recaptures about $1 billion in unused Section 8 money which is then often used for purposes unrelated to affordable housing.

Section 202: $783 million

This program is flat-lined at $783 million – the same request as 2003. Of this, $16 million is for PRAC renewals, $30 million is for assisted living conversion, and $53 million is for service coordinators. That leaves $684 million for new construction.

Section 811: $251 million

Section 811 housing is also flat-lined at the 2003 requested level of $251 million. Of this, $8 million is directed toward PRAC renewals, and $42 million is for Mainstream Voucher renewals. That leaves $201 million for new construction.

HOME Program: $2.2 billion

HOME is proposed to be increased by 5%, or $113 million, above the 2003 request. HUD estimates this funding level will produce "109,200 units of affordable housing through new construction, rehabilitation or acquisition." HUD also estimates this funding will support tenant-based rental assistance for 13,335 units.

Also included in the HOME account is the president's renewed call for a $200 million American Dream Downpayment Initiative, which is expected to produce 40,000 new homeowners through downpayment and closing cost assistance.

Section 515 Rural Housing: $71 million

Once again, the Department of Agriculture's Rural Housing Service budget requests NO funding for new construction of Section 515 housing. The $71 million is proposed for repair, rehabilitation, and preservation of existing projects.

Rural Rental Housing Assistance: $740 million

USDA has requested $740 million to renew rural rental assistance contracts and to provide new contracts for farm labor housing.

Issues of Concern to NAHMA

Obviously, the first issue of concern is the flat-lining of funding for multifamily housing. The Section 202 and Section 811 programs receive NO additional funding—not even an index for inflation. This is particularly troublesome, since the baby-boomers will soon prepare to retire and the need for affordable seniors' housing will grow.

HUD desperately wants to be America's homeownership agency. This is a worthy goal, but there is legitimate concern that the agency is disproportionately focusing on homeownership initiatives at the expense of multifamily programs. It is clear that the Administration does not want to expand assistance for multifamily housing programs at the federal level. The Administration is looking for ways to devolve multifamily rental assistance and focus on homeownership.

Beyond the numbers, NAHMA is particularly concerned about the Office of Management and Budget's (OMB) new Program Assessment Rating Tool (PART) scorecards. The PART ratings are intended to gauge the effectiveness of federal programs and guide funding decisions. They are derived from questionnaires sent to the agencies. OMB noted, "In a results-oriented government, the burden of proof rests on each federal program and its advocates to prove that the program is getting results. *The burden does not rest with the taxpayer or the reformers who believe the money could be better spent elsewhere*." (Emphasis added.) Likewise, ". . . the ratings and specific findings produced will be used to make decisions regarding budgets and policy. The tool assumes that a program that cannot demonstrate positive results is no more entitled to funding, let alone an increase, than a program that is clearly failing."

According to descriptions by OMB, the questionnaires are designed as follows:

> The first set of questions gauges whether the programs' design and purpose are clear and defensible. The second section involves strategic planning, and weighs whether the agency sets valid annual and long-term goals for programs. The third section rates agency management of programs, including financial oversight and program improvement efforts. The fourth set of questions focuses on results that programs can report with accuracy and consistency.

The ratings, ranged in descending order from: effective; moderately effective; adequate; ineffective; and in half of all programs surveyed, results not demonstrated.

OMB evaluated 234 federal programs, including several HUD and RHS housing programs. OMB specifically noted in its explanation "No one has asked about the extent to which Elderly Housing Grants help the one million very low-income elderly household with severe housing needs." So, elderly housing was one of the 234 programs OMB evaluated. Housing programs were rated as follows:

HOME Program: Moderately Effective.

The "primary shortcoming" noted was the lack of long-term outcome goals.

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 . . ."

This is OMB double-speak at its most frustrating. While acknowledging that the program is not keeping pace with demand, and that the target established in the Annual Performance Plan was production of 10,000 units annually, the Administration has not requested an increase in the program, nor have they proposed an index to inflation for construction costs. In fact, the PART questionnaire notes, "because of the design of the capital grant program, even if significant funding increases were to be given to address the problem, the long lead times to produce units may not yield immediate results." OMB believes vouchers "may provide more units for the same costs."

In light of these findings, HUD may be proposing programmatic changes to the program in the future.

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." They also note 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.

Again, while acknowledging the program has not kept up with the need, the budget request remains at the same level as last year.

As a result of these findings, HUD will be proposing changes to streamline the program and to "give priority to local projects that are part of the strategy to end chronic homelessness by housing those disabled who are at high risk of homelessness."

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." Hence, the HANF block grant proposal.

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."

Of course, OMB overlooks that in practice, Section 8, HOME, and the tax credit programs are not quite so interchangeable. These programs have different regulatory requirements and income targeting levels.

Native American Housing Block Grants: Results Not Demonstrated

The design of the program is clear, but "the program receives poor performance scores primarily because the program does not have a history of establishing quantifiable performance goals, targets, and timelines."

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."

Positive aspects of the budget

Funding is proposed for project-based and PRAC contract renewals.

Conclusion:

After review of the 2004 budget and the PART scorecards, the proposed funding for housing programs is disappointing—to say the least.

It is absolutely certain that the voucher movement is still alive and well at OMB. Even politically popular housing programs such as Section 202 appear to be viewed skeptically and unfavorably by OMB. It is now more important than ever that we make our case regarding the human side of assisting housing programs to members of Congress, who must decide the funding levels through appropriations.

Because these program scorecards are a precursor of budgets to come, they may be even more important in the long term than this year's proposed funding levels. Despite the pretense of objectivity, OMB is likely to use these ratings any way they please. They are also a handy way to malign the programs OMB would rather do without.