

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



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FY 2010 Budget Request for Affordable Rental Housing Programs

Effective Date or Deadline

Funding levels in the budget request are proposed for Fiscal Year 2010, which begins on October 1, 2009. The budget request is subject to the approval of Congress.

Background

In February 2009, President Obama submitted his Fiscal Year (FY) 2010 budget request outline to Congress. However, the request was preliminary because the Administration lacked the manpower and the time to adequately assess the funding needs of federal programs by their typical February submission date. After extensive review, the Obama Administration submitted a more detailed budget with line-by-line funding levels for FY 2010 to Congress on May 5, 2009. 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.¹ Congress and the President then fund the government through temporary spending measures known as “continuing resolutions.” However, appropriators are optimistic Congress will approve the FY 2010 Appropriations before October 1, 2009 because the same party (Democrats) controls the White House and Congress for the first time since 2006.

In April, Congress adopted its non-binding “budget resolution” which sets spending caps for the upcoming fiscal year.

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

- Hold hearings on the President’s budget (through May);
- 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.

¹ The 2009 Consolidated Appropriations Bill was not signed into law until March 10, 2009.

Summary

The Obama Administration has proposed a budget of \$46.3 billion for HUD in FY 2010, an increase of \$4.5 billion over FY 2009 appropriations and an increase of almost \$8 billion over last year's Presidential budget request under the Bush Administration. The Obama FY 2010 Budget represents a huge departure from the Bush Administration's focus on home ownership and requests more funding for affordable rental housing. The largest areas of proposed funding increase are Project-Based Section 8 contract renewals, Tenant-Based Section 8 voucher renewals, CDBG, and rural rental housing assistance. President Obama has also included several funding requests for new programs to help fund new construction and rehabilitation for affordable housing including the Affordable Housing Trust Fund, the Choice Neighborhoods Initiative, and the Energy Innovation Fund. However, most other HUD and RHS affordable multifamily housing rental programs remain flat-funded at FY 2009 appropriations levels. It is important to note that the 2010 budget levels for flat-funded programs would be further minimized in real dollars due to inflation rates.

There are several highlights and lowlights within the FY 2010 HUD budget request. Tenant-Based Section 8 contract renewals would receive an increase of \$1.77 billion in relation to the FY 2009 appropriations, while Project-Based Section 8 is proposed to receive over \$1 billion above FY 2009 appropriation levels. Specifically, HUD has proposed a \$500 million increase for Project-Based Section 8 contract renewals above the FY 2009 appropriations and an additional \$400 million in advanced appropriations for FY 2011. CDBG would receive a significant boost of \$550 million above FY 2009 funding. The Obama Administration has proposed \$1 billion for the Housing Trust Fund, since Fannie Mae and Freddie Mac cannot fund the program for the near future. HOPE VI would be cut from the budget but replaced with a new program called Choice Neighborhoods Initiative. In addition, HUD has proposed the creation of a multifamily pilot program for a new Energy Innovation fund to help provide grants for energy efficiency improvements during multifamily rental housing rehabilitations. Nevertheless, the Administration is requesting flat funding for Section 202, Section 811, and HOME, which would reduce the number of new units produced due to escalating costs and inflation. Finally, HUD has proposed LEP be eliminated as a line-item funding account.

For USDA-RHS, Rural Rental Assistance under the proposed FY 2010 budget would substantially increase by more than \$188 million over FY 2009 appropriations. However, the White House has suggested flat funding at FY 2009 levels for Section 515 Direct Loans, Section 538 Guaranteed Loans, and the Multifamily Housing Revitalization Program.

Normally, NAHMA includes the Office of Management and Budget's (OMB) Program Assessment Rating Tool (PART) scorecards as part of our budget analysis. The PART scorecards act as a rating system to examine the effectiveness of every federal program and are a mainstay of the federal budget. However, no federal program has received their PART score from OMB under the Obama Administration. We imagine the PART scores will change as programs are reviewed by the new Administration, because of the Obama Administration's substantially more positive view of the affordable multifamily housing rental programs than its predecessor, the Bush Administration. When the updated PART scores are released, NAHMA will release an updated NAHMA analysis for the FY 2010 Presidential Budget.

Funding for Specific Multifamily Housing Programs

HUD:

Tenant-Based Section 8: \$17.84 billion total funding; \$16.19 billion for contract renewals

The FY 2010 Presidential budget request is over \$1.76 billion enacted for FY 2009 government appropriations and the FY 2009 Bush Administration's budget request. With this funding, HUD expects to house over 2.1 million families through this program by the end of FY 2010, 100,000 more than in FY 2008. The Obama Administration has proposed this funding increase in conjunction with calls to reform the voucher program through legislative and regulator reforms and technological improvements.

Project-based Section 8: \$8.1 billion total; \$7.398 billion for contract renewals; \$400 million in advanced appropriations for FY 2011

After years of program under-funding, FY 2010 may finally be the year that the Project Based Section 8 program receives full 12-month funding for contract renewals. HUD believes, "Annual renewal funding should be predictable, timely, and sufficient to fund rental contracts for a full 12 months, a sharp contrast to the short funding of contracts that occurred in recent years." Therefore, the Obama Administration has committed to providing full funding for the program through a \$1 billion increase over the FY 2009 Appropriations and a \$1.1 billion increase over the Bush Administration's FY 2009 budget request. This will act in conjunction with the \$2 billion provided by Congress in the American Recovery and Reinvestment Act (ARRA) of 2009 (P.L. 111-5, H.R. 1) to help fill previous funding gap in the program. The Obama Administration has also recognized the need for a "cushion" to provide funding during the FY 2010 and FY 2011 overlap, and has proposed a \$400 million advanced appropriation for FY 2011 to cover potential funding gaps.

Section 202: \$765 million total; \$522 million for expansion, \$153 million for contract renewals; \$90 million for service coordinators

The Obama Administration has recommended flat funding the Section 202 account for FY 2010 in comparison with FY 2009 appropriations levels. The flat funding is still an improvement over the FY 2009 Bush Administration's budget request to cut the program by \$245 million.

The Obama Administration has decided to simplify the Section 202 account by dividing new construction and continuing contract renewal accounts. HUD has requested \$522 million be included for Section 202 expansion activities, including funding for the construction of new units via capital advance grants and initial project rental assistance contracts (PRAC). HUD has also proposed \$230 million in funding through a new account for supportive housing for the elderly for PRAC renewals, service coordinators and congregate services, conversion to assisted living, and other operating expenses. The Administration believes, "This will allow the display of "fixed costs" associated with existing units to be separate from the "variable costs" of building new units." Finally, the Obama Administration has proposed eliminating the line item accounts for "planning grants," "conversion to assisted living grants," and "elderly leverage financing demonstration," consolidating the funding to the main program.

Section 811: \$250 million total; \$114 million for expansion; \$129 million for contract renewals

The Obama Administration has recommended flat funding the Section 811 account for FY 2010 in comparison with FY 2009 appropriations levels. The flat funding is still an improvement over the FY 2009 Bush Administration's budget request to cut the program by \$90 million.

The Obama Administration has decided to simplify the Section 811 account by dividing new construction and continuing contract renewal accounts. HUD has requested \$114 million be included for Section 811 expansion activities, including funding for the construction of new units via capital advance grants and initial PRACs. HUD has also proposed \$87 million in funding to renew Section 811 contracts that provide tenant based rental assistance and \$49 million to renew and/or amend existing 811 PRACs. The separation of these programs “will allow the display of "fixed costs" associated with existing units to be separate from the "variable costs" of building new units,” according to the Obama Administration. The Obama Administration has proposed eliminating the line item accounts for “disabled leverage financing demonstration,” consolidating the funding to the main program.

HOME: \$1.825 billion

The Administration’s funding request for HOME is flat-funded at FY 2009 appropriations levels and slightly less than the Bush Administration’s FY 2009 Budget proposals. HUD estimates that the funding will help produce almost 78,000 units of affordable housing through new construction, rehabilitation, and/or acquisition. They have also estimated that communities will use a portion of their funding to support tenant-based rental assistance for over 17,000 units. President Obama has called for consolidation of some line-item accounts within HOME. Those activities will now be eligible under the main program.

HOPE VI: \$0

Despite the inclusion of \$120 million in the FY 2009 Appropriations, the Obama Administration feels that the HOPE VI program has accomplished its goal to demolish 100,000 severely distressed public housing units. HUD has proposed no additional funds. Instead, the Administration will focus on the Choice Neighborhoods Initiative. HUD will spread out the remaining balance, \$900 million, over several years as the redevelopment projects are completed. As of December 31, 2008, the HOPE VI program has relocated 72,346 households, demolished 91,910 units, completed 75,363 units (new and rehabilitated), and occupied 72,874 completed units.

Choice Neighborhoods Initiative: \$250 million

The Choice Neighborhoods Initiative is a new program under the Obama Administration that will expand on the HOPE VI program beyond public housing by including assisted and private distressed housing as eligible projects for funding and allow public, private, and non-profit partners to become eligible grant recipients. It will also expand the scope of the programs initiatives beyond the demolition of distressed housing and help provide reform to school and community programs to help alleviate concentration of poverty in urban areas.

Community Development Block Grant (CDBG): \$4.45 billion

HUD believes, in order to fully fund the CDBG program, an additional \$550 million above FY 2009 government appropriations and close to \$1.5 billion over the FY 2009 Bush Administration proposal is necessary. The Obama Administration seeks to reform the CDBG funding formula to ensure the better use of money Congressional appropriations provide. In the HUD report on the FY 2010 Budget, the Administration writes, “Increased funding will allow an update to the formula that is more than 30 years old without any jurisdiction receiving a reduction in funding” so that they may hold grantees harmless at their FY 2009 funding levels and those who need additional funds will receive them. Proposed legislation to authorize these reforms will be submitted in mid-2009.

This account also reflects 2009 Recovery Act funding — \$1 billion in CDBG and \$2 billion for Neighborhood Stabilization Program competitive grants. President Obama has called for consolidation of some line-item accounts within CDBG. Those activities will now be eligible under the main program.

Limited English Proficiency (LEP) Program: \$0

The Obama Administration has recommended removing LEP as an individual line-item account within Fair Housing and Equal Opportunity and moving it to another program. Available budget documents did not specify where the program or its funding would move and Fair Housing and Equal Opportunity had not responded to NAHMA's inquiry at publication.

Affordable Housing Trust Fund: \$1 billion

Because of the financial troubles and economic meltdown, the Federal Housing Finance Agency has indefinitely suspended contributions from Fannie Mae and Freddie Mac that were intended as a funding stream to the Housing Trust fund. As a result, the Obama Administration has recommended providing \$1 billion in funding to the program to increase and preserve the supply of rental housing and housing ownership for extremely low-income and very low-income families. Over time, the Administration expects the funding provided for the Housing Trust Fund in FY 2010 to produce approximately 29,000 rental units and 7,000 homebuyer units.

Energy Innovation Fund: \$75 million; \$25 million for multifamily pilot

HUD has proposed developing a Multifamily Energy Pilot (MEP) to provide financial incentives for borrowers in the several FHA Multifamily programs to provide energy efficiency improvements in multifamily rehabilitation projects.

USDA-RHS:

Multifamily Housing Revitalization Program: \$27.7 million total; \$2 million for revolving loans; \$5 million for rural housing vouchers; and \$20 million for demonstration program grants

Both Congress and the Obama Administration have ignored the Bush Administration's suggestions to stop funding the Multifamily Housing Revitalization program. The Obama budget proposes \$5 million in 2010 for housing vouchers for residents of projects whose sponsors prepay their outstanding indebtedness on USDA loans and leave the program. In addition, because of a capital needs assessment, the Administration has determined that USDA's multifamily housing portfolio needed to be overhauled and upgraded. To facilitate this, the President's budget proposes another year of a demonstration program at \$20 million for the preservation and revitalization of section 515 properties. The budget also proposes \$2 million for another year of the multifamily housing preservation demonstration revolving fund, which provides loans to intermediaries that establish a revolving loan program for the preservation and revitalization of the section 515 multifamily housing as affordable housing.

Section 515 Multifamily Housing Direct Loans: \$69.5 million

The Obama Administration has proposed continuing to flat fund the Section 515 loan program and avoiding calling for the zero out of the program as the Bush Administration did in FY 2009. The Obama proposal calls for any remaining balances from previous appropriations to the program to be transferred to the Multifamily Housing Revitalization Program. The administrative expenses are estimated on a cash basis.

Rural Rental Assistance: \$1.09 billion

The FY 2010 Obama Administration budget request represents a \$100 million increase over the Bush Administration's FY 2009 rural rental assistance budget request and \$188 million over the FY 2009 Appropriations. The USDA FY 09 Budget Overview noted that to renew all 230,000 units for FY 09, about \$997 million was necessary.

The Administration has given USDA the authority, at its discretion, to use some funds for additional servicing assistance for existing projects. As of the FY 2009 Appropriations, the terms of the contracts changed to one-year contracts, requiring a much larger funding level than in years past.

Section 538 Multifamily Housing Loan Guarantees: \$129 million

The Obama Administration has suggested flat funding at the level of the FY 2009 Appropriations. The amount is much less than the FY 2009 Bush Administration budget proposed. However, this was because the Bush Administration wished to zero funding for Section 515 and shift it into Section 538 loans. Additionally, the Obama Administration has requested that the 538 guaranteed multifamily housing loans continue the 2009 treatment that provides these loans with no fee as well as no subsidized interest.

Positive Aspects of This Budget Request

The proposed increase in Project-Based Section 8 contract renewal funding would represent substantial progress in ensuring full 12-month funding for HAP contracts. NAHMA is pleased that the new leadership at HUD has taken the time to evaluate the funding needs of the program and has committed to ensuring full 12-month funding of contracts going forward. The proposed \$1 billion increase over FY 2009 Appropriations represents evidence of this commitment. Based on NAHMA's conversations with Senate and House Appropriations staff, we feel very optimistic that they will provide full 12-month funding for contract renewals in the FY 2010 THUD appropriations bills. The proposed increase in funding in conjunction with quarterly Congressional reporting requirements from the FY 2009 Appropriations on the status of the program and the \$2 billion provided by ARRA are major steps toward alleviating the loss of faith in HUD from the Project-Based Section 8 participants who experienced delayed payments over the last several years.

NAHMA is also pleased by the requests for significant increases in the Section 8 voucher and the CDBG accounts. The proposed enhancements in funding will increase the number vouchers and affordable rental housing units available to the public.

Although the Administration has proposed scrapping the HOPE VI program, the Choice Neighborhoods Initiative that has been suggested to replace it could expand eligibility to a broader affordable portfolio. Likewise, it would expand permissible uses of the funds to a wider range of activities, including additional funding for community partners to provide additional services and programs to their urban neighborhoods.

The Multifamily Energy Innovation pilot program proposed would offer property managers and owners an opportunity to provide voluntary energy efficiency improvements to multifamily rehabilitation projects outside of the Green Retrofits Program included in the American Recovery and Reinvestment Act of 2009 (P.L. 111-5, H.R. 1).

Finally, NAHMA is pleased to see that USDA-RHS has requested a rural rental assistance increase that would meet the full funding needs of the program.

Issues of Concern to NAHMA

NAHMA is very troubled that HUD has proposed eliminating the Limited-English Proficiency (LEP) Program as a line-item account. HUD has not specified from which account LEP translation funding will now be eligible. NAHMA is concerned that without the line-item the money may be used for other purposes. NAHMA has requested more information from FHEO on the placement of the account. We have worked tirelessly to secure funding from Congress for the specific purpose of fulfilling LEP translations. NAHMA will continue to advocate for comprehensive LEP authorization language that will:

- Create a task force of industry and civil rights stakeholders to identify vital documents);
- Require HUD to translate the vital documents;
- Create a HUD-administered 1-800 hotline to assist with oral interpretation needs; and
- Authorize appropriations.

The Obama Administration has called for the flat funding of Section 202, Section 811, and HOME. These are among the few programs that still provide new construction and/or preservation for affordable rental housing. With increased operating costs and rising inflation, there is less and less money available for new construction and rehabilitation when these programs are flat-funded. Financing new construction and rehabilitation is already difficult enough because of the credit crunch and the financial crisis. Providing additional funding to these sectors will not only produce new or preserve older affordable housing units for low-income populations, but will provide additional jobs and investment opportunities in the market. Despite the Presidential call for flat funding, we will continue to encourage Congress to increase funding during the appropriations process for these important programs in order to keep pace with inflation, escalating construction, and overall development costs.

NAHMA was also disappointed with the flat funding of the majority of the RHS affordable multifamily housing programs. Flat-funding Section 515, Section 538, and the Multifamily Housing Revitalization programs do nothing to keep pace with the programs needs. With increased operating costs and rising inflation, there is less and less money available for new construction or rehabilitation when these programs are flat-funded. Providing additional funding for rural housing will produce new affordable housing units in rural markets and will provide much needed jobs and investment opportunities in these areas. The proposed increase in rural rental assistance is not a substitute for these loan programs.

NAHMA's Position

NAHMA is pleased that President Obama's FY 2010 Budget proposal reaffirms the Administration's commitment to increasing funding for the Project-Based Section 8 program. With the levels recommended in the FY 2010 Budget, the program should be able to return to fully funding 12-month contracts from now on, allowing HUD to focus on authorizing regulatory changes to address the rehabilitation and preservation needs of the Project-Based Section 8 housing stock.

Nevertheless, we encourage members to keep us informed if there are disruptions in the HAP payment process or other ongoing problems. We also recommend that members promptly communicate HAP payment problems to their Congressional delegations. NAHMA will work to ensure the necessary appropriations to fully fund all affordable housing programs for the FY 2010 appropriations.

It is also heartening to see HUD's focus turn towards affordable rental housing once more. To that end, HUD has proposed significant increases in funding for ongoing programs as well as new funding avenues for new construction and rehabilitation.

NAHMA also will continue request funding increases in the FY 2010 appropriation bills for Section 202, Section 811, HOME, and various rural housing programs. Flat-funding these programs does not keep pace with the programs' costs. Providing additional funding for these affordable rental housing programs will produce new units in a variety of markets and will provide much needed additional jobs and investment opportunities in this ailing economy.

In the meantime, we encourage members to continue communicating with NAHMA and their elected officials about multifamily affordable rental housing concerns, including funding levels, so that our members can continue to provide an exceptional quality of living for low-income families.