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Congress Must Provide Full Funding and Timely Payment of Project-Based Section 8 Contracts

In the Project-Based Section 8 program (PBS8), HUD contracts with private apartment owners to pay the difference between the rent for the unit and 30 percent of a qualified tenant's income. The rental subsidy in the PBS8 program is tied to the property.

According to HUD's FY 14 Budget Congressional Justifications, roughly 64 percent of the residents living in Project-Based Section 8 properties are elderly or disabled. These households are primarily elderly (47 percent), families with children (29 percent) and persons with disabilities (17 percent). The program supports 100,000 jobs each year--55,000 jobs directly at the properties and another 45,000 generated from property owners' contracts for goods and services with vendors and local businesses. Likewise, these properties generate $460 million in tax receipts to local and state governments.

It is essential for Congress to provide HUD with the necessary appropriations to make full and timely contract payments to property owners. Prior to 2009, HUD "short-funded" its PBS8 contracts with owners so that payments would only be promised from the date of renewal through September 30 (the end of the federal fiscal year). In other words, on a 12-month contract with a January 1 renewal date, HUD would only obligate funding through September 30. Funding for the remaining three months on the contract would have to be re-processed in the new fiscal year. Unfortunately, HUD resumed this practice again in FY 13 to manage the cuts required under sequestration.

In FY 2014, NAHMA strongly urges Congress to provide full funding for the 12-month contract terms of Project-Based Section 8 contracts ($11.5 billion) because:

- The federal government must honor its contracts with property owners.

- Short-funding jeopardizes the efficient management, financial solvency, and physical health of PBS8 properties.
  - FHA-insured properties could default without the contract funds to pay their mortgages.
  - Properties accumulate numerous late fees to lenders and service providers as a result of having insufficient funds to make mortgage and utility bill payments.
  - Property staff may suffer lay-offs as a result of insufficient funding.
  - Rehabilitation and renovation plans are put on hold when funding is erratic.

- Short-funding is a budget gimmick that does **NOT** save the government money.
  - Funding for the 11,000 contracts that are being underfunded in FY 13 due to sequestration will have to be provided in FY 14—in addition to the funds necessary for contract renewals in FY 14.
  - Short-funding wastes administrative time at HUD because staff must process funding multiple times for the same property over the course of the year.

- This is particularly concerning as HUD plans to implement a major reorganization of its multifamily field operations which will certainly result in staff reductions.

- Short funding jeopardizes investor and owner confidence in the PBS8 program.

In FY 14, $11.5 billion is needed to fully fund Project-Based Section 8 contracts for their 12-month terms and to close the funding gap resulting from cuts in FY 13. However, in no case should the appropriation fall below the $10.77 billion recommended in S. 1243.