



February 15, 2011

**MEMORANDUM**

TO: NCSHA Members and Affiliates

FR: NCSHA's Policy and Government Affairs Team

RE: Analysis of the Administration's Proposed FY 2012 Budget

**Summary**

The Administration yesterday sent Congress its FY 2012 Budget, proposing funding for all federal programs, including HUD and the Department of Agriculture's (USDA) rural housing programs. It also contains the Administration's tax proposals, including changes to the Housing Credit program to provide incentives for creating mixed-income housing and allow a 30 percent basis boost for some 4 percent Credit, tax-exempt bond-financed preservation deals. The Budget also proposes repealing the Mortgage Revenue Bond (MRB) program purchase price limit and refinancing restriction. It also says the Administration will increase the Federal Housing Administration (FHA) annual single-family mortgage insurance premium by 25 basis points effective this April.

NCSHA's analysis of the Budget's housing proposals follows. Proposed funding amounts are compared with FY 2010 enacted funding levels because the government continues to operate in FY 2011 under a continuing resolution (CR) that extended funding at FY 2010 levels.

**HUD Highlights**

The Administration proposes \$41.7 billion in HUD budget authority, a \$1.2 billion, or 3 percent, decrease from the \$42.9 billion HUD appropriation provided under the FY 2010 omnibus spending bill the President signed December 16, 2010. After accounting for offsetting receipts, mostly from the FHA mortgage insurance program, the Budget proposes to spend \$47.8 billion on HUD programs, a \$750 million increase over its FY 2010 funding.

The Budget increases Housing Choice Voucher funding by 6 percent, the project-based Section 8 program by 10 percent, and homeless assistance by 27 percent. It cuts funding for HOME, the Community Development Block Grant (CDBG) program, Section 202 Housing for

the Elderly, and Section 811 Housing for Persons with Disabilities. The Budget also proposes \$1 billion in new funding to launch the Housing Trust Fund.

The Budget again proposes to eliminate the Rural Housing and Economic Development program, the Brownfields Economic Development Initiative, and the Self-Help and Assisted Homeownership Opportunity program (SHOP). The Budget again proposes to replace the HOPE VI program with the Choice Neighborhoods Initiative.

**HOME:** The Budget proposes \$1.65 billion for HOME, a \$175 million, or 10 percent, decrease in its FY 2010 funding level of \$1.825 billion.

The Budget proposes to eliminate funding for the SHOP program, stating that all SHOP activities are eligible under the HOME program. The Budget states that the Administration plans to encourage state and local HOME grantees to fund SHOP projects.

**Housing Choice Vouchers:** The Budget proposes \$19.2 billion for Housing Choice Vouchers (vouchers), 6 percent more than the FY 2010 appropriation of \$18.2 billion. Of this amount, the Administration proposes \$17.1 billion for expiring voucher renewals, \$805 million more than the FY 2010 appropriation. The Budget also proposes a \$135 million fund for adjusting Public Housing Authority (PHA) renewal allocations to account for unforeseen circumstances, including portability-associated cost increases, \$15 million less than in FY 2010.

The voucher program funding includes \$1.65 billion for PHAs' administrative costs, \$73 million more than the FY 2010 appropriation. The proposed administrative fee total includes \$50 million for the Secretary to allocate as he deems necessary to PHAs requiring additional administrative funds and for fees associated with tenant protection vouchers.

In addition to funding all existing mainstream vouchers, the voucher program funding level includes \$114 million to move Section 811 Mainstream vouchers into the voucher program, as well as \$57 million in new special purpose vouchers for homeless and at-risk of homelessness families with children, and persons with disabilities. It includes \$75 million for 10,000 new vouchers for homeless veterans through the HUD-Veterans Affairs Supportive Housing (HUD-VASH) program.

The Administration proposes to: 1) design a comprehensive development strategy to improve HUD information technology systems to better manage and administer the voucher program, including continued assistance to PHAs to better manage funds and increase leasing rates responsibly; 2) develop an improved Section 8 Management Assessment Program with revised indicators that will strengthen oversight (including possible on-site assessments), improve quality control, and establish performance metrics; 3) continue the study to develop a formula to allocate administrative fees based on the cost of an efficiently managed PHA operating the voucher program; 4) develop a study to evaluate current housing quality standards and improve the unit inspection process; and 5) eliminate the cap restriction imposed by past appropriations acts on the number of families that each PHA may serve.

The Budget also proposes provisions to improve HUD's three largest rental assistance programs: vouchers, project-based rental assistance, and public housing. HUD proposes to

broaden the extremely low-income targeting requirement by applying it to families with the higher of 30 percent of area median income (AMI) or the federal poverty level; increase the standard deduction for elderly and disabled households from \$400 to \$675 and raise the deduction for excess medical expenses from 3 percent to 10 percent of income; streamline the program by permitting three-year annual re-certification for fixed-income families; and provide PHAs the authority to approve exception rents for disabled voucher households. The proposal would enable HUD to produce more timely Fair Market Rent (FMR) data on an annual basis and to authorize a rent demonstration project.

**Section 8 Project-Based Rental Assistance:** The Budget proposes \$9.1 billion to renew expiring Section 8 project-based contracts, an \$820 million, or 10 percent, increase in the FY 2010 appropriation of \$8.3 billion. HUD's budget materials say this amount will preserve approximately 1.3 million affordable units through increased funding for contracts with private owners of multifamily properties. The amount includes \$289 million for performance-based contract administrators' administrative fees, \$31 million more than in FY 2010.

**Transforming Rental Assistance (TRA):** The Budget proposes a \$200 million demonstration program to convert up to 255,000 public housing units to long-term project-based rental assistance contracts under TRA, which the Administration unveiled last year but Congress did not authorize. These conversions are intended to leverage private capital to reduce the huge backlog of capital repair needs and provide tenants with a meaningful option to move to different neighborhoods. HUD's budget materials say the TRA initiative will preserve 7,600 privately-owned, HUD-assisted units at risk of leaving the affordable housing stock. The initiative is also expected to make it easier for families to use vouchers to move to neighborhoods with greater opportunities, through competitive grants to housing authorities to address mobility barriers, and includes a demonstration program to test the impact and cost effectiveness of alternative approaches to mobility assistance.

**Preservation of Other Assisted Housing Programs:** The Budget proposes the following measures to enhance preservation of properties with other types of housing assistance: \$37 million to continue Rent Supplement assistance payments on behalf of qualified low-income tenants in approximately 12,700 units that have not converted to Section 8; \$398 million for Section 236 Rental Housing Assistance Program payments; and funding to amend Rent Supplement and RAP contracts in state-aided multifamily housing projects to address cost increases beyond the maximum annual payment limitation previously established for the affected contracts. As some of these rental assistance contracts are terminated due to prepayments or other reasons, remaining balances are recovered. The account includes language to cancel the amounts recovered from projects where rental assistance has been terminated.

**Housing Trust Fund:** The Budget requests \$1 billion in mandatory spending, subject to PAYGO legislation, to capitalize the Housing Trust Fund.

**Federal Housing Administration (FHA):** The Administration projects that FHA will insure \$218 billion in mortgage borrowing in 2012, supporting new home purchases and refinanced mortgages that significantly reduce borrower payments. The Budget proposes to continue the restructured premium levels that FHA implemented in October 2010 and includes another

annual premium increase of 25 basis points planned for April 2011. This increase will boost FHA's capital reserves, and increase federal revenues to account for higher receipts generated by FHA's loan guarantee volume. The Budget requests an increase in administrative expenses to \$230 million, which will allow FHA to implement improved risk management systems critical for FHA's current large role in the mortgage market.

**Housing Counseling:** The Budget proposes \$88 million for housing counseling, the same amount as its FY 2010 appropriation. The Budget also proposes \$80 million for the Neighborhood Reinvestment Corporation's National Foreclosure Mitigation Counseling program, a \$15 million increase over the FY 2010 funding level.

**Community Development Fund:** The Budget proposes to fund the Community Development Fund at \$3.78 billion, a \$669 million, or 15 percent, decrease in the FY 2010 appropriation. It proposes to fund CDBG at \$3.69 billion, a \$299 million, or 7 percent decrease, in the FY 2010 appropriation.

**Sustainable Communities:** The Budget proposes \$150 million to fund the multi-agency Partnership for Sustainable Communities Initiative, which is equal to its FY 2010 funding. The Budget proposes to move the program out of the Community Development Fund. Of the proposed amount, \$100 million would be used to continue collaboration efforts with the Department of Transportation (DOT) and the Environmental Protection Agency (EPA) to offer Sustainable Communities Planning Grants. The grants are designed to catalyze integrated metropolitan transportation, housing, land use, and energy planning; \$40 million would be used for Community Challenge Planning Grants to help localities overcome regulatory barriers that stall or prevent the implementation of Sustainable Communities Plans; and \$10 million would be used to continue funding a joint HUD-DOT-EPA research effort designed to advance transportation and housing linkages.

**Homeless Assistance:** The Budget proposes \$2.37 billion for homeless assistance, \$507 million, or 27 percent, more than its FY 2010 appropriation.

In 2012, the Administration will continue to implement the HEARTH Act, which combined HUD's three competitive grant programs: Shelter Plus Care, Supportive Housing, and Section 8 Moderate Rehabilitation Single Room Occupancy. The Budget states the Administration will issue HEARTH Act regulations this year.

**Housing for the Elderly and for Persons with Disabilities:** The Budget proposes \$757 million for the Section 202 Housing for the Elderly program, \$68 million less than in FY 2010. The Budget proposes \$196 million for the Section 811 Housing for Persons with Disabilities program, \$104 million less than in FY 2010. In FY 2012, the Administration will seek additional legislative and administrative changes to both programs.

For Section 202, the Budget provides \$259 million to renew and amend operating subsidy contracts for existing housing, \$387 million to expand the number of housing units assisted through new awards, \$91 million for service coordinators, and \$20 million for converting elderly housing units to assisted-living facilities and service-enriched housing.

For Section 811, the Budget provides \$85 million to renew and amend operating subsidy contracts for existing housing, and includes \$111 million to expand the number of housing units assisted through new awards. The Budget also reflects shifting \$114 million in Section 811 Mainstream vouchers from the Section 811 program into the voucher program.

**Public Housing:** The Budget proposes \$2.41 billion for the Public Housing Capital Fund, \$95 million, or 4 percent, less than in FY 2010. The Budget proposes \$3.96 billion for the Public Housing Operating Fund, \$813 million, or 17 percent, less than in FY 2010.

**HOPE VI/Choice Neighborhoods Initiative:** The Budget proposes no new funding for the HOPE VI program for revitalization of severely distressed public housing, as it proposes to replace it with the \$250 million Choice Neighborhoods Initiative. HOPE VI was funded at \$200 million and Choice Neighborhoods was funded at \$65 million in FY 2010.

Choice Neighborhoods' goal is to transform extremely poor neighborhoods into functioning, sustainable mixed-income neighborhoods with appropriate services, schools, public assets, transportation, and access to jobs. The Choice Neighborhoods grants will primarily fund the preservation, rehabilitation, and transformation of public and HUD-assisted housing. The program builds on the success of HOPE VI with a broader approach to concentrated poverty. HUD expects to award its first Choice Neighborhoods planning and implementation grants in March and September 2011, respectively.

Five million dollars under Choice Neighborhoods may be used for the Budget's proposed Neighborhood Revitalization Grant (NRG) initiative to fill gaps that would hamper revitalization, build organizational capacity, and leverage and target large and flexible funding sources from federal agencies and state, local, and private dollars. An additional amount of up to \$5 million each from the Education, Justice, and Health and Human Services Departments will fund the NRG initiative.

**AIDS Housing:** The Budget proposes \$335 million for the Housing Opportunities for Persons with AIDS (HOPWA) program, the same as its FY 2010 appropriation.

**Rural Housing and Economic Development (RHED):** The Budget proposes no new funding for RHED, which received no funding in FY 2010. RHED provides capacity-building and program grants to nonprofits and public agencies supporting housing and community development in rural areas. Instead, the Budget proposes \$25 million for the Rural Innovation Fund within the Community Development Fund, the same amount as it received in FY 2010.

**Lead-Based Paint Hazard Reduction:** The Budget proposes \$140 million for the Lead Hazard Reduction Program, the same as its FY 2010 appropriation.

**Capacity Building:** The Budget proposes \$50 million for a redesigned Capacity Building program, of which \$5 million may be made available for rural capacity building activities. This program provides grants to national intermediaries to develop, enhance, and strengthen the technical and administrative capabilities of community development corporations to carry out community development and affordable housing activities for low- and moderate-income

persons. Grants provided under this program require a three-to-one match from private sources.

**Energy Innovation Fund:** The Budget does not request new funding for the Energy Innovation Fund in FY 2012 as it anticipates that the FY 2010 appropriation of \$50 million will fund significant pilot activity through FY 2012. The Energy Innovation Fund is intended to stimulate and enhance private investment in cost-saving energy efficiency retrofits of existing housing, through improved use of FHA single-family and multifamily mortgage products.

**PowerSaver Loans:** The Budget proposes to continue with the planned introduction of the PowerSaver Loan program, which will begin a two-year pilot period later this year. The program, backed by FHA, will make loans available to qualified, credit-worthy homeowners for up to \$25,000 to help finance home improvements such as the installation of insulation, door and window sealing, and upgrading water heaters. The program is designed to expand home energy improvements in suburban, rural, and urban areas nationwide.

**Transformation Initiative:** The Budget does not propose any new funding for the Transformation Initiative (TI) to transform and revive HUD. However, it proposes to transfer up to 0.5 percent of each program's funding to this fund for: research, evaluation, and program metrics; program demonstrations; information and technology; and technical assistance and capacity building.

Within TI, HUD is proposing a new multi-agency initiative to succeed the Empowerment Zones that expire this year. The effort would be led by HUD and the Economic Development Administration (EDA) within the Department of Commerce to help communities better employ the federal investments that they already receive from programs such as CDBG and HOME in economically distressed areas. HUD believes this effort will enable these communities to create more effective partnerships with businesses and non-profits that will attract critical private investments to promote job creation. Coupled with targeted tax benefits and grant funding, TI funds will be provided for technical assistance and a National Resource Bank, a one-stop shop of experts that communities can draw upon for a full range of services, including fiscal reforms, re-purposing land use, and business cluster and job market analysis.

### **Other Budget Proposals Relevant to Housing**

**Housing Credit:** The Administration plans to reform and expand the Housing Credit to serve households in greater need and to provide incentives for creating mixed-income housing. The Administration proposes to modify the program's income limits to allow project owners to serve families with incomes above 60 percent of area median income (AMI), as long as at least 40 percent of the units in a development average not greater than 60 percent of AMI. None of these units could be occupied by an individual with income greater than 80 percent of AMI, and any units with income limits less than 20 percent of AMI would be treated as being at 20 percent. The provision would apply to owner targeting elections under section 42(g)(1) of the Internal Revenue Code that are made after the date of enactment. Under current law, projects qualifying for Housing Credits must meet one of two income tests—either 20 percent of a development's units must be affordable to individuals whose income is 50 percent or less of

AMI or 40 percent of a development's units must be affordable to individuals whose income is 60 percent or less of AMI. The Administration's proposal offers a third test that would permit developments to assist households with incomes of up to 80 percent of AMI as long as a minimum of 40 percent of the units in the development on average are restricted to households with incomes less than 60 percent of AMI.

The Administration also proposes to allow a 30 percent "basis boost" for Housing Credits for certain developments financed with tax-exempt bonds that are subject to private activity bond volume cap. The developments receiving the boost would involve preservation, recapitalization, and rehabilitation of existing housing that was originally financed with federal funds and is subject to a long-term use agreement limiting occupancy to low-income households. In each state, the boost for buildings financed in whole or in part by tax-exempt bonds issued during a calendar year would be limited to buildings whose financing is assisted with tax-exempt bonds whose aggregate issue price is not more than an amount equal to 0.4 percent of the state's volume cap for the calendar year in which the bonds are issued (regardless of which year's volume cap is taken into account in issuing the bonds). The state Housing Finance Agency (HFA) would determine which preservation projects receive a boost. The proposal would be effective for projects that are financed by bonds issued after the date of enactment. Current law permits a 30 percent "basis boost" in three instances: (1) for projects located in qualified census tracts (QCT) as determined by HUD; (2) for projects located in difficult to develop areas (DDAs) as determined by HUD; and (3) for buildings designated by the State Allocating Agency as requiring the increase in basis boost in order for such building to be financially feasible unless any portion of the building is financed by tax-exempt bonds subject to volume cap.

**Mortgage Revenue Bonds (MRB):** The Administration proposes to simplify the targeting requirements for tax-exempt qualified mortgage bonds by repealing the MRB purchase price and refinancing limitations. Current law allows use of tax-exempt private activity bonds to finance qualified mortgages for single-family housing residences, subject to a number of targeting requirements, including, among others: a mortgagor income limitation, a purchase price limitation, a refinancing limitation, and a targeted area availability requirement.

**Rural Housing Programs:** The Budget proposes \$211 million for the Section 502 single-family subsidized direct loan program, a \$910 million decrease from FY 2010. It also recommends a doubling in funding for the Section 502 unsubsidized guaranteed loan program to \$24 billion.

The Budget proposes \$95.2 million for the Section 515 rural rental housing loan program, an increase of \$25.7 million. It does not propose funding for the Section 538 multifamily loan guarantee program, which was funded at \$129 million in FY 2010. The Budget states that the Section 538 multifamily loan guarantee program is redundant to similar HUD programs.

The Budget proposes \$16 million for the Section 542 rural housing voucher program, the same amount as appropriated in FY 2010. The program provides vouchers for families living in Section 515-assisted properties whose owners prepay their mortgages.

**Government-Sponsored Enterprises (GSEs):** As part of the framework for developing a new housing finance system, the Budget proposes to allow the temporary GSE conforming loan

limits of up to \$729,750 to expire at the end of FY 2011. The allowable investment portfolios of Fannie Mae and Freddie Mac will also be reduced by 10 percent each year, according to the terms of Treasury's agreements with the enterprises.

**Build America Bonds:** The Administration is seeking an extension of the Build America Bonds program with a request for \$599 million in FY 2012, subject to PAYGO rules. The Administration proposes to make the program permanent at a reduced subsidy level designed to be approximately revenue neutral. The Administration also proposes to expand the program beyond new investments in governmental capital projects to include certain additional program uses for which state and local governments may use tax-exempt bonds under existing law. The proposed modifications to the program would be effective for bonds issued beginning upon the date of enactment.

**Home Energy Scoring Program:** The Department of Energy's Budget proposes expanding the Home Energy Scoring Program, which began as a pilot program in FY 2010. Funded as part of the \$47.9 million Residential Buildings Integration activities, the program will allow trained and certified contractors to rate homes on a 1 to 10 scale, give homeowners information on how their homes compare to other homes in the area, estimate potential savings from energy retrofits, and supply a personalized list of recommended improvements—including how much money could be saved from each improvement. The Department of Energy expects to expand the program beyond its pilot stage in FY 2012.

**Weatherization:** The Budget proposes \$320 million for the Department of Energy's home weatherization assistance program, \$110 million more than its FY 2010 funding level of \$210 million.