

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



February 16, 2010

NAHMAanalysis 2010-0216

FY 2011 Budget Request for Affordable Rental Housing Programs

Effective Date or Deadline

Funding levels in the budget request are proposed for Fiscal Year 2011, which begins on October 1, 2010. The budget request is subject to the approval of Congress.

Background

On February 1, 2010, President Obama submitted his Fiscal Year (FY) 2011 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.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:

- Adopt a non-binding “budget resolution” which sets spending caps for the upcoming fiscal year (April);
- 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 2010 Consolidated Appropriations Bill, which included spending for HUD programs, was not signed into law until December 16, 2009. The FY 2010 Agricultural Appropriations Bill was not signed into law until October 16, 2009.

Summary

The Obama Administration has proposed a budget of \$48.5 billion for HUD in FY 2011, an increase of \$2.4 billion over FY 2010 appropriations and an increase of \$2.2 billion over last year's Presidential budget request. The largest areas of proposed funding increase are the Project-Based Section 8 and Tenant-Based Section 8 accounts. The largest percentage of proposed multifamily housing program funding cuts are in the Section 202 and Section 811 accounts. President Obama has also included requests for new programs to help streamline, improve, and evaluate program performance. It is important to note that the 2011 budget levels for accounts that were flat-funded or received cuts would be further minimized in real dollars due to inflation rates.

There are several highlights and lowlights within the FY 2011 HUD budget request. Tenant-Based Section 8 contract renewals would receive an increase of \$1.4 billion in relation to the FY 2010 appropriations, while Project-Based Section 8 would receive over \$900 million above FY 2010 appropriation levels. The Administration has requested that CDBG be flat funded in line with the FY 2010 Appropriations. The Obama Administration has once again proposed \$1 billion for the Housing Trust Fund, since Fannie Mae and Freddie Mac cannot fund the program for the near future. For a second time, HUD has requested cutting HOPE VI from the budget and replacing it with the Choice Neighborhoods Initiative. However, the Administration is requesting zeroing out new construction funding for Section 202 and Section 811. HUD has also requested cuts to the HOME program. Cutting funding to these three programs will reduce the number of new units produced in FY 2011. HUD has once again proposed LEP be eliminated as a line-item funding account. The Administration has also proposed a Transforming Rental Assistance (TRA) initiative that would begin consolidating HUD's 13 separate rental assistance programs.

The FY 2011 HUD budget request also did not contain the Obama Administration's proposal for government-sponsored entity (GSE) reform, i.e. Fannie Mae and Freddie Mac. HUD Secretary Shaun Donovan has said that the Administration will issue its GSE reform proposal soon but did not reveal when or provide any information on the proposal.

Treasury/IRS included a legislative proposal in the FY 2011 budget request to extend the American Recovery and Reinvestment Act (ARRA) Section 1602 low-income housing tax credit (LIHTC) cash-exchange program to 2010 tax credits.

For USDA-RHS, the Obama Administration has proposed significant spending cuts in FY 2011 from the USDA Rural Housing Service (RHS) programs below FY 2010 estimated spending levels. Under the proposed FY 2011 budget, Rural Rental Assistance would receive a \$14 million cut below FY 2010 appropriations. The Multifamily Housing Revitalization Program would receive \$18 million to fund vouchers only under the request. USDA has not requested funding for the program's rehabilitation and demonstration programs. The White House has suggested flat funding the Section 538 Guaranteed Loans at FY 2010 levels. Nevertheless, USDA has proposed increasing the Section 515 account by \$25 million to help offset the funding loss to 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. During the Bush

Administration, the PART scorecards acted as a rating system to examine the effectiveness of every federal program. Although President Obama's budget message promises aggressive program evaluations, it makes no specific mention of the scorecards. Instead, the OMB has provided supplemental documentation justifying the termination of and cuts/savings for affected federal programs in the FY 2011 budget request. These justifications have been incorporated into the NAHMA analysis program summaries below.

A copy of OMB's "Terminations, Reductions, and Savings" document can be found here: <http://www.whitehouse.gov/omb/budget/fy2011/assets/trs.pdf>.

Funding for Specific Multifamily Housing Programs

HUD:

Tenant-Based Section 8: \$19.6 billion total funding; \$17.3 billion for contract renewals

The FY 2011 Presidential budget request is a \$1.4 billion increase of the FY 2010 government appropriations and a \$1.8 billion increase over the FY 2010 budget request for housing choice vouchers. With this funding, HUD hopes to help almost 2.2 million families through this program, over 100,000 families more than 2009. The FY 2011 budget request also proposes shifting \$113.6 million to renew nearly 15,000 Section 811 vouchers, allowing the Department to consolidate rental assistance programs and save a significant amount of administrative resources.

The HUD budget request has also proposed using additional funding to:

- "Design a comprehensive development strategy to improve HUD IT systems to better manage and administer the Voucher program;
- Implement an improved Section 8 Management Assessment Program (24 CFR 985) that will ensure strengthened oversight, quality control, and performance metrics for the Housing Choice Voucher program;
- Continue the study to develop a formula to allocate administrative fees based on the cost of an efficiently managed PHA operating the Housing Choice Voucher program;
- Develop a study to evaluate current Housing Quality Standards and improve the unit inspection process; and
- Eliminate the cap restriction imposed by past Appropriations Acts on the number of families that each PHA may serve."

Project-based Section 8: \$9.4 billion total; \$9.04 billion for contract renewals

The Obama Administration has committed to providing full funding for 12-month contracts through a \$900 million increase over the FY 2010 Appropriations and a \$1.3 billion increase over the Administration's FY 2010 budget request. The request includes a \$400 million advanced appropriation for FY 2012. This funding will preserve approximately 1.3 million affordable rental units and support 18,000 contracts with private owners of multifamily properties.

Transforming Rental Assistance Initiative (TRA): \$350 million

HUD has requested \$350 million to begin voluntarily consolidating its 13 separate rental assistance programs. Under the proposal, TRA will offer PHAs and private owners of RAP, Rent Supp, and old Mod Rehab properties the option of converting to long-term project based rental assistance that includes a resident mobility feature. The FY 2011 HUD budget request overview indicated the Administration would transmit to Congress proposed legislation to amend the project-based voucher program to authorize long-term property-based rental assistance contracts with a resident mobility feature this spring. In the meantime, HUD proposed appropriations language that would provide \$350 million to begin conversions.

If Congress provides legislative authority, this would be first phase of HUD's multi-year initiative that aims to preserve approximately 300,000 units of public and assisted housing, provide financial and physical sustainability for properties, increase tenant mobility while maintaining the project-based subsidy for the owner, increase administrative efficiency, and consolidate programs. Traditional Project-Based Section 8 projects would not be included at this time. HUD believes this initiative will improve the physical condition and management of the public housing stock and streamline HUD oversight of its rental assistance programs. However, major questions about how this program would be implemented remain unanswered.

Section 202: \$274 million

The Obama Administration has recommended extreme cuts to the Section 202 program. They have requested a \$490 million cut below the FY 2010 budget request and \$550 million cut below the FY 2010 Appropriations allocation.

The FY 2011 HUD Budget proposes eliminating new construction funding for Section 202 due to poor performance reviews. OMB cited past studies that found the construction of Section 202 units was prone to delays, cost overruns, and lengthy development times. Similar findings were noted in the Bush Administration's PART scores in 2008. In addition, the Obama Administration claims that Section 202 units are more expensive to build than other federally assisted housing and the average size of new Section 202 projects has decreased. These newer projects, according to OMB, may also lack the economies of scale needed to cost-effectively provide community spaces and supportive services to their elderly residents.² Instead of providing funding for new construction going forward, the Administration wants to redesign and reform the Section 202 program in order to ensure that future projects are more cost effective and well-targeted.

The Budget provides \$183.7 million to fund renewals and amendments of existing project rental assistance contracts and \$90 million for grants to support service coordinators and congregate housing services. HUD has not requested any funding for the Conversion to Assisted Living account in FY 2011 due to the redesign of the Section 202 program. In the budget proposal,

² Office of Budget and Management (OMB). "Terminations, Reductions, and Savings." Budget of the U.S. Government Fiscal Year 2011. Washington, D.C.: Office of Budget and Management, February 1, 2010. 86.

HUD states that, “Current residents of Section 202 projects and projects in the construction pipeline will not be affected by the elimination of new construction funds in FY 2011.”

HUD is also exploring the possibility of a partnership with the Department of Health and Human Services (HHS) to combine HHS funding for supportive services, such as the All-inclusive Care for the Elderly/All Services in One Location (PACE model), with Section 202 funding.³

Section 811: \$90 million

The Obama Administration has recommended extreme cuts to the Section 811 program. HUD requested a \$140 million cut below the FY 2010 budget request and \$210 million cut below the FY 2010 Appropriations levels.

The budget provides \$90 million to fully fund anticipated contract renewal and amendment costs and fund construction amendments and awards. The proposal does not contain funding for construction of new units due to poor performance reviews. OMB cited past studies that found the construction of Section 811 units is prone to delays, cost overruns, and lengthy development times. Similar findings were noted in the Bush Administration’s PART scores in 2008. In addition, the Obama Administration claims that Section 811 units are more expensive to build than other federally assisted housing.⁴ Instead of providing funding for new construction going forward, the Administration wants to redesign and reform the Section 811 program in order to ensure that future projects are more cost effective and well-targeted.

The proposal also shifts responsibility of the voucher program to the Tenant Based Rental Assistance account, consolidating the voucher programs and achieving additional administrative savings.

HOME: \$1.65 billion

The Administration’s funding request for HOME is a cut below both the FY 2010 Appropriations levels and the FY 2010 budget request. The funding provided in the FY 2011 Budget is estimated to produce an additional 69,220 units of affordable housing through new construction, rehabilitation, and/or acquisition. HUD has also estimated that communities will use a portion of their funding to support tenant-based rental assistance for over 15,929 units.

OMB has said the funding cut request was due to current fiscal constraints. The Administration believes increases in affordable rental units can also be achieved through the Housing Trust Fund and the Neighborhood Stabilization Program.⁵

HOPE VI: \$0

Despite the inclusion of \$200 million in the FY 2010 Appropriations, the Obama Administration feels that the HOPE VI program has accomplished its goal to demolish 100,000 severely

³ Ibid.

⁴ Ibid.

⁵ Ibid, 80.

distressed public housing units. HUD has proposed no additional funds. Instead, the Administration will focus on the Choice Neighborhoods Initiative.

Choice Neighborhoods Initiative: \$250 million

The Choice Neighborhoods Initiative is a program the Obama Administration first requested in its FY 2010 budget. The Initiative would expand the HOPE VI program beyond public housing by including assisted and private distressed housing as eligible projects for funding and allowing public, private, and non-profit partners to become eligible grant recipients. It is also intended to expand the scope of the program's 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. The FY 2010 Consolidated Appropriations Act provided \$65 million for a demonstration of the Choice Neighborhoods Initiative through the HOPE VI account.

Community Development Fund: \$4.4 billion; \$3.99 billion for the Community Development Block Grant (CDBG)

HUD believes \$4.4 billion is necessary to fully fund the Community Development Fund, with \$3.99 billion set aside to fully fund the CDBG program. This is a \$50 million cut below the FY 2010 budget request and the FY 2010 Appropriations level. Under this proposal, CDBG would be flat-funded in comparison to the FY 2010 Appropriations. HUD has also set aside \$150 million for the creation of a Catalytic Investment Competition Grants program within this account. The Catalytic Competition Grants would provide capital for innovative economic development projects and help leverage other federal neighborhood revitalization programs.

Limited English Proficiency (LEP) Program: \$0

The Obama Administration has once again 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.

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. The Obama Administration has once again recommended providing \$1 billion through legislative measures to the program to increase and preserve the supply of rental housing and housing ownership for extremely low-income and very low-income families. Funding for the Housing Trust Fund was not included in the FY 2010 Appropriations but may be included on another legislative vehicle this year. According to HUD, the funding provided for the Housing Trust Fund is expected to produce approximately 29,000 rental units and 7,000 homebuyer units.

Energy Innovation Fund: \$0

In the FY 2010 budget request, HUD 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. Congress provided \$25 million for MEP in the FY 2010 Consolidated Appropriations Act. HUD has not requested additional funds for FY 2011 because they believe the FY 2010 appropriations will fund significant pilot program activity through 2011.

HUD still in the development stages for MEP. They are considering providing financial incentives for borrowers in FHA Multifamily programs through this program. The program will also target property owners and developers seeking energy efficiency improvements in multifamily rehabilitation projects.

Resource and Technology Program: \$87 million

HUD has requested \$55 million for national housing surveys to improve data on the nation's housing stock. The survey list includes the Multifamily Residential Housing Survey. The FY 2011 budget request proposes \$25 million for general research and development and \$7 million to evaluate Rent Reform options, the Family Self-Sufficiency program, and the Choice Neighborhoods program. Under this account, HUD staff will also conduct transformative research as part of HUD's Transformation Initiative set-aside, Community Planning and Development, and disaster formula calculations.

IRS/Treasury:

LIHTC Cash-Exchange Program

The FY 2011 budget request proposes legislation to extend the LIHTC cash-exchange program for an additional year. The proposal has been included in H.R. 4213, the Tax Extenders Act, and is also included in the draft Senate jobs bill, the Hiring Incentives to Restore Employment (HIRE) Act. The proposal would allow states to exchange: the unused 2009 housing tax credit ceiling; LIHTCs returned in 2010; up to 40 percent of the state's 2010 per capita authority; and up to 40 percent of the state's share of the 2010 national pool allocation. The proposal would not allow states to exchange 4 percent or Disaster Credits. States would be required to use their cash-exchange funds by December 31, 2012.

The FY 2011 budget request also stated that the Administration would seek "additional authority to ensure that the cash assistance is used in compliance with LIHTC rules."

USDA-RHS:

Multifamily Housing Revitalization Program: \$18 million

The Obama budget proposes terminating the Multifamily Housing Revitalization Program outside of \$18 million for housing vouchers for residents of projects whose sponsors prepay their USDA Section 515 mortgages and leave the program. The voucher funding represents a \$1.6 million increase over the FY 2010 Appropriations and a \$15 million increase over the FY 2010 budget request for that particular line-item.

The proposal terminates funding for the revitalization and demonstration programs. The program, according to OMB, has already achieved the most cost-effective and justified repairs since its 2006 inception. OMB has justified the termination in the FY 2011 by saying, “At this point, additional funding in the demonstration program could be seen as over-subsidizing the multifamily housing property owners” and not serving the low to very low-income tenant base.⁶

Section 515 Multifamily Housing Direct Loans: \$95 million

The Obama Administration has requested a \$25 million increase to the Section 515 loan program over the FY 2010 budget request and the FY 2010 Appropriations. The program received an increase in funding due to the shifting focus of the Multifamily Revitalization program from rehabilitation and demonstration programs to housing vouchers. USDA said, “The increase in funding will help ensure adequate funding for new and existing low-income rural rental housing.”

Rural Rental Assistance: \$966 million

The FY 2011 Obama Administration budget request represents a \$124 million decrease below the Obama Administration’s FY 2010 rural rental assistance budget request and \$14 million decrease below the FY 2010 Appropriations for the one-year rural rental assistance contracts.

Section 538 Multifamily Housing Loan Guarantees: \$129 million

The Obama Administration has suggested flat funding at the level of the FY 2010 Appropriations and FY 2010 budget request. Additionally, the Obama Administration has once again requested that the 538 guaranteed multifamily housing loans continue to have appropriations language that funds these loans with no fee and no subsidized interest, despite the industry’s continued request for the inclusion of the interest subsidy.

Positive Aspects of This Budget Request

The proposed increase in Project-Based Section 8 contract renewal funding would help reaffirm HUD’s commitment to ensure full 12-month funding for HAP contracts. The leadership at HUD has expressed interest in improving the budget forecasting to evaluate the needs of the program going forward. NAHMA feels that the significant increase in funding for the Project-Based Section 8 program from the FY 2009 and FY 2010 Appropriations and the American Recovery and Reinvestment Act of 2009 have helped alleviate problems resulting from late payments and partially funded HAP contracts. We commend HUD’s efforts to fully fund this program.

NAHMA is also pleased by the requests for significant increases in the Section 8 voucher account. The proposed enhancements in funding will increase the number vouchers available to the public.

⁶ Ibid, 36.

The inclusion of a formal request for legislation to extend the LIHTC cash-exchange program another year is a positive move by Treasury/IRS. The extension is one of the A.C.T.I.O.N. coalition LIHTC stabilization and reform proposals, which NAHMA supports. The cash-exchange is one of the few sources of stability for the LIHTC program and we are pleased that Treasury/IRS recognizes its importance. Nevertheless, the cash-exchange program is a temporary crutch for the LIHTC. NAHMA will continue to work for the passage of the A.C.T.I.O.N. proposals to stimulate LIHTC investment and strengthen the LIHTC program for the future.

Finally, NAHMA is pleased to see that USDA-RHS has requested an increase to the Section 515 account, which has been flat-funded for the last several years.

Issues of Concern to NAHMA

NAHMA strongly opposes the Obama Administration call to end funding for new construction within the Section 202 and Section 811 programs. These are among the few programs that still provide new construction for affordable rental housing. Financing new construction and rehabilitation is already difficult because of the credit crunch and the financial crisis. Continued funding for Section 202 and Section 811 capital advances will not only produce new affordable housing units for low-income populations, but will also provide additional construction jobs in the projects' communities. We believe many of the problems the Administration has with the construction problems can be solved through administrative or regulatory changes to the Section 202 and Section 811 programs. NAHMA will continue to strongly advocate for Congress to provide funding for new construction and quickly pass S.118, the Section 202 Supportive Housing for the Elderly Act, and H.R. 1675 and S. 1481, the Frank Melville Supportive Housing Investment Act of 2009. We will oppose attempts to zero out the capital advances of these accounts and encourage HUD to reform the programs through regulatory means.

NAHMA staff attended HUD's FY 2011 Budget Briefing on the Transformation of Rental Assistance, where we learned there was still much uncertainty surrounding HUD's proposed Transforming Rental Assistance Initiative. While Project-Based Section 8 contracts would not be impacted in FY 2011, HUD did not provide a timeline for the potential inclusion of the program. What is certain is that HUD is asking for legislative authority to gradually consolidate its 13 rental assistance programs into a single, new program. HUD intends to consolidate its programs in phases over a multi-year period. HUD claims its new program will incorporate "the best features of Project-Based Section 8 and the Project-Based Housing Choice Voucher programs," although HUD did not details what the best features of these programs actually are.

There is a possibility Project-Based Section 8 could be drawn into the initiative as early FY 2012. The level of interest among tenants and PHAs to participate in the conversion and assistance mobility is also unknown. Furthermore, HUD did not have answers to questions about what aspects of the voucher and project-based programs would ultimately be incorporated into the initiative, where the funding for new mobility vouchers would come from, or how public housing would obtain private capital for rehabilitation. HUD said the funding will not leave the project when the tenant chooses to exercise mobility, but did not describe how it would pay for the increased costs or what impact the mobility would have on current waiting list for vouchers. We do not believe HUD should be proposing authorizing legislation for the TRA nor should

Congress be moving legislation regarding this initiative forward without complete answers to the looming questions. So far, this proposal has encountered skepticism among the multifamily and PHA communities.

NAHMA is very troubled that HUD has again proposed eliminating the Limited-English Proficiency (LEP) Program as a line-item account. HUD has not specified if LEP translation funding would be funded under Fair Housing and, if so, from which account the translations would be funded. NAHMA is concerned that without the line-item the money may be used for other purposes. We have worked tirelessly to secure funding from Congress for LEP translations of multifamily documents. 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 FY 2011 budget request decreases to the HOME and the RHS Multifamily Housing Revitalization program are also troubling. These programs provide funding for construction of additional units and rehabilitation for existing affordable rental housing units, as well as much needed job opportunities in America. It does not seem prudent to cut funding to these programs during times of high unemployment and mortgage defaults. Furthermore, it is uncertain if or when Congress will provide funding for the Housing Trust Fund. It would be unwise to fund these programs at lower levels because the Administration believes the Housing Trust Fund and Neighborhood Stabilization Program will fill the gap in new construction and preservation the funding cuts will leave behind. We will continue to push for adequate funding for the HOME and RHS Multifamily Housing Revitalization accounts.

NAHMA was also disappointed with the flat funding of the Section 538 program, which does nothing to keep pace with the program's needs. With increased operating costs and rising inflation, there is less and less money available for new construction or rehabilitation when programs like Section 538 are flat-funded. In addition, the lack of interest subsidy on the loans reduces the funding available to property owners to reinvest in rehabilitations and other general improvements to the property for tenants. NAHMA will continue to press for additional funding for this account and the inclusion of the interest subsidy.

NAHMA's Position

With the levels recommended in the FY 2011 Budget, the Project-Based Section 8 program should continue to receive full funding for 12-month contracts. 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 2011 Appropriations legislation.

NAHMA strongly opposes the new construction cuts made to Section 202 and Section 811. We will continue to request funding increases in the FY 2011 appropriation bills for Section 202, Section 811, HOME, and various rural housing programs.

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.

If you would like to contact your Senators, please visit:

http://www.senate.gov/general/contact_information/senators_cfm.cfm

If you would like to contact your Member of the House of Representatives, please visit:

<http://www.house.gov/writerep/>

You may also visit NAHMA's grassroots page for more information meeting with your representatives and for additional information on affordable housing issues at:

<http://www.nahma.org/content/grassroots.html>