February 11, 2020

MEMORANDUM

TO: NCSHA Members and Interested Parties

FR: NCSHA's Policy and Government Affairs Team

RE: NCSHA's Preliminary Analysis of the Administration's FY 2021 Budget Request

Executive Summary

The Administration today released its Fiscal Year (FY) 2021 Budget request, "A Budget for America's Future." The $4.8 trillion budget outlines the Trump Administration's fiscal priorities for increased military spending and significant cuts to domestic spending, including HUD and USDA housing programs.

The FY 2021 Budget adheres to the defense spending limits cemented in the two-year budget deal Congress and the Trump Administration agreed to last summer, but seeks to cut FY 2021 non-defense spending from the $634.5 billion agreed upon in that deal, down to $590 billion. The non-defense discretionary spending in the FY 2021 Budget is also 5 percent below the FY 2020 enacted level, with some agencies subject to even greater reductions. The Administration proposes to cut HUD funding 15 percent below FY 2020 enacted levels and USDA funding 8 percent below FY 2020 enacted levels.

Similar to the Administration's past three budgets, the FY 2021 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.

Echoing its FY 2019 and 2020 budgets, 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 Administration also highlights throughout the document that it established the White House Council on Eliminating Regulatory Barriers to Affordable Housing to help communities address, reduce, and remove regulatory barriers that artificially raise the cost of housing and contribute to the lack of affordable housing supply.

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

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

HUD Program Funding Highlights

The Administration's FY 2021 Budget requests $47.9 billion for HUD programs, $8.6 billion or 15 percent below the FY 2020 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.

Similar to previous Trump Administration budgets, the FY 2021 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." Also, like previous budgets, the FY 2021 Budget would eliminate the Housing Capital Fund, Choice Neighborhoods Initiative, and Self-Help & Assisted Homeownership (SHOP).

The HUD budget includes funding increases only for a limited number of programs, including a substantial increase to identify and abate lead and other environmental hazards, and for the programs for the elderly and persons with disabilities.

The budget proposes a set of rent reforms first seen in the "Making Affordable Housing Work Act" draft legislation proposed by the Administration two years ago and incorporated in its FY 2019 and FY 2020 budget requests. 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 again proposes uniform work requirements for non-elderly, non-disabled tenants 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."

HUD Program Funding Details

HOME: The budget proposes to eliminate all funding for the HOME program in FY 2021, echoing similar proposals from FY 2018 – FY 2020. In FY 2020, HOME was funded at $1.35 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 Fannie Mae and Freddie Mac to the fund, beginning in 2021. HUD anticipates receiving approximately $301 million from the calendar year 2019 collection, which we expect HUD will distribute to states in Spring 2020.

Housing Choice Vouchers: The budget proposes $18.8 billion for the voucher program, 21 percent less than its FY 2020 appropriation. This significant cut is largely explained by HUD's proposal to create a separate Moving to Work (MTW) account and directly appropriate $4.5 billion for MTW contract renewals and administrative fees in this new account instead of the voucher account. Adding the MTW line item to the voucher account, the FY 2021 Budget's cut to vouchers and administrative fees is actually 2 percent or roughly $500 million.

The budget also proposes to fund tenant protection vouchers at $100 million — a 33 percent increase over FY 2020 funding levels. HUD's FY 2021 Congressional Justification explains that this funding request reflects an anticipated increase in demolitions, dispositions, and streamlining voluntary conversions.

The budget proposes no new funding for HUD-Veterans Affairs Supportive Housing (VASH) vouchers or the Tribal HUD-VASH program. The budget also includes $310 million for the renewal of Section 811 mainstream vouchers for persons with disabilities, including the first-time renewal of the vouchers first allocated in FY 2020.

Moving to Work: The budget proposes a separate MTW account for Public Housing Authorities (PHAs) participating in the demonstration program. Under current statute, MTW agencies have flexibility in how they use their Public Housing and Housing Choice Voucher funds but incur significant administrative burden since they must manage, reconcile, and report on these funds based on their original source. HUD's Congressional Justification says that this separate account will simplify these processes for MTW agencies.

Self-Sufficiency Programs: The FY 2021 Budget proposes $190 million for a new Self-Sufficiency program to consist of the Family Self-Sufficiency (FSS) and Jobs-Plus programs. The budget requests $90 million for FSS, $10 million or 13 percent above FY 2020 enacted levels. The budget also seeks to fund Jobs-Plus at $100 million and includes a legislative proposal to expand eligibility to Project-Based Rental Assistance and Project-Based Voucher properties.

Section 8 Project-Based Rental Assistance: The budget proposes $12.6 billion for Project-Based Rental Assistance (PBRA). The budget supports the calendar-year funding cycle and provides 12 months of funding for all contracts. The budget proposes $12.4 billion to renew expiring Section 8 project-based contracts, 1 percent more than FY 2020 enacted levels.

The PBRA request also proposes $350 million for performance-based contract administrators' (PBCA) administrative fees, $5 million more than appropriated in FY 2020. Funds from the Housing Certificate Fund could also be used to supplement costs for this line item. HUD's Congressional Justification explains that protests and litigation may slow the execution of new contract awards, so the budget request has to consider multiple budgetary scenarios.

According to HUD, continued extension of the existing PBCA agreements is estimated to cost up to $370 million in 2021. "Actual cost is dependent on changes in Fair Market Rents, the number of Housing Assistance Payment (HAP) contracts assigned to each PBCA, and the number of management and occupancy reviews completed. Should the Department successfully execute new awards in 2021, 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 also proposes $6 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.

Homeless Assistance Grants: The budget proposes $2.7 billion for Homeless Assistance Grants, 4 percent less than the FY 2020 enacted funding level. This request includes $2.3 billion for the Continuum of Care Program, $280 million for Emergency Solutions Grants, and $7 million for technical assistance.

Community Development Block Grants: The budget proposes to eliminate the Community Development Block Grants (CDBG), suggesting that the program is not well targeted and the wide range of activities could be better performed by states and localities.

The budget does not include specific proposals to improve the CDBG-Disaster Recovery (DR) program, but HUD's Congressional Justification calls for a comprehensive examination of all disaster relief and recovery programs to "(1) speed up recovery and improve long-term outcomes for individuals and communities, (2) balance stakeholder incentives with responsibilities for creating and assuming risk, and (3) reduce costs to the Federal Government and taxpayers."

The budget does not request additional CDBG funds for a pilot program providing supportive housing for persons recovering from substance abuse, as authorized in the 2018 SUPPORT for Patients and Communities Act. This program was funded in HUD's FY 2020 appropriations bill.

Section 202 Housing for the Elderly: The budget provides $853 million for Section 202 housing, $60 million more than enacted in FY 2020. This amount includes $641 million to renew contracts, $5 million to support service coordinators, and $100 million in new capital advances. The budget also requests $14 million for an extension of the Supportive Services IWISH Demonstration and to better evaluate the demonstration's impact on the health and well-being of older low-income tenants.

Section 811 Housing for Persons with Disabilities: The budget requests $252 million for Section 811 housing, $50 million more than FY 2020 enacted levels. This includes $80 million for capital advance and project rental assistance.

Housing Opportunities for Persons with AIDS: The budget proposes $330 million for Housing Opportunities for Persons with AIDS (HOPWA), $80 million less than its FY 2020 appropriation and the same as its FY 2020 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 without these funds. It also seeks to expand authority to convert Section 811 Project Rental Assistance Contracts, Senior Preservation Rental Assistance Contracts, and, in limited circumstances, Tenant Protection Vouchers. 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.

Lead Hazard and Healthy Homes: The FY 2021 Budget proposes $360 million for the Office of Lead Hazard Control and Healthy Homes program, $70 million more than FY 2020 enacted levels. This includes $35 million for a demonstration program to install and replace carbon monoxide detectors in "high-risk" HUD-assisted housing. The budget also requests $30 million for a demonstration to allow PHAs to conduct lead hazard screenings or risk assessments during housing quality inspections for Housing Choice Voucher units.

Housing Counseling: The budget proposes $45 million for HUD's Housing Counseling program, an $8 million decrease from the $53 million the program received in FY 2020. Of the requested $45 million, the Administration intends to distribute $41 million directly to HUD-approved housing counseling agencies. An additional $4 million would be used for administrative expenses.

<u>Ginnie Mae:</u> The budget requests $550 billion in guarantee authority for FY 2021 for Ginnie Mae, the same level of guarantee authority requested for FY 2020. The Administration also requests that Ginnie Mae receive $31.5 million for administrative and salary expenses from offsetting collections.

<u>Federal Housing Administration Single-Family Insurance Program:</u> The budget requests $400 billion in loan authority for FHA's Mutual Mortgage Insurance Fund (MMIF), which supports FHA's single-family "forward" and home equity conversion mortgage (HECM) "reverse" mortgage programs. The Administration estimates that FHA will insure $200 billion in single-family forward mortgages in FY 2021, down $15 billion from its FY 2019 new origination volume, and insure $10.7 billion in "reverse" HECMs, down slightly from the $11 billion new origination volume in 2019 (the last year for which actual levels are available).

The Administration's budget also requests $130 million for costs associated with administering MMIF programs, such as loan underwriting, claims processing, and risk monitoring. While this is $20 million less than the amount requested for FY 2020, last year's budget also proposed that Congress pay for the additional $20 million by passing legislation allowing FHA to temporarily charge lenders a fee for each loan FHA insures. This temporary fee proposal was not included in the Administration's request this year.

<u>FHA Multifamily/Title I Manufactured Housing Programs:</u> 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 that was requested for FY 2020.

USDA Rural Housing Program Funding Highlights

This year's budget proposes to eliminate many of the same USDA rural housing programs that the Administration has proposed to eliminate in the past, including the Section 502 Single-Family Housing Direct Loans program, the Section 515 Multifamily Housing Direct Loans program, and the Section 504 Home Repair program. 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 $1.45 billion for both programs in FY 2021.
    - Of the $1.45 billion mentioned above, $1.41 billion would be reserved for renewals of existing rental assistance contracts under the Section 521 Rental Assistance program. This represents a nearly 3 percent increase from enacted FY 2020 funding levels for the same program reservation level.

    - The remaining $40 million of the $1.45 billion is marked for the Section 542 rural housing voucher program, a 25 percent increase from FY 2020 enacted funding levels.

- Enable owners of projects financed with Section 514 or 515 loans to renew their rental assistance agreements for 20 years, which allows tenants living in those projects to utilize Section 542 rental assistance vouchers.

- Require residents receiving rental assistance to pay a minimum rent of $50 per month, unless USDA qualifies the tenant for a hardship exemption. The minimum rent requirement has been included in the past two budget requests.

- Fund the Section 502 single-family unsubsidized guaranteed loan program at $24 billion, equal to its enacted FY 2020 funding level.

- Provide $230 million for the Section 538 multifamily loan guarantee program, equal to its enacted FY 2020 funding level.

- Combine all multifamily preservation and revitalization demonstration programs into one multifamily housing revitalization pilot program, funded at $40 million in FY 2021. This funding level represents level-funding for the programs folded into the new account.

Other Budget Proposals Relevant to Housing

Tax Proposals: As in previous years, the Administration did not release a General Explanations of the Administration's Revenue Proposals — also known as the "Greenbook" — detailing new Administration tax proposals, including any that may be related to the Low Income Housing Tax Credit program or private activity bonds.

Typically, the Greenbook accompanies the publication of the Administration's Budget; however, the Trump Administration has not released a Greenbook with any of its annual budget proposals. In a list of FY 2021 budget revenue proposals, the only housing-related recommendation is the elimination of the Housing Trust Fund mentioned above.

Infrastructure: The Administration proposes $1 trillion for direct federal investment in various infrastructure programs. However, affordable housing is not included in these proposed investments, which primarily focus on surface transportation, water infrastructure, and broadband. Unlike the Administration's infrastructure proposal included in last year's budget, this year's infrastructure proposal does rely on increased use and expansion of private activity bonds.

Capital Magnet Fund: As with the 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 2021.

Consumer Financial Protection Bureau: The Administration proposes restructuring the Consumer Financial Protection Bureau (CFPB), limiting its mandatory funding in 2021, and providing discretionary appropriations beginning in FY 2022. CFPB currently receives its funding annually from the Federal Reserve.

Government Sponsored Enterprises: 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, which are remitted directly to the U.S. Treasury for deficit reduction. The budget recommends Congress increase the fee to 10 basis points for single-family mortgage acquisitions in 2021, and then extend the 20 basis point fee for acquisitions through 2025. The Administration says the increased fees would make it easier for private entities to compete against the GSEs.

National Flood Insurance Program: In 2019, FEMA began utilizing its administrative authority to accelerate the premium increases required by the Biggert Waters Flood Insurance Reform Act of 2012 and the Homeowner Flood Insurance Affordability Act of 2014. Beginning in October 2021, the National Flood Insurance Program (NFIP) will begin charging policyholders based on its new rating system for flood risk in an effort to signal to homeowners the true cost associated with living in a floodplain for policyholders paying premiums that are less than full risk.

The Administration's FY 2021 Budget proposal highlights the need to provide affordability assistance to certain homeowners through a targeted means-tested affordability program to offer premium assistance based on income or ability to pay and proposes establishing a targeted affordability program for NFIP policyholders.