

To: Interested Parties  
From: Center on Budget and Policy Priorities  
Date: February 4, 2011  
Re: HUD budget for FY 2011

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The Obama Administration has released its proposed federal budget for fiscal year 2011, including funding recommendations for low-income housing and community development programs administered by the Department of Housing and Urban Development (HUD).

The budget provides \$48.9 billion in total funding for HUD in 2011, including \$41.6 billion for discretionary programs. (Most low-income housing and community development programs are discretionary, i.e. funded by Congress through annual appropriations). While these amounts are below the 2010 funding levels, this is due to an anticipated large increase in offsetting receipts for FHA insurance rather than a reduction in program funding. The budget would reduce funding for some HUD programs, but, excluding FHA and other credit accounts, the overall 2011 budget for HUD discretionary programs is \$1.3 billion, or 2.8 percent, higher than the 2010 funding level. This rate of increase is above the expected general rate of inflation.

HUD programs thus appear to have done relatively well in a budget that provides no increase in funding for domestic discretionary programs overall. As the budget moves through Congress – a process that will be unusually difficult and highly competitive this year – it is important that residents, housing and community development agencies, and other stakeholders make a strong case to members of Congress that increased investments in HUD programs will make a critical difference in their home communities and represent the right national priorities.

The highlights of the HUD budget include:

- A major new initiative to preserve public and assisted housing;
- Full renewal funding for Section 8 (Housing Choice) vouchers and project-based rental assistance;
- A new demonstration that will combine 10,000 new vouchers with supportive services for individuals and families who are homeless or at risk of homelessness;
- Full funding for the public housing operating fund;
- \$250 million for the Choice Neighborhoods Initiative, \$150 million for Sustainable Communities, and \$150 million for a new Catalytic Investment Competition program;
- \$1 billion for the Housing Trust Fund.

Some of these highlights and other details are discussed below. A table of selected program funding levels is appended at the bottom.

## **Transforming Rental Assistance**

The budget contains a major new initiative, called “Transforming Rental Assistance” (TRA), to preserve public and assisted housing. The proposal would also streamline rental subsidy programs, and expand housing choices for low-income families.

Under TRA, housing agencies and owners would be offered the option of converting their properties to a new form of long-term project-based rental assistance, which would combine features of two existing programs: project-based vouchers and project-based Section 8. Particularly for public housing, the new subsidy structure could make it significantly easier to leverage private financing to renovate developments. The Administration is requesting \$350 million to fund TRA in 2011, which HUD estimates would support conversion of 300,000 units. This would include about 280,000 public housing units, close to a quarter of the public housing stock.

As with project-based vouchers today, TRA assistance would allow tenants to move with a tenant-based voucher after they have lived in a property for a period of time, and a new assisted family from the waiting list would then move into the TRA unit. This “mobility option” would enable a laid-off worker to pursue a job opportunity in another community, a family with children to move to a neighborhood with better schools, or an elderly person or person with a disability to move near a needed caregiver – all without losing assistance. By contrast, under existing rules public housing and project-based Section 8 tenants must give up their subsidy if they move.

TRA would initially target categories of units where conversion would go farthest in streamlining rental assistance and expanding choices for families. Housing agencies would receive priority if they administer only public housing (in which case the agency could continue to own and operate the development but an existing voucher agency generally would administer the subsidies) or if they agree to consolidate voucher administration with neighboring agencies. In addition, the initiative would prioritize properties assisted under three relatively small, older rental assistance programs: Rent Supplement, the Rental Assistance Program, and PHA-administered Section 8 Moderate Rehabilitation.

Most of the funds (\$290 million) would be used to increase subsidies to a level that is adequate to preserve the property in the long-term. Another \$50 million would fund administrative costs related to agency consolidation, efforts to encourage landlords in a wide range of neighborhoods to rent to voucher holders, and services to expand housing choices for families. Finally, HUD would use \$10 million to provide technical assistance with conversions.

The budget leaves some key questions unanswered, including how subsidy levels would be determined, what long-term affordability protections would be provided, and what rights residents would have to participate in management of developments. HUD plans to propose legislation to authorize TRA by the spring of 2010; that proposal will provide additional details.

The budget also states that parts of the Section 8 Voucher Reform Act (SEVRA), are “integral” to TRA, and that the Administration will work with Congress to finalize SEVRA. The House Financial Services Committee passed SEVRA in July 2009.

## Housing Choice Vouchers

**Renewal Funding:** The budget provides \$19.36 billion for Housing Choice Vouchers for 2011, including \$17.11 billion for voucher renewals.<sup>1</sup> The latter is \$875 million (5.4 percent) more than Congress provided for renewals in 2010. This amount *should be adequate to fund all vouchers in use this year*, according to the Center’s preliminary estimate of 2011 renewal funding eligibility.<sup>2</sup>

The increase in renewal funding, which is needed to avert the loss of assistance for roughly 100,000 families using vouchers this year, is due primarily to three factors. First, inflation adjustments under the renewal formula (AAFs) will average 1.3 percent in 2011, according to our estimates. Second, the number of families assisted by the voucher program will increase from 2009 to 2010 as new vouchers funded in 2008, 2009, and 2010 (including tenant protection vouchers and vouchers for veterans’ supportive housing) are put to use; these additional vouchers will require renewal in 2011. Finally, a portion of the voucher renewal costs in 2010 are being paid for out of nearly \$300 million in “carryover” funds (i.e., unspent funds from the prior year). Such funds are not likely to be available in 2011, however, so the amount of renewal funding provided by Congress must be increased proportionally to fill the gap.

**Renewal Funding Policy:** The budget recommends a number of improvements in voucher funding policy. To be implemented, these policies would likely have to be authorized by Congress, either in appropriations legislation or in authorizing legislation such as the Section 8 Voucher Reform Act:

- *Calendar year base:* Under the budget, renewal funding eligibility for 2011 would be determined by actual voucher leasing and costs during *calendar year* 2010, rather than during the previous federal fiscal year (which ends in September). Because a calendar year base is a more recent snapshot of actual costs, it captures agencies’ renewal funding needs more accurately.
- *Funding reserves (NRA balances):* HUD would be allowed, but not required, to offset (i.e., reduce) 2011 renewal allocations for housing agencies that have “excess” reserve balances. Reserve balances equal to as much as 6 percent of 2011 renewal funding eligibility (prior to proration) would be excluded from offset, and HUD could set the reserve threshold higher than 6 percent. These policies would encourage agencies to use reserve fund balances to assist more families. In addition, they would provide HUD with a means of tapping “excess” reserves, if needed, to avert renewal funding shortfalls at other agencies.
- *Authorized voucher cap:* The budget also proposes to allow housing agencies to use funds to lease more than their authorized number of vouchers. This change would enable agencies to use

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<sup>1</sup> These figures reflect the transfer of \$196 million from voucher renewals to the Transformation Initiative (TI). The Administration proposes to transfer up to 1 percent of the funding proposed for most major HUD accounts to the TI, a total of \$456 million. These funds would be used for demonstrations, research and evaluation, and to improve program metrics. The funds would also be used to upgrade HUD’s IT systems, and to provide program technical assistance.

<sup>2</sup> Put another way, we estimate that housing agencies would receive 100 percent of the renewal funding for which they are eligible under the formula in 2011. This estimate is based on available voucher leasing and cost data through September 2009, and it assumes that: (1) voucher utilization remains stable; and (2) changes in per-voucher costs do not exceed the rates of the 2010 AAFs or our estimated average AAF for 2011.

reserve funds to assist additional families, even if they are already serving 100 percent of their authorized number.

- *Reallocation:* If, after providing housing agencies with 100 percent of the renewal funding for which they are eligible (after any offsets), additional renewal funds were available, HUD would be permitted to reallocate those funds “for purposes otherwise authorized by law.” One purpose could be to make additional funding available to high-performing agencies to enable them to serve families from their waiting lists (although this purpose is not specified in the budget).

Taken together, these policies would provide housing agencies with more reliable renewal funding and enable more low-income families to receive assistance from the voucher program.

**Set Aside for Contingencies:** \$150 million would be set aside to adjust agencies’ renewal funding allocations to cover various costs not adequately captured in the calendar year base, including increased costs due to “unforeseen circumstances” or portability, the cost of vouchers that are project-based but not yet leased, a one-time adjustment in funding for the Housing Authority of New Orleans, and the potential cost of extending assistance for families being served under the Disaster Voucher Program (DVP). In contrast to prior years, agencies would be eligible for no adjustment for increases in leasing at the end of the year, which likely reflects the proposed shift to the use of a calendar year base.

**Tenant Protection Policy:** Recent appropriations acts have limited awards of tenant protection vouchers to housing units that were occupied within the previous 24 months. The budget appears to eliminate this restriction – a change that would prevent communities from losing affordable housing resources when public or private assisted housing stock is removed from service or converted to market rents.

**Administrative Fees:** The budget recommends \$1.79 billion for administrative fees, an increase of \$216 million (about 14 percent) above the 2010 level. Separately, \$60 million in additional funds is recommended for Family Self Sufficiency coordinators.

**Funding for New Vouchers (Incrementals):** The budget provides \$151 million for additional rental assistance, including:

- \$66 million for *temporary* vouchers for families assisted under the Disaster Housing Assistance Program (DHAP) for Hurricanes Ike and Gustav.
- \$85 million for incremental vouchers for two competitive demonstration programs in which housing assistance and supportive services will be provided to individuals and families who are homeless or at risk of homelessness. The first would make about 6,000 housing vouchers available to families with children, and require local housing agencies to partner with school liaisons, TANF agencies, or other state and local agencies that provide income supports and services funded by the Departments of Education (DOE) and Health and Human Services (HHS). The second would target about 4,000 housing vouchers to single adults who are already enrolled in Medicaid. HUD would partner with HHS to supplement housing

assistance with supportive services funded by the Substance Abuse and Mental Health Services Administration (SAMHSA).

## **Section 8 Project-Based Rental Assistance**

The budget recommends \$9.29 billion for the Section 8 project-based rental assistance program, including, including \$8.96 billion for contract renewals and amendments.<sup>3</sup> The latter is an increase of 7.7 percent above the 2010 renewal funding level of \$8.32 billion. This amount should be adequate to renew contracts for a full 12-month period, according to HUD budget documents.

## **Public Housing**

The Administration is requesting \$4.78 billion for the public housing operating fund in 2011, a small increase above the 2010 level of \$4.76 billion.<sup>4</sup> Based on the information now available, the request appears adequate to fully fund operating subsidies under the current formula. If HUD adopted possible improvements to the formula (for example, by correcting a provision that inadequately accounts for growth in agency labor costs) agencies would likely be eligible for more than the requested amount.

The budget requests \$2.02 billion for the public housing capital fund in 2010, a substantial reduction from the \$2.48 billion provided in 2011.

## **Choice Neighborhoods Initiative and HOPE VI**

The Administration is requesting \$250 million in 2011 to fund the Choice Neighborhoods Initiative (CNI). CNI is designed to revitalize public and assisted housing developments and the surrounding neighborhoods, and emphasizes coordination between housing investments and services such as transportation and education. The budget also indicates that the Administration will propose legislation to authorize the initiative. Congress provided \$65 million in 2010 for HUD to carry out a demonstration of CNI.

HUD intends CNI to replace the HOPE VI public housing revitalization program. The budget would eliminate funding for the HOPE VI, which received \$135 million in 2010.

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<sup>3</sup> These figures include advance appropriations for the following fiscal year. They also reflect the proposed transfer of \$90 million from contract renewals to the Transformation Initiative in 2011.

<sup>4</sup> All funding figures for public housing reflect transfers to the Transformation Initiative.

**Program Funding Levels in the Obama Administration's Proposed Budget for 2011**

(Figures are millions of dollars. All figures reflect transfers to the Transformation Initiative.)

<b>Program</b>	<b>2010 Actual</b>	<b>2011 (Budget)</b>	<b>Difference</b>
Transforming Rental Assistance	-	\$350	\$350
Housing Choice Vouchers	\$18,084	\$19,355	\$1,271
<i>Renewals</i>	16,239	\$17,114	\$875
<i>Administrative fees</i>	\$1,575	\$1,791	\$216
<i>New vouchers</i>	\$90	\$151	\$61
Project-Based Rental Assistance	\$8,551	\$9,286	\$728
<i>Renewals</i>	\$8,315	\$8,960	\$645
Public Housing Operating	\$4,760	\$4,781	\$21
Public Housing Capital	\$2,475	\$2,024	-\$451
Choice Neighborhoods/HOPE VI	\$198	\$248	\$50
Housing Trust Fund <sup>5</sup>	-	\$1,000	\$1,000
HOME	\$1,807	\$1,633	-\$174
Homeless Assistance	\$1,852	\$2,034	\$182
Housing for the Elderly	\$817	\$271	-\$546
Housing for People with Disabilities	\$297	\$89	-\$208
CDBG	\$4,405	\$4,336	-\$69
<i>Formula grants</i>	\$3,945	\$3,946	-
<i>Sustainable Communities</i>	\$150	\$150	-
<i>Catalytic Investments</i>	-	\$150	\$150

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<sup>5</sup> Would be funded through a one-time direct (mandatory) appropriation.