Center on Budget and Policy Priorities

MEMORANDUM

To: Interested Parties

From: Douglas Rice and Barbara Sard

Date: February 6, 2008

Re: Preliminary Analysis of HUD Provisions of President's Budget for FY 2009

On February 4, the President released his budget proposal for fiscal year 2009, which represents just the first step in the process of funding federal agencies and programs in the coming year. This memo provides a preliminary analysis of the President's budget provisions concerning low-income housing assistance administered by HUD.

Overall, the President's budget provides $38.7 billion for HUD programs in FY 2009, about $330 million (or 0.9 percent) above the FY 2008 level, unadjusted for inflation.[1] (Except where otherwise specified, all comparisons to FY 2008 funding levels below are unadjusted for inflation.)

This overall comparison, however, masks a troubling reality beneath the surface of the HUD budget. On the one hand, the HUD budget finally acknowledges the deepening funding crisis in the Section 8 Project-Based Rental Assistance program, providing an increase of over $1 billion for Section 8 renewals next year. In addition, the FY 2009 budget, for the first time in many years, proposes no rescission of unspent Section 8 funds appropriated in prior years, at a "cost" of $1.25 billion in comparison to FY 2008.[2]

---

[1] The Bush Administration describes its FY 2009 request for HUD as an increase of $1 billion over the FY 2008 funding level. The difference between our figures and HUD's is explained primarily by the treatment of advance appropriations for the two Section 8 programs. For FY 2008 and FY 2009, our analysis includes the funding amounts advanced for the Housing Choice Voucher and Section 8 Project-Based Rental Assistance programs for the following fiscal years (i.e., for FY 2009 and FY 2010), . This method portrays more accurately the budget for these programs, particularly for the voucher program, which is funded on a calendar year basis (e.g., in the budget for FY 2009, the advance appropriation of FY 2010 funding would be obligated to housing agencies to meet expenses in calendar 2009). In contrast, HUD's figures for each fiscal year include the amounts advanced in the prior year law, e.g., the figure for FY 2008 includes the funding amount advanced for FY 2008 by the FY 2007 appropriations law (rather than the amount advanced for FY 2009 by the FY 2008 law).

[2] In recent years, large rescissions from the Housing Certificate Fund have allowed the Bush Administration and Congress to recycle previously allocated Section 8 funding, thereby reducing the amount of new funding required for HUD programs. Yet the sources of recycled funds have diminished markedly over the past three years, making it increasingly difficult for HUD to meet the rescissions mandated by Congress. The FY 2008 Housing Certificate Fund rescission totaled $1.25 billion. In effect, the absence of such a rescission in the FY 2009 budget means that an increase of $1.25 billion in new budget authority was required simply to maintain flat funding levels for HUD programs.

Yet these positive proposals are offset by approximately $1.9 billion in funding cuts from other HUD programs in FY 2009, not counting additional losses due to inflation. As a result, much deeper cuts are proposed for most HUD programs than indicated by the overall HUD budget figures. Moreover, the increased funding for Section 8 project-based rental assistance, while welcome, falls nearly $2 billion short of the amount needed to fully fund renewals in FY 2009.

Table 1
Overview of the President's FY 2009 Budget for HUD:
Most HUD Programs Would Receive Deep Cuts in Funding

Proposals in the President's FY 2009 Budget	Impact on FY 2009 budget versus FY 2008
Increased funding to partly address the budget shortfall in the Section 8 Project-Based Rental Assistance (PBRA) program	+$1.02 billion
Elimination of Housing Certificate Fund rescission	+$1.25 billion
Cuts in funding for HUD programs other than Section 8 Project-Based Rental Assistance	**-$1.94 billion**
Total net change in funding for HUD	+$330 million

Of course, the President's budget is only a recommendation, and it will be up to Congress to write its own bill to fund HUD programs in FY 2009. If recent years provide a reliable indication, Congress will make a strong effort to improve on the President's budget and restore funding to critical programs slated for cuts under the budget. The final outcome of the appropriations process is not likely to be known until late in the year.

Housing Choice Vouchers

CBPP estimates that $15.5 billion will be required to renew all vouchers in use in 2009.[3] The President's budget includes $14.16 billion for renewals in 2009, $500 million less than Congress provided in 2008, and about *$1.3 billion below the amount required to renew all vouchers in use*.[4] **At least 100,000 housing vouchers in use by low-income families in 2008 would be cut under the President's budget.** For the entire voucher account — including not just renewals but also new tenant-protection vouchers, Family Self Sufficiency program coordinators, administrative fees, and new incremental vouchers — the budget allocates $15.88 billion.

Under the proposed budget, each agency's renewal funding in 2009 would be based on the amount it was eligible to receive in 2008, with adjustments for inflation, new tenant protection and

[3] CBPP's renewal funding estimate is based on the following assumptions: HUD's Annual Adjustment Factor (AAF) for FY 2009 will be 4.1 percent (the national average AAF for FY 2008 was 4.05 percent); voucher utilization will increase to 95.8 percent in 2008, nearly 4 percent above the level in the 3rd quarter of 2007, but well below the peak of 98.5 percent in late 2003 and early 2004; and $142 million will be required for the first-time renewal of tenant-protection and incremental vouchers authorized by Congress in FY 2008.

[4] As explained in note 1, the voucher renewal funding figure cited here includes the $4.0 billion proposed in advance budget authority for FY 2010.

incremental vouchers, and the commitment of project-based vouchers.[5] The proposed renewal funding formula would also make use of an offset mechanism, under which each agency's renewal funding would be reduced by an amount equal to the "unusable" portion of funds in its reserve account (i.e., its "net restricted assets" account) at the end of fiscal year 2008. (While "unusable" is not defined in the budget, it may be understood loosely to refer to the amount of voucher renewal funds that would remain if 100 percent of an agency's authorized vouchers were in use for the entire year.)

The budget assumes that $600 million in "unusable" reserve funds would be available to supplement the renewal funding provided under the budget. It is unlikely, however, that housing agencies would be able to draw down such large amounts of reserve funding without leaving themselves exposed to fiscal instability or shortfalls if unexpected costs arose in subsequent months. Moreover, as proposed, the offset mechanism would punish the highest performing agencies — those that kept per-voucher costs low in order to serve the maximum permitted number of families. For example, an agency that utilizes 100 percent of its vouchers in FY 2008 would be required to deplete completely its funding reserves to renew its vouchers in FY 2009.

The voucher cuts under the Administration's budget could exceed 100,000 vouchers, and by a significant number. If Congress rejects the proposed offset and does not provide additional funds on top of the President's request, nearly 200,000 vouchers in use would be cut. Moreover, the budget assumes the use of a block-grant-style formula that would distribute renewal funding based on vouchers in use two years earlier, in fiscal year 2007 (which was the basis of funding eligibility in 2008). Because it would be much less efficient than the "recent-cost" formula used by Congress in 2007 and 2008, many agencies would experience even deeper funding shortfalls than the budget cut alone would cause.

A return to such a discredited renewal policy also would punish high performing agencies that increase the number of families served this year. Such agencies would not receive the funding needed to maintain the additional vouchers they put to use in 2008. The triple blow of a funding cut, reduced reserves, and a failure to rebenchmark the funding formula to reflect recent costs could once again discourage agencies from using available funds, thereby worsening the loss of vouchers. Fortunately, for the past two years, Congress has rejected the proposed block-grant renewal policy and fully funded vouchers in use.

[5] The legislative language submitted with the budget request for vouchers is ambiguous with respect to the proposed treatment of incremental vouchers under the renewal funding formula. Here we assume the more favorable reading, i.e., that adjustments for incremental vouchers issued in FY 2008 and leased for part of the year would be made under the proposed renewal funding formula.

	2008 Enacted (millions)	2009 Bush Budget (millions)	Difference (millions)
Housing Choice Vouchers (total)	$16,391	$15,881	-$510
Renewals	$14,660	$14,161	-$498
Tenant-protection	$200	$150	-$50
Family Self-Sufficiency	$49	$48	-$1
Administration expenses	$1,351	$1,400	+$49
Incrementals	$125	$75	-$50
Disaster Housing Assistance Program		$39	+$39

As the table above shows, the President's budget also provides $150 million for tenant protection vouchers to replace federally-assisted housing that has been lost to such factors as demolition and private market conversion, $48 million for the Family Self Sufficiency Program, and $1.4 billion for expenses connected to the administration of the voucher program (an increase of 3.6 percent over FY 2008 funding). With respect to the latter, the Administration's budget request would continue to distribute administrative funding on a unit basis, as Congress directed in 2008.

Finally, the budget request includes $75 million for incremental vouchers for supportive housing for about 10,000 veterans, and $39 million to prevent the displacement of people who are elderly or have disabilities and currently receive assistance from HUD's Disaster Housing Assistance Program (DHAP), which is scheduled to end in March 2009.

Public Housing

The President's budget would provide $6.3 billion in total funding for public housing, 6 percent below the 2008 level. The cuts would place the public housing funding level some $790 million, or 11 percent, below the 2001 level without adjusting for inflation and 28 percent below the 2001 level in inflation-adjusted terms.

The budget would reduce funding for the public housing capital fund by $415 million, or 17 percent, below the 2008 level. This would leave the funding available for capital repairs in public housing developments close to $800 million below the amount needed to address new capital needs that are expected to accumulate in those developments in 2009, adding to rather than reducing the estimated backlog of more than $20 billion in unmet public housing capital needs.[6]

The budget requests an increase of $100 million in funding for the public housing operating fund. This added funding would roughly keep pace with inflation, but would not significantly reduce the

[6] A HUD-sponsored study estimated annual accrual of capital needs at $2 billion in 1998. Adjusted for inflation and a reduction in the number of public housing units, this amounts to $2.54 billion in 2009. Under the President's budget, approximately $1.94 billion would be available for grants under the public housing capital fund formula, once funds set aside for other purposes are deducted. Of this $1.94 billion, close to $200 million would be needed for "replacement housing factor" grants partially covering the cost of replacing lost public housing units and therefore would not be available to address capital needs in existing developments.

gap (approximately 15 percent in 2008) between the amount agencies are eligible for under the operating subsidy formula and the amount they actually receive.

The budget proposes to eliminate the HOPE VI program, which provides grants to public housing agencies to revitalize severely distressed public housing, in 2009. Congress provided $100 million for HOPE VI grants in 2008.

	2008 Enacted (millions)	2009 Bush Budget (millions)	Difference (millions)
Public Housing (total)	$6,739	$6,324	-$415
Capital Fund	$2,439	$2,024	-$415
Operating Fund	$4,200	$4,300	+100
HOPE VI	$100	$0	-$100

Section 8 Project-Based Rental Assistance

Through the Section 8 Project-Based Rental Assistance program, HUD currently contracts with the private owners of nearly 1.3 million units of housing affordable to low-income families. Rental assistance for approximately 80 percent of these units is funded by annual appropriations from Congress; the remaining 20 percent is funded under long-term contracts with HUD, using budget authority appropriated in previous decades.

The Section 8 Project-Based Rental Assistance program has been enveloped in a funding crisis that first surfaced in FY 2007 when funding shortfalls caused lengthy delays in assistance payments to a large share of the private owners of the nearly 1.3 units of Section 8 housing. In the fall of 2007, HUD conceded that its FY 2008 budget request of $5.5 billion was $2.6 billion shy of the amount needed to provide a full 12 months of funding for all Section 8 contract renewals. Instead of requesting additional funds from Congress, however, HUD broke with previous policy and began to require the private owners of Section 8 housing to accept short-funded contracts, i.e., 12-month contract renewals that were funded for only part of the contract period (typically only through the remaining months of the fiscal year).

HUD's new policy of short-funding Section 8 contracts has generated substantial concern and uncertainty among property owners, lenders, investors, and tenants. Combined with the recent history of late assistance payments to owners and the fact that the FY 2009 appropriation will likely not be settled until very late in the current year, there are fears that significant numbers of owners will choose to terminate their participation in the program. The new policy thus could lead to a substantial loss of affordable housing for low-income families.

Because most Section 8 renewals were short-funded in FY 2008, a large funding increase will be required in FY 2009 to fill the gap and to restore full renewal funding to every Section 8 contract. According to CBPP's preliminary estimates, $2.1 billion will be needed in FY 2009 just to "back-fill" the Section 8 renewals that received less than 12 months of funding in FY 2008, and an additional $7.0 billion will be required to provide 12 months of funding for every contract renewal in FY 2009.

The President's FY 2009 budget provides $7.16 billion for renewals of Section 8 project-based rental assistance, including a $400 million advance of budget authority from FY 2010. Together, the funding requested is more than $1 billion above the FY 2008 funding level. On the positive side, the request acknowledges that a substantial increase in renewal funding is needed in FY 2009. Further, the advance funding mechanism the Administration proposes would be good policy, and would reduce the fiscal bite taken by the program in FY 2009. However, the budget request still falls well short (by nearly $2 billion, according to our preliminary estimates) of the amount needed to restore full funding and renew the confidence of the private owners on whom the program depends.

Other Low-Income Housing Assistance

Under the President's budget, the HOME block grant would be funded at $1.85 billion in FY 2009, an increase of $225 million (or nearly 14 percent) above the FY 2008 level.

Homeless assistance would receive funding of $1.63 billion in FY 2009, an increase of $50 million (3.2 percent) over the FY 2008 funding level. All of the increase in funding would be set aside for demonstration grants to address the supportive housing needs of chronically homeless individuals.

As in previous budgets, the Administration proposes to slash funding for the Section 202 and 811 programs funding supportive housing for people who are elderly or have disabilities. Under the budget, Section 202 would be funded at $540 million, a cut of $195 million (27 percent) in comparison to FY 2008, and Section 811 would be funded at $160 million in FY 2009, a cut of $77 million, or 33 percent.

Funding for the Housing Opportunities for People with HIV/AIDS program would be frozen at $300 million in FY 2009, under the President's budget.

Community Development

The President's budget would provide $2.9 billion for formula grants under the Community Development Block Grant program in FY 2009, $659 million (or 18 percent) less than Congress provided in FY 2008. Moreover, the budget proposes to cancel $206 million in FY 2008 funding for economic and neighborhood development initiatives (i.e., for earmarks). Since Congress is unlikely to agree to this proposal, funding reductions would have to be found elsewhere to remain within the overall levels of the President's request. If the reductions were applied to CDBG formula grants (the most likely target, as it is by far the largest account within the Community Development Fund, which is home to both CDBG formula grants and EDI/NI grants), the funding cut to CDBG formula grants would total $865 million, or 24 percent.