March 29, 2022

MEMORANDUM

TO: NCSHA Members

FR: NCSHA's Policy and Government Affairs Team

RE: NCSHA's Analysis of the Administration's FY 2023 Budget Request

Executive Summary

On March 28, the Biden Administration released its $5.8 trillion Fiscal Year (FY) 2023 Budget request, outlining its fiscal priorities. The Budget proposes the largest increase in federal spending in decades, including increased investments in housing.

The Budget provides $770 billion for non-defense discretionary spending, an increase of 5.5 percent, and $813 billion in defense spending, an increase of four percent, from the FY 2022 funding amounts, respectively. The Biden Administration proposes to raise taxes on corporations and high earners to offset the increased spending.

The Administration seeks $71.9 billion for the U.S. Department of Housing and Urban Development (HUD) and $28.5 billion for the U.S. Department of Agriculture (USDA), an increase of $6.2 billion (9.4 percent) and $3.4 billion (13.4 percent) over the FY 2022 enacted levels, respectively. The Administration has proposed substantial investments to renew and expand both project-based rental and tenant-based rental assistance; preserve and expand the supply of affordable housing through new and existing programs, including the Housing Credit and the HOME Investment Partnerships program; promote rehabilitation and modernization to further climate resilience and energy efficiency; advance fair and equitable housing; and support investments in underserved communities.

The Budget generally does not include provisions that were part of the administration's Build Back Better proposal last year or the version of it that passed the House, which contained several top NCSHA priorities. The budget proposal includes a "deficit neutral reserve fund" in the event Congress resumes consideration of Build Back Better provisions.

NCSHA's analysis of the Budget's housing proposals and information from HUD's Budget briefing this afternoon follows.

HUD Program Funding Highlights

The Administration's FY 2023 Budget requests $71.9 billion for HUD programs, $6.2 billion or 9.4 percent above the FY 2022 enacted level. The Administration has proposed an increase in HOME, a new program to add to the supply of affordable housing, sufficient funding to cover existing rental assistance contracts and increase the number of housing choice vouchers, and investments for rehabilitation and modernization to further climate resilience and energy efficiency.

HUD Program Funding Details

Housing Supply Fund: The Budget proposes the establishment of a new HUD program, the Housing Supply Fund, to address the affordable housing supply shortage. The Budget requests the program receive $7 billion in funding each year through FY 2027 so it can expend $35 billion over the next ten years. The administration has not released a detailed legislative proposal for the program.

Of the $35 billion appropriated, $25 billion would be awarded via formula grant to state and local HFAs, as well as territorial governments and American Indian tribes, to create streamlined financing tools to support the development of affordable multifamily and single-family housing of modest density (up to 100 units per site). All housing built under this program would be used to help low- and moderate-income families, including those earning up to 150 percent of AMI in high-cost areas.

The additional $10 billion from the Housing Supply Fund would be provided to state and local governments that amend their zoning laws to make it easier to build affordable housing in their jurisdictions. The funding would be used to further incentivize the development of affordable housing or housing-related infrastructure, such as sewers, roads, and environmental planning.

HOME: The Budget proposes $1.95 billion for the HOME program, an increase of $450 million, or 30 percent, from the FY 2022 enacted level of $1.5 billion. This includes a $100 million set-aside for a new down payment assistance program, the FirstHOME Downpayment Assistance initiative, to provide funding to States and insular areas for down payment assistance to better ensure sustainable homeownership among first-generation, first-time homebuyers and pilot program flexibility and innovation. If enacted, this would be the highest level of funding for HOME in over 15 years.

The Budget proposes extending the suspension of the 24-month commitment deadline and to continue to allow unused set-aside funds for Community Housing Development Organizations (CHDO) to be returned to the PJ after two years. It also proposes to allow all remaining no-year CHDO funds to be allocated via the HOME formula rather than through competition as required in existing regulations.

Housing Choice Vouchers: The Budget proposes $32.1 billion for the voucher program, an increase of $4.73 billion over FY 2022 to assist an additional 200,000 families, with a focus on those who are experiencing homelessness or fleeing domestic violence. This would be the most significant expansion of housing vouchers in the program's history.

The Budget proposes $26.2 billion, a $2.1 billion increase, for contract renewals; $3 billion, a $604 million increase, in administrative fees; $220 million, a $120 million increase, for tenant protection vouchers (TPVs); $445 million for a new mobility services program; and $1.6 billion for new incremental vouchers to serve 200,000 additional families, including those who are homeless or fleeing from domestic violence. Out of the $26.2 billion for contract renewals, HUD has requested $50 million for the Rental Assistance Demonstration program.

The Budget also proposes $667 million, a $208 million increase over FY 2022, for Section 811 mainstream renewals and requests authority to establish a set-aside for funding adjustments to public housing agencies that face shortfalls that would require them to terminate families or have experienced a significant increase in mainstream renewal costs due to unforeseen circumstances. The Budget also proposes $300 million in competitive grants to pay for efficiency upgrades in public housing.

The Budget proposes allocating $5 million to serve Native American veterans, level funding from FY 2022, but no new funding for HUD-Veterans Affairs Supportive Housing (VASH), a decrease of $50 million from FY 2022.

Self-Sufficiency Programs: The FY 2023 Budget proposes $175 million, an increase of $16 million, for Self-Sufficiency programs. This includes $120 million for the Family Self-Sufficiency program, $20 million for the Jobs Plus Initiative, and $35 million for the Resident Opportunity and Self-Sufficiency program.

Section 8 Project-Based Rental Assistance (PBRA): The Budget proposes $15 billion, a $595 million increase, for Project-Based Rental Assistance (PBRA). Of that total, $14.325 billion is for renewing expiring Section 8 project-based contracts, $80 million for the Rental Assistance Demonstration program, $204 million for Moderate Rehabilitation and Single Room Occupancy renewal programs. $275 million is available for at-risk post-Mark to Market Section 8 properties and other PBRA properties with health and safety deficiencies to allow budget-based rent adjustments to facilitate rehabilitation and sustainable operation of the properties, consistent with program requirements that the property rents remain at or below comparable market rents.

The Budget request also includes $375 million for performance-based contract administrators' (PBCA) administrative fees, an increase of $20 million over FY 2022. HUD's congressional justification says this funding level will ensure contract administration services continue without interruption. HUD projects extending existing PBCA agreements will cost up to $395 million in 2023, which it would fund from new appropriations and supplement with $20 million in Housing Certificate Fund recaptures.

This funding level would also allow for continuation of Management and Occupancy Reviews, incorporate projected transfers of existing non-PBCA administered contracts into the PBCA portfolio, and include projected increases in Fair Market Rents, upon which fees are based. The Budget assumes HUD will extend current PBCA agreements, though HUD says it may complete pending procurements to replace the current agreements by 2023.

Homeless Assistance Grants: The Budget proposes $3.576 billion, an increase of $363 million, for Homeless Assistance Grants. This request includes $3.2 billion for the Continuum of Care Program, $290 million for Emergency Solutions Grants, and $7 million for Homeless Management Information Systems, data analysis, and technical assistance through the National Homeless Data Analysis Project.

Community Development Block Grants (CDBG): The Budget requests $3.77 billion for the Community Development Block Grant (CDBG) program, an increase of $470 million over FY 2022. $195 million is set aside for activities aimed at removing barriers to revitalization in approximately 100 of the most underserved neighborhoods in the United States.

The Budget also includes language to permanently authorize the Community Development Block Grant-Disaster Recovery (CDBG-DR) program.

Section 202 Housing for the Elderly: The Budget provides $966 million, a $67 million decrease from FY 2022, for Section 202 housing. This amount includes $742 million to renew contracts, $120 million to support service coordinators, $100 million in new capital advances, and $4 million for property inspections and related administrative costs.

Section 811 Housing for Persons with Disabilities: The Budget requests $288 million, a decrease of $64 million, for Section 811 housing. This includes $205 million for Project Rental Assistance Contracts, renewals, and amendments; $82 million for capital advances, new operating assistance, and State Project Rental Assistance to expand the supply of affordable housing for low-income persons with disabilities; and $2.7 million for inspections and related administrative costs.

Housing Opportunities for Persons with AIDS (HOPWA): The Budget proposes $455 million for HOPWA, $5 million above FY 2022. The Budget proposes not to prioritize renewals in its competition to allow for developing new and innovative models to address disease trends. The updated HOPWA formula is fully implemented as of FY 2022.

The formula allocates funds based on cases of persons living with HIV/AIDS and is adjusted for an area's fair market rent and poverty rates to ensure HOPWA funds are focused in areas with the greatest need.

Rental Assistance Demonstration: The Budget requests $110 million for HUD's Rental Assistance Demonstration (RAD) to further the long-term financial stability and promote the energy or water efficiency or climate resilience of properties under conversion, including $50 million from the tenant-based rental assistance account and $60 million from the project-based rental assistance account.

Green and Resilient Retrofit: The FY 2022 Budget proposes $250 million for a new Green and Resilient Retrofit Program to provide funding to rehabilitate assisted multifamily properties to be more energy efficient, healthier, and more resilient to extreme weather events. $31.5 million is available for data collection and utility consumption benchmarking of properties across multifamily housing.

This new program is apparently modeled after the Green Retrofit Program under the American Recovery and Reinvestment Act of 2009. The administration has not released a detailed legislative proposal for it.

Lead Hazard and Healthy Homes: The FY 2022 Budget proposes $400 million for the Office of Lead Hazard Control and Healthy Homes program, a $15 million decrease from FY 2022. The Budget includes $5 million for radon testing and mitigation in public housing units.

Housing Counseling: The Budget proposes $65.9 million for Housing Counseling, an increase of $8 million from FY 2022. Of the total requested, $61 million is for grants to housing counseling agencies, HFAs, and housing counseling intermediaries. The remaining $4.5 million is for administrative expenses.

Ginnie Mae: The Budget requests $900 billion in commitment authority for FY 2023 for Ginnie Mae, which is $400 billion lower than the FY 2022 enacted level. Ginnie Mae issuance in FY 2021 was $999 billion, a 14 percent increase over the previous record year of FY 2020. The Administration expects Ginnie Mae issuances to remain at elevated levels in FY 2023. The Budget also requests $42.4 million in spending authority from offsetting collections ($198.6 million) for Ginnie Mae salaries and expenses.

FHA-HFA Multifamily Loan Risk-Sharing Program: The budget proposes to maintain the FHA-HFA Risk-Sharing program in FY 2023 and requests new authority for Ginnie Mae to securitize affordable multifamily loans made by Housing Finance Agencies (HFAs) and insured under the FHA's 542(c) Risk-Sharing program.

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 "forward" and home equity conversion mortgage (HECM) "reverse" mortgages, and a proposed Home Equity Accelerator Loan (HEAL) pilot, which would offer loan products designed to lower barriers to homeownership for first-generation and/or low-wealth first-time homebuyers.

The Administration estimates FHA will insure $225 billion in single-family forward mortgages in FY 2022 and $26.4 billion in HECMs. It also projects insuring $3.4 billion in HEAL pilot loans.

The Administration's Budget also requests $165 million for the MMIF Program account. This includes $150 million in administrative expenses to support a range of FHA functions, such as loan underwriting, claims processing, and risk monitoring. Additionally, the Budget provides $15 million in credit subsidy for the new HEAL pilot.

FHA Multifamily/Title I Manufactured Housing and Property Improvement Loan Programs: The Budget requests a limitation of $35 billion on loan guarantees and $1 billion for direct loans from FHA's General Insurance and Special Risk Insurance (GI/SRI) fund for financing FHA's affordable multifamily activity, manufactured housing loans originated through FHA's Title I program, and health care facility loan insurance programs. The requested limit on loan guarantees represents a $5 billion increase over FY 2022.

FHA estimates the GI/SRI fund will insure over $28 billion in loans in FY 2023, including $1.5 billion for Federal Financing Bank Risk-Sharing Loans, $21.2 billion in loans to finance multifamily housing, $5.6 billion in financing for healthcare facilities, and $51 million for Title I manufactured housing and property improvement projects.

USDA Rural Housing Program Funding Highlights

The Biden Administration is requesting $28.5 billion for USDA's FY 2023 budget, a $3.4 billion or 13.4 percent increase over the FY 2022 enacted budget. Much of the increase in funding is targeted toward rural climate resiliency, with the Administration proposing increased investment in areas such as clean energy conversion, climate research, and wildfire prevention. However, there is increased funding for USDA's rural housing programs as well, with some multifamily accounts set to receive substantial increases. The Administration hopes the increase in funding will help alleviate housing insecurity and rent burdens, as well as blunt the impacts of climate change on housing in rural communities.

Funding level highlights for some key Rural Housing Service (RHS) programs are below.

<u>Section 521 Rural Rental Assistance and Section 542 Voucher Program</u>: As in recent years, The Budget would combine appropriations for Section 521 rural rental assistance and the Section 542 voucher program, requesting a combined $1.602 billion for both programs, a nearly 7 percent increase over FY 2022 enacted funding levels. Of the total amount, $1.564 billion is reserved for renewals of existing rental assistance contracts under the Section 521 rental assistance program, up from the FY 2022 enacted funding level of $1.450 billion. The remaining $38 million is marked for the Section 542 rural housing voucher program, down from $45 million in FY 2022.

<u>Section 538 Multifamily Loan Guarantee Program</u>: The Budget requests $400 million for the Section 538 multifamily loan guarantee program, 60 percent increase from $250 million in FY 2022. The Budget also includes language that will allow the program to operate without interest subsidy and with a fee.

<u>Section 515 Direct Rental Housing Program</u>: The Budget requests $200 million for the Section 515 direct rental housing program, up from $50 million in FY 2022, a 300 percent increase. Another provision in the Budget for Section 515 properties would "decouple" rental assistance from the program. Currently, rental assistance cannot be used in properties that do not have an active Section 515 or 514 loan. The provision would allow tenants to receive or continue to receive rental assistance after a property has paid off its USDA mortgage.

<u>Section 502 Single-Family Programs</u>: The Section 502 single-family direct loan program would be funded at $1.5 billion, an increase of $250 million over FY 2022 enacted levels. The Section 502 single-family unsubsidized guaranteed loan program would receive level funding at $30 billion.

<u>Multifamily Housing Revitalization Program</u>: The multifamily housing revitalization pilot program account would receive a total of $75 million, up from $34 million in FY 2022.

Other Budget Proposals Relevant to Housing

<u>Housing Credit</u>: The Budget proposes to provide state Housing Credit Agencies authority to allocate a basis boost to certain bond-financed developments receiving 4 percent Housing Credits, irrespective of whether the development is located in a Qualified Census Tract or Difficult to Develop Area. To be eligible for the basis boost, the development must either be new construction or substantial rehabilitation in which net new units are added.

Since the passage of the Housing and Economic Recovery Act (HERA) in 2008, state Housing Credit Agencies have had the authority to provide a nongeographic, state-determined basis boost for 9 percent Housing Credit developments. This proposal would extend the same treatment to qualifying 4 percent developments.

NCSHA has long advocated that Congress should broaden the state-determined basis boost to include 4 percent developments. A similar proposal is included in the Affordable Housing Credit Improvement Act (S. 1136/H.R. 2573).

New Markets Tax Credit: The Budget proposes that the New Markets Tax Credit (NMTC) be made permanent. The NMTC is currently set to expire at the end of 2025. The Administration's FY 2022 budget included the same proposal.

National Flood Insurance Program (NFIP): The Administration's Budget indicates the Federal Emergency Management Agency (FEMA) will continue with its plan to update premiums for policyholders based on its new rating system for flood risk so that premiums reflect the actual risk to the policyholders' property. FEMA also hopes to increase the number of homeowners purchasing flood insurance by educating consumers about the risks associated with the living in a floodplain.

The Budget proposes that Congress establish a means-tested assistance program that would subsidize NFIP premiums for low-income households, which the Administration estimates would cost $43 million in FY 2023.

As noted above, the Budget does not include any of the Build Back Better housing proposals, including the expansions of the Housing Credit and creation a new Neighborhood Homes Credit, both of which remain top NCSHA priorities.