March 20, 2019

**MEMORANDUM**

TO: NCSHA Members

FR: NCSHA's Policy and Government Affairs Team

RE: NCSHA's Preliminary Analysis of the Administration's FY 2020 Budget Request

## Executive Summary

The Administration released earlier this week the second and final part of its formal Fiscal Year (FY) 2020 Budget request, "A Budget for a Better America; Promises Kept. Taxpayers First." After delays related to the recent government shutdown, the Administration opted to release its FY 2020 Budget in two parts: the budget overview last week and then this week the budget appendix and related documents detailing program level funding and policy proposals.

The $4.75 trillion Budget outlines the Trump Administration's fiscal priorities including increased military spending and significant cuts to domestic spending, including HUD and USDA housing programs. While the FY 2020 Budget complies with the defense and non-defense discretionary spending caps imposed by the 2011 Budget Control Act, requesting $576 billion and $543 billion respectively, it proposes to increase FY 2020 defense spending to $750 million by using a separate account that is not subject to the BCA caps.

The FY 2020 non-defense discretionary spending cap is 9 percent below the FY 2019 enacted level but some agencies are subject to even greater reductions. The Administration proposes to cut HUD funding 18 percent below FY 2019 enacted levels.

Echoing its FY 2019 Budget, the Administration again recommends devolving many affordable housing activities to State and local governments, saying they are "better positioned to comprehensively address the array of unique market challenges, local policies, and impediments that lead to housing affordability problems."

The Budget also proposes mandatory work requirements for individuals receiving assistance from housing programs, the Supplemental Nutrition Assistance Program, and Medicaid.

Similar to the Administration's FY 2018 and FY 2019 Budgets, the FY 2020 Budget includes significant cuts to HUD and USDA program funding, including eliminating funding for the HOME Investment Partnerships (HOME) program and the Housing Trust Fund, among others. It also seeks cuts in many other HUD and USDA funding programs.

NCSHA's analysis of the Budget's housing proposals follows.

**HUD Program Funding Highlights**

The Administration's FY 2020 Budget requests $44.1 billion for HUD programs, $9.6 billion or 18 percent below the FY 2019 enacted level. The Budget would eliminate key housing and community development programs, most notably the HOME Investment Partnerships (HOME) and Community Development Block Grant (CDBG) programs, calling them "low value" and suggesting that states and localities are better positioned to "address unique market challenges." The HUD budget would also eliminate the Public Housing Capital Fund, Choice Neighborhoods Initiative, and Self-Help & Assisted Homeownership (SHOP).

The Administration proposed the elimination of these programs in its FY 2018 and FY 2019 Budgets as well. Similar to those documents, the FY 2020 Budget states that it is not requesting funding for these programs as it seeks to "recognize a greater role for State and local governments and the private sector in addressing community development and affordable housing needs."

The Budget also proposes a set of rent reforms first seen in the "Making Affordable Housing Work Act" draft legislation proposed by the Administration last year and incorporated in its FY 2019 Budget request. These proposals include increasing tenant rent contributions (from 30 percent to 35 percent); reduced frequency of income recertifications; and additional flexibilities for PHAs and property owners to develop alternative rent structures. These policy changes would apply to all HUD rental assistance programs, including Housing Choice Voucher and Project-Based Rental Assistance. The Administration assumes savings will result from the enactment of these proposals, which it factors into its requested funding levels for rental assistance as detailed below.

The Budget also proposes uniform work requirements for households able to work. HUD's Congressional Justification states that it will "continue exploring ways to leverage existing enforcement and compliance mechanisms without adding burdens on PHAs and private multifamily property owners. HUD also will continue to support work requirement demonstration evaluations to build an evidence base from the experiences of Moving To Work PHAs on effective ways to promote self-sufficiency."

**HOME**: The Budget proposes to eliminate all funding for the HOME program in FY 2020, echoing similar proposals in FY 2018 and FY 2019. In FY 2019, HOME was funded at $1.25 billion.

**Housing Trust Fund:** Though the Housing Trust Fund (HTF) does not receive annual appropriations from Congress, the Budget again proposes to eliminate funding for it by ending all future transfers of funding from Government-Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac to the fund, beginning in 2019. HUD anticipates receiving approximately $245 million from the calendar year 2018 collection, which we expect HUD will distribute to states in 2019.

**Housing Choice Vouchers:** The Budget proposes $22.4 billion for the voucher program, 2 percent less than its FY 2019 appropriation. This includes $20.1 billion for voucher renewals, $197 million less than the FY 2019 appropriation. The voucher program funding also includes $1.74 billion for public housing agencies' (PHA) administrative costs, 8 percent, or $148 million, less than the FY 2019 appropriation.

The Budget proposes no new funding for the HUD-Veterans Affairs Supportive Housing (VASH) vouchers or the Tribal HUD-VASH program., but would provide $260 million to renew Section 811 Mainstream Vouchers.

The Budget also proposes to fund tenant protection vouchers at $130 million—a 53 percent increase over FY 2019 funding levels. HUD's FY 2020 Congressional Justification explains that this funding request reflects an anticipated increase in demolitions, dispositions, and streamlining voluntary conversions.

**Section 8 Project-Based Rental Assistance (PBRA):** The Budget proposes $12 billion for Project-Based Rental Assistance (PBRA). The Budget continues to support the program's calendar-year funding cycle and provides 12 months of funding for all contracts.

The Budget proposes $11.5 billion to renew expiring Section 8 project-based contracts, $16 million less than FY 2019 enacted levels.

The PBRA request also proposes $345 million for performance-based contract administrators' (PBCA) administrative fees, $100 million more than appropriated in FY 2019. While this appears to be a significant increase, this funding level is required to maintain current contract administration services. In recent years, the PBCA subaccount has utilized funding in the Housing Certificate Fund (HCF) not provided by annual appropriations, but by 2020 HCF will be largely exhausted. HUD's Budget explains that continued extension of the existing PBCA agreements is estimated to cost up to $365 million in FY 2020, with the actual cost dependent on changes in Fair Market Rents and the number of Housing Assistance Payment (HAP) contracts assigned to each PBCA. It therefore requests that the $345 million in appropriated funds may be combined with up to $20 million from HCF to "ensure that regardless of the timing or outcome of new procurements, critical contract administration services will continue without interruption. Given that protests and litigation may slow the execution of new contract awards, the request takes into account multiple budgetary scenarios…Should the Department successfully execute new awards, the request will allow for a partial year extension of existing PBCA agreements, with remaining funds anticipated to be placed on the base-year of the new contracts."

The Administration proposes $2 million in new funding for a Technical Resource Network that would provide technical assistance to tenant groups, nonprofits, and public entities to support tenants of troubled properties and improve tenant access to community services. In FY 2018 and FY 2019 the Administration proposed $3 million for this purpose.

**Homeless Assistance Grants:** The Budget proposes $2.6 billion for Homeless Assistance Grants, $37 million less than the FY 2019 enacted funding level.

**Section 202 Housing for the Elderly:** The Budget provides $644 million for Section 202 housing, $34 million less than FY 2019 enacted levels. This includes $551 million to renew contracts, $90 million to support service, and $3 million for capital advance amendments and related administrative costs.

**Section 811 Housing for Persons with Disabilities:** The Budget requests $157 million for Section 811 housing, $27 million less than FY 2019 enacted levels. The Budget also proposes allowing HUD to use offsetting collections of excess residual receipts to fund new Capital Advance and State Project-Rental Assistance (PRA) awards, "modestly" increasing the number of Section 811 units, and supplementing this funding with the transfer of recaptures from the PRA account should they not be needed for renewals. The Budget explains that the program design for this will build on the updated Section 811 notice of funding availability currently under development.

**Housing Opportunities for Persons with AIDS (HOPWA):** The Budget proposes $330 million for HOPWA, $63 million less than its FY 2019 appropriation and the same as its FY 2019 request. The Budget also proposes not to prioritize renewals in its competition, arguing this will allow funds to "support more evidence-based service delivery models."

**Rental Assistance Demonstration:** The Budget requests $100 million for HUD's Rental Assistance Demonstration (RAD) to cover the incremental subsidy necessary for properties that could not convert absent these funds, prioritizing units located in Opportunity Zones. The Budget also proposes removing the statutory limit of 445,000 public housing units that can participate in the program, allowing any public housing property that could convert under cost-neutral levels to do so.

**Housing Counseling:** The Budget proposes $45 million for HUD's housing counseling program, a substantial decrease from the $55 million the program received in FYs 2018 and 2019, but only a slight decrease from prior years. Of the requested $45 million, the Administration intends to distribute $38.5 million directly to housing counseling agencies, HFAs, and housing counseling intermediaries. An additional $2 million would be used for counselor training, while the remainder would go to administrative expenses.

**Ginnie Mae**: The Budget requests $550 billion in guarantee authority for FY 2020 for Ginnie Mae, an increase of $50 billion over the guarantee authority provided in FY 2019. The Administration also requests that Ginnie Mae receive $28.4 million for administrative and salary expenses, up from $27 million in FY 2019 (excluding $3 million in funding that was not required to be spent in FY 2019). The increased funding would be used to hire additional staff and improve Ginnie Mae's oversight and quality control operations.

The Budget also includes a new request that Congress grant Ginnie Mae the authority to adjust the guarantee fee it charges issuers who purchase insurance for single-family mortgage backed securities (MBS). Ginnie Mae currently charges a guarantee fee of six basis points for each single-family MBS, which was established by Congress in 1987. The Administration asks that Congress establish a range of permissible guarantee fees (no specific range is suggested) and allow Ginnie Mae to adjust its guarantee fee within that range to ensure that it is adequately funding its reserve account and adequately accounting for risk.

**Federal Housing Administration (FHA) Single-Family Insurance Program:** The Budget requests $400 billion in loan authority for FHA's Mutual Mortgage Insurance Fund (MMIF), which supports FHA's single-family and home equity conversion mortgage (HECM) programs. The Administration estimates that FHA will insure $205 billion in home purchase loans in FY 2020, down $2 billion from its FY 2019 estimate, and insure $13.6 billion in reverse mortgages, up just over $1 billion from its FY 2019 estimate.

The Budget requests $150 million for costs associated with administering MMIF programs, a $20 million increase over FY 2019. It proposes that Congress pay for the additional $20 million by passing legislation allowing FHA to temporarily charge lenders a fee for each loan FHA insures. The fee will be used to raise $20 million to improve FHA's contract support and information technology so as to improve FHA's risk management. The Trump Administration included a similar proposal in its FY 2018 and 2019 Budgets, as did the Obama Administration in its proposed Budgets for its last three fiscal years.

**Legislative Changes Regarding Government Down Payment Assistance Programs:** The Budget states that the Administration will request that Congress advance legislation pertaining to Federal Housing Administration (FHA) insurance on mortgages made in conjunction with down payment assistance provided by government agencies, including state HFAs. However, the Budget does not state what specific changes the Administration proposes or will propose. Instead, the Budget notes that FHA supports government down payment assistance programs and is working with industry leaders to ensure that such programs continue to offer borrowers a financial benefit. The agency also notes that legal and jurisdictional issues have arisen regarding certain government entities' ability to provide down payment assistance, but again does not suggest any specific changes.

NCSHA has reached out to HUD to inquire about what legislative changes, if any, it intends to propose to Congress regarding FHA's down payment assistance policy.

**FHA Multifamily/ Title I Manufactured Housing Programs:** The Budget proposes $30 billion in new loan authority for FHA's General Insurance and Special Risk Insurance (GI/SRI) fund, which finances FHA's affordable multifamily activity, manufactured housing loans originated through FHA's Title I program, and health care facility loan insurance programs. This is the same level of authority the fund received for FY 2019. The Budget estimates that the GI/SRI fund will insure $16 billion in loans for affordable multifamily housing in FY 2020, supporting the development and rehabilitation of about 1,000 affordable apartment projects. The GI/SRI fund is also projected to insure $63 million in manufactured housing loans, which will help around 3,000 homebuyers.

## USDA Rural Housing Program Funding Highlights

This year's Budget proposes to eliminate many of the same USDA rural housing programs that the FY 2019 Budget request also recommended for elimination, including Section 502 Single-Family Housing Direct Loans, Section 515 Multifamily Housing Direct Loans, the Section 504 Home Repair program, and the Multifamily Housing preservation and revitalization programs.

The Budget also proposes to:

- Combine appropriations for the Section 521 Rural Rental Assistance and Section 542 Rural Development Voucher Program "to facilitate funding flexibilities with like programs," requesting a combined $1.407 billion for both programs in FY 2020. Combining the appropriation accounts for Section 521 and 542 was also proposed in last year's budget request.

- Provide $1.375 billion for the Section 521 Rental Assistance program, a $44 million increase from enacted FY 2019 funding levels.

- Provide $32 million for the Section 542 rural housing voucher program, a $5 million increase from enacted FY 2019 funding levels.

- Require residents receiving rental assistance payments to pay a minimum rent of $50 per month, unless USDA qualifies the tenant for a hardship exemption. The minimum rent requirement was also included in last year's budget request.

- Fund the Section 502 unsubsidized guaranteed loan program at $24 billion, equal to its enacted FY 2019 funding level.

- Provide $250 million for the Section 538 multifamily loan guarantee program, a $20 million increase from its enacted FY 2019 funding level.

**Other Budget Proposals Relevant to Housing**

**Tax Proposals:** Administrations typically accompany the publication of their annual Budgets with a General Explanation of the Administration's Revenue Proposals—also known as the "Greenbook"—detailing new Administration tax proposals. However, the Trump Administration has broken with this tradition and again has not released a Greenbook to accompany its Budget in FY 2020.

**Capital Magnet Fund**: As with Housing Trust Fund, the Administration's Budget proposes to eliminate funding for the Capital Magnet Fund by ending all transfers to the fund from Fannie Mae and Freddie Mac beginning in 2020.

**Consumer Financial Protection Bureau (CFPB):** Similar to last two Budgets, the Administration asks Congress to pass legislation that would "restructure" CFPB by subjecting its funding to congressional appropriations beginning in FY 2022 and restricting the agency's enforcement powers. CFPB currently receives its funding annually from the Federal Reserve. The Budget also proposes to cap the amount of funding CFPB can receive from the Federal Reserve in 2020 at $485 million, down from a projected $533 million for FY 2019. It also proposes to reduce CFPB's funding each year through 2029.

**Government Sponsored Enterprises (GSEs):** As with last year's Budget, the Administration proposes to increase and extend congressionally mandated fees (g-fees) that Fannie Mae and Freddie Mac currently charge on all single-family loans they guarantee. The Temporary Payroll Tax Cut Continuation Act of 2011 (Public Law 112–78) required that Fannie Mae and Freddie Mac increase their credit guarantee fees on single-family mortgage acquisitions between 2012 and 2021 by an average of at least 0.10 percentage points to help offset the cost of extending a payroll tax cut. The Budget recommends Congress increase the fee to 20 basis points and extend it through 2024. The Administration estimates that the increased fees, which it projects would raise an additional $32 billion, would make it easier for private entities to compete against the GSEs.

**National Flood Insurance Program (NFIP):** The Administration calls on Congress to pass legislation that would amend NFIP by eliminating the various subsidies and premium discounts certain policyholders receive based on where their property is located, the building's age, and whether any loss mitigation activities have been undertaken. The Administration argues that such benefits have allowed policyholders to pay premiums that do not accurately reflect the risk their property poses to NFIP. It recommends Congress instead create a targeted means-tested affordability program to offer premium assistance to policyholders based on their ability to pay.

The Budget also proposes that funding for NFIP's Flood Hazard Mapping Program, which utilizes data to track flood risks and help set NFIP premiums, be substantially reduced from $263 million in FY 2019 to $100 million in FY 2020. The Administration argues that its Budget provides the Federal Emergency Management Agency (FEMA) with the funding it will need to complete the mapping program by 2021, and calls on the private sector and state and local governments to help FEMA maintain updated flood maps.