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February 19, 2008 NAHMAnalysis 2008 - 0219

FY 2009 Budget Request for Affordable Rental Housing Programs

Effective Date or Deadline

Funding levels in the budget request are proposed for Fiscal Year 2009, which begins on October 1, 2008. The budget request is subject to the approval of Congress.

Background

On February 4, President Bush submitted his Fiscal Year 2009 budget request to Congress. Submission of the budget begins a process which, if run 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.[1] 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);
- Adopt a "budget resolution" which sets spending caps (targeted date is April);
- Begin the FY 2009 appropriations process (May through September or until completed); and
- Resolve outstanding differences on the House and Senate versions of appropriations bills which are likely to be introduced by the Subcommittee Chairs in late May or early June.

Summary

The Administration proposed a budget of $38.5 billion for HUD in FY 2009, an increase of $1 billion over FY 2008 Appropriations, and an increase of $3.2 billion over last year's request. One of the largest areas of funding increase would be Project-Based Section 8 contract renewals. Other programs for which

[1] The 2008 Consolidated Appropriations Bill was not signed into law until December 26, 2007.

increases are proposed include homeless assistance, housing counseling, and the HOME program. However, the 2009 budget levels for several key housing-related programs are lower than those of the actual appropriated funds in FY 2008 and would be further minimized in real dollars due to inflation rates.

Tenant-Based and Project-Based Section 8 represent about 60 percent of the proposed HUD budget for FY 2009. Tenant-Based Section 8 contract renewals would receive a cut of nearly $400 million in relation to the FY 2008 appropriations, while Project-Based Section 8 is proposed to receive over $1 billion above FY 2008 Appropriation levels. Specifically, HUD has proposed a $624 million increase for contract renewals above the FY 2008 Appropriations and an additional $400 million in advanced appropriations for FY 2010. The Center on Budget and Policy Priorities (CBPP) calculates that the funding for Tenant-Based Section 8 would not be enough to cover all contract renewals and Project-Based Section 8 contract renewals would also fall short of full funding despite the proposed increase. The Administration is asking for significant cuts to Section 202, about $195 million less than FY 2008 funding, and Section 811, a loss of $77 million which would stifle new unit production. HOPE VI would once again be cut from the budget entirely. CDBG would also receive a significant cut of $866 billion below FY 2008 funding, due in part to the debate over the need to revise the funding formulas.

Overall, the RHS programs appear to be flat funded under the FY 2009 proposals with a total budget request of $6.741 billion. The White House has once again sought to completely eliminate Section 515 Direct Loans. This year Section 514 Farm Labor Direct Loans as well as Single Family Section 502 Direct Loans would also be "zeroed-out." No funding is requested for the Multi-Family Housing Revitalization account. Rental Assistance under the proposed FY 2009 budget would substantially increase by more than $500 million over FY 2008 appropriations. Guaranteed Loans for single-family (Section 502) and multi-family (Section 538) housing would see dramatic increases in funding under the FY 2009 proposal.

Funding for Specific Multifamily Housing Programs

HUD:

Tenant-Based Section 8: $16.04 billion total funding; $14.319 billion for contract renewals

The President's budget increases total Tenant-Based Section 8 funding over the FY 2008 request, but represents a cut from the $16.4 billion Congress appropriated for FY 2008. The contract renewal request is close to $400 million less than the FY 2008 appropriations as well. The CBPP estimates "at least 100,000 housing vouchers in use by low-income families in 2008 would be cut under the President's budget."[2]

Project-based Section 8: $7.4 billion total; $6.763 billion for contract renewals; $400 million in advanced appropriations for FY 2010

The Administration's Project-Based Section 8 budget is a huge increase over FY 2008 proposals ($5.81 billion) and enacted appropriations ($6.38 billion). The Administration also recognizes the need for a "cushion" to provide funding during the FY 2009 and FY 2010 overlap, and has proposed a $400 million advanced appropriation for FY 2010 to cover potential funding gaps. While this increase represents meaningful progress, it will not fully fund costs of 12-month contract renewals. Even with this

[2] Center on Budget and Policy Priorities (CBPP) "Preliminary Analysis of HUD Provisions of the President's Budget for FY 2009" by Douglas Rice and Barbara Sard. February 6, 2008. Page 2.

substantial increase, members would continue to receive “incremental” funding for less than 12 months. According to the CBPP “the increased funding for Section 8 project-based rental assistance, while welcome, falls nearly $2 billion short of the amount needed to fully fund renewals in FY 2009.”[3]

Section 202: $540 million

The Administration’s request is below the FY 2008 appropriation of $735 million and also represents a cut from last year’s proposal by $35 million. It is significant to point out that the FY 2009 budget would set aside $25 million to convert existing properties to assisted living facilities, $96 million to renew PRAC contracts, and $80 million of this funding towards service coordinators. The Administration desires an increased production of units to serve the elderly and disabled by removing barriers that discourage LIHTC applicants from using Sections 202 and 811. This Budget proposes $339 million for capital advances and project-based rental assistance awards including up to $15 million “for a demonstration program that leverages project awards with other sources of development financing, such as tax credits.” The Administration expects this $339 million will produce 2,400 new units of housing.

Section 811: $160 million

The FY 2009 budget requests a $35 million increase over the FY 2008 proposals, but is a cut in comparison with FY 2008 funding, $237 million. Up to $10 million is proposed for the demonstration on leverage financing.

HOME: $1.967 billion

The Administration’s request for HOME funding has not changed from the FY 2008 proposals, but it still represents an increase of $263 million over FY 2008 appropriations. HUD has estimated this amount will be able to assist 13,000 families in finding affordable homes.

HOPE VI: $0

The President has once again suggested completely cutting all funding to HOPE VI. Congress appropriated $100 million for the program in FY 2008. Currently, HOPE VI is awaiting reauthorization by Congress. The House has passed the HOPE VI Reauthorization Act of 2007 (H. R. 3524) with key changes that include:

- $800 million a year appropriated to the program from FY 2008 to FY 2015;
- The elimination of demolition-only grants and tenant eligibility standards;
- Mandatory one-for-one unit replacements; and
- Mandated Green Communities compliance.

The Senate has received the House version last month, but has yet to take action.

[3] Center on Budget and Policy Priorities (CBPP) “Preliminary Analysis of HUD Provisions of the President’s Budget for FY 2009” by Douglas Rice and Barbara Sard. February 6, 2008. Page 2.

Community Development Block Grant (CDBG): $3 billion

The President's Budget has requested significant cuts from FY 2008 appropriations, about $866 million. The Administration has asked Congress to revise the funding formula to distribute resources equally and efficiently to the areas of greatest need.

USDA-RHS:

Multi-Family Housing Revitalization Program: $0

As part of the FY 2006 budget, the Administration suggested the Multi-Family Revitalization Program in order to help preserve and revitalize the RHS multi-family portfolio by using existing authority to provide rural housing vouchers to protect tenants adversely affected by loan pre-payments. The Administration also proposed that the legislation should provide debt restructuring and other incentives for project sponsors to keep RHS projects in the Section 515 program. However, Congress has yet to pass the Multi-Family Housing Revitalization Program. As a result, the Administration has not requested any new funding for the program in the FY 2009 budget for this pilot program.

Section 515 Multi-Family Housing Direct Loans: $0

The Administration has once again requested that multi-family housing Section 515 loans be completely cut from the budget. Although NAHMA would have more funding, Congress appropriated $70 million in FY 2008 for the direct loans, a cut from FY 2007 appropriations. However, Congress noted that the repair and rehabilitation these loans provide to rural low income housing could be accomplished using the Revitalization Initiative.

Section 521 Rural Rental Assistance: $997 million

The proposed FY 2009 budget drastically increased its request for rural rental assistance over $400 million. The proposal also represents over $500 million in increased funding above the FY 2008 appropriations. Contracts have been reduced to one-year renewal periods and the extra funds are expected to cover unforeseen disruptions for renewing contracts. The USDA Budget Overview notes that:

> "For 2009, an estimated 230,000 units are up for renewal, at an estimated cost of $997 million.
>
> To meet this need, the budget includes $897 million for rental assistance payments and $100 million for a new rental assistance pilot program for vouchers that would provide a transition from rental assistance. Providing vouchers in a few select properties will allow RHS to target the rental subsidy to the low-income tenants rather than the developers and their projects. The 2009 budget also proposes that the recipients of rental assistance payments and vouchers contribute a minimum of $50 toward their monthly rent."

Section 538 Multi-Family Housing Loan Guarantees: $300 million

The President has requested an additional $100 million increase in multi-family housing loan guarantees in relation to the FY 2008 requests. This number is also $170 million higher than FY 2008 appropriations. NAHMA is pleased by the increase, but does not consider the Loan Guarantee program a replacement for Section 515.

Positive Aspects of This Budget Request

The increase proposed for Project-Based Section 8 contract renewals would represent substantial progress since the cut proposed in HUD's FY 08 budget. USDA-RHS has received significant increased multi-family housing guaranteed loans and in rural rental assistance.

Issues of Concern to NAHMA

First and foremost, even with the increase requested for Project-Based Section 8, funding will be insufficient to fully fund the 12-month contract increments. HUD's request of $7 billion will only be enough to incrementally fund (i.e. short-term contracts) contracts in FY 09, which runs from October 1, 2008 to September 30, 2009. According to the Center on Budget and Policy Priorities (CBPP), in order to fully fund 12-month contract renewals for FY 2009 and account for the FY 2008 shortfalls, close to $2 billion in additional funding is needed, bringing the total need for FY 2009 funding to $9 billion.[4]

NAHMA opposes all cuts to affordable multi-family housing programs. NAHMA is also concerned that the Presidential proposals continue to call for significant cuts to Section 202 and Section 811. Even if the programs were flat funded, as FY 2008 appropriations have done, the amount available for new construction would continue to decrease due to the higher costs of additional line items within these accounts, such as project rental assistance contracts, and because of inflation. We are extremely concerned about Tenant-Based Section 8 in the light of the CBPP analysis that 100,000 vouchers in use would be lost. We are also skeptical of the $100 million pilot program proposed for RHS rental assistance.

PART Scorecards.

The Office of Management and Budget's (OMB) Program Assessment Rating Tool (PART) scorecards were designed so that the goal to examine the effectiveness of every federal program can be met. PART scorecards have become a mainstay of the federal budget. Below are the PART ratings on the programs that may be of interest to NAHMA members. The list is not all inclusive and members should keep in mind that not all programs are reevaluated every year. The list contains the most recent score. Additional details can be found at: **www.expectmore.gov** or **http://www.whitehouse.gov/omb/expectmore/topic/Housing.html**.

Members will likely notice a relationship between unfavorable PART ratings and disappointing budget requests.

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." OMB would like to improve the performance of the program by "developing long-term outcome measures to assess the impact HOME has

[4] Center on Budget and Policy Priorities' Preliminary Analysis of HUD Provisions of President's Budget for FY 2009

on communities and neighborhood quality" and participate "in independent evaluations and studies of the program to highlight areas for improvement."

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. The Administration is asking Congress for statutory changes that will give more funds to the neediest areas.

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 requests 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 strongly feels that this program has inadequate long-term measures to "determine what impact the program has on poor disabled individuals." In particular, the program was slammed 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.

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.”

FHA Multi-Family Mortgage Insurance: Results Not Demonstrated

OMB contends, “There is no strong evidence that the program makes a significant contribution to the availability of affordable housing.” Also at issue was an adverse audit finding for the program’s financial transaction system. On a positive note, OMB recognized the program had streamlined its application process and increased efficiency. Going forward, OMB wants to ensure FHA “makes a unique and significant contribution to increasing housing affordability,” develop better outcome measures and correct the material weakness for the program’s financial transaction system.

USDA-RHS Multifamily Housing Programs: Moderately Effective

OMB has lumped together Section 515, Section 538, farm labor housing and rental assistance in this assessment. OMB was pleased with the annual and long-term performance measures for these programs. On the critical side, OMB asserted, “Financial management and program design could be improved if the agency required property owners to keep an appropriate reserve for capital repairs.” Aspects of the improvement plan include “finalizing regulations that will require the property owners to maintain an appropriate reserve for capital repairs” and “implementing legislative changes that will help address dilapidated properties currently within the portfolio.”

NAHMA’s Position

NAHMA does not believe the FY 09 budget request adequately funds affordable multifamily housing program. First, NAHMA is adamant that project-based Section 8 HAP contracts should be fully funded for their 12-month increments. Likewise, we oppose cuts to important programs such as Section 202, Section 811, Section 515, and the housing choice voucher contract renewals. We believe that all HUD and RHS production programs should be increased for inflation at the very minimum.

Please be assured that NAHMA will work to increase funding for these important programs as the budget and appropriations process takes shape. Additionally, members are strongly encouraged to contact Congress and explain how the proposed budget will affect your portfolios.