

To: Interested Parties
From: Center on Budget and Policy Priorities
Date: May 12, 2009
Re: HUD budget for FY 2010

On May 7, the Obama Administration released further details of its proposed HUD budget for fiscal year 2010. Signaling an important shift in federal policy, the budget reasserts HUD's leadership role in preserving and expanding affordable rental housing by proposing significant investments to strengthen and sustain key rental assistance programs, as well as new funding for a number of promising policy initiatives aimed at revitalizing communities with high rates of poverty.

Overall, the budget requests \$43.7 billion in discretionary funding for HUD. This is \$2.5 billion, or 6.1 percent, above the funding provided in 2009.¹

The budget would increase funding for Housing Choice Vouchers and Section 8 Project-Based Rental Assistance to sustain assistance for roughly the same number of families in 2010 as are now being served. In addition, the budget provides \$1 billion in mandatory funding for the new national Housing Trust Fund, to support the preservation and development of affordable housing for families with very low and extremely low incomes. However, with the caveat explained below, the budget provides no new funding to expand the number of families receiving rental assistance, despite acknowledging that "the economic downturn has triggered a major spike in homelessness due to job dislocation and the eviction of low and moderate income renters and homeowners" (HUD, "FY 2010 Budget: Road Map for Transformation," p. 14).

The budget also proposes a \$550 million (15 percent) increase in funding for formula grants under the Community Development Block Grant program. In addition, the budget for community development includes \$250 million for a Choice Neighborhoods Initiative, \$150 million for a Sustainable Communities Initiative, and new funding for a number of smaller initiatives.

Finally, the Administration has proposed a Transformation Initiative that, while promising from a policy perspective, could have a significant impact on funding levels for many programs.

Housing Choice Vouchers

For housing vouchers, the budget provides \$17.84 billion for 2010, an increase of \$1.02 billion over the 2009 funding level.² This includes \$16.19 billion for voucher renewals and \$1.49 billion for administrative expenses. Note that the actual funding provided for vouchers under the budget request could be as much as 1 percent (\$178 million) *less* than these amounts due to the Administration's Transformation Initiative (see below).

¹ These figures are not adjusted for inflation and are based on the OMB Public Budget Database for FY 2010. Adjustments were made for differences in receipts and rescissions in 2009 and 2010. The figures used for 2009 and 2010 include advance funding for the subsequent fiscal year. The figure used for 2009 excludes funding provided in the American Recovery and Reinvestment Act of 2009.

² In 2009, the new budget authority provided for vouchers was offset by a rescission of \$750 million in unspent funds from prior years. The figures cited in the text ignore the effects of this offset on the 2009 funding level.

Voucher Renewals

Nearly 2.03 million low-income families were using vouchers in the 4th quarter of calendar year 2008. The amount proposed by the budget for 2010 should be adequate to renew this number of vouchers, plus additional tenant protection and incremental vouchers funded in 2009, according to the Center's analysis of HUD data.

The budget request proposes to modify the renewal funding formula for 2010 in three ways. First, agencies' renewal funding in 2010 would be based on their leasing and costs during *calendar* year 2009, rather than during the fiscal year ending in September 2009. By basing renewal funding eligibility on more recent leasing and cost data, this adjustment would enable a more accurate and efficient distribution of renewal funding. Second, the budget would eliminate the prohibition against funding vouchers that exceed agencies' authorized levels (i.e., eliminate the prohibition against "overleasing").

Finally, the budget proposes a new renewal funding offset and reallocation mechanism. Under this mechanism, HUD would have the authority to reduce agencies' 2010 renewal funding allocations based on amounts in their reserve ("Net Restricted Assets") accounts. Reserve balances exceeding the 2 week level — that is, exceeding an amount equal to 3.85 percent of an agency's 2010 renewal funding eligibility — would potentially be subject to offset. HUD would reallocate funding made available by the offset mechanism to other housing agencies to meet renewal needs or to serve additional families. This policy would represent a positive change from 2008 and 2009, when offset amounts were rescinded by Congress and returned to the Treasury.

The proposed modifications are similar to changes that would be made under the Section 8 Voucher Reform Act (SEVRA), which is expected to be considered soon in the House of Representatives.³ The changes — both those proposed in the budget request, as well as the more extensive changes in SEVRA — would encourage housing agencies to make full use of available funds to serve a maximum number of families.

These policy proposals, combined with the renewal funding provided under the budget, would provide a strong measure of stability to the voucher program that has been lacking in recent years.

New, "Incremental" Vouchers

The budget provides no funding for new, incremental vouchers in 2010. Budget documents assert, however, that the proposed funding level would enable the program to assist an additional 116,000 families in 2010, compared to the number supported in 2008. The basis of this assertion is not explained in the budget. It is possible that it relies in part on the fact that approximately 40,000 new tenant protection and incremental vouchers were funded in the 2009 appropriations act and would be renewed in 2010 under the budget request.

It is likely that the Administration anticipates that the offset-reallocation mechanism described above would enable some agencies to assist significantly more families in 2010, as many agencies had substantial funds in their reserve accounts as of the end of 2008. Yet most housing agencies will

³ For a summary of the changes that would be made under the draft of SEVRA now being circulated in the House, see <http://www.cbpp.org/files/4-30-09housprac.pdf>.

have to reduce funding reserves by a considerable amount in 2009 simply to sustain assistance to the same number of families. There are two reasons for this. First, under the reserve offset policy mandated by the 2009 appropriations act, HUD will reduce 2009 renewal funding allocations by a total of \$750 million below the amounts for which agencies were eligible based on their voucher leasing and costs in 2008. Second, HUD confirmed last week that the renewal funding provided under the 2009 appropriations act will be insufficient to renew all vouchers in use in 2008.

Funding reserves are therefore likely to be at much lower levels by the end of 2009. As a result, it is uncertain whether reserve funds will be available in 2010 to assist significantly more families than are now being served.

Voucher Administrative Expenses

As noted above, the 2010 budget requests \$1.49 billion for administrative expenses, including \$1.44 billion for the leasing-based formula. This is \$44 million (3.1 percent) above the amount provided for the formula in 2009. In 2009, agencies received only about 90 percent of the funding for which they were eligible under the formula. It is unlikely that the funding level proposed in the budget would improve this proration. The remaining \$50 million is to be allocated to agencies for administrative costs associated with tenant protection, disaster, and incremental vouchers. Separately, the budget requests an additional \$50 million for coordinators for the Family Self Sufficiency program, identical to the amount provided in 2009.

Tenant Protection Vouchers

The budget requests \$103 million for new tenant protection vouchers, which are awarded to housing agencies in communities that have experienced losses of public or private assisted housing. This amount is significantly less than amounts allocated for this purpose in prior years, and the reason for this reduction is unclear. The budget would continue the policy of the last two years of providing tenant protection vouchers for all otherwise-eligible units that have been occupied within the previous 24 months.

Section 8 Project-Based Rental Assistance

For the Section 8 Project-Based Rental Assistance (PBRA) program, the budget requests \$8.1 billion, including \$7.9 billion for contract renewals. These amounts include a \$400 million advance for fiscal year 2011. The Center estimates that the Administration's budget provides adequate funding to extend 12-month renewals of Section 8 contracts through 2010. (This estimate is rough, as reliable and detailed data on program costs are not available.)

Public Housing

For 2010, the Administration requests \$4.6 billion for the Operating Fund, about 3.3 percent above the 2009 level. The budget seeks to provide the full amount housing agencies will be eligible for under the public housing operating fund. This is a commendable departure from recent budgets, which consistently proposed funding levels far below HUD's own estimate of need. Based on the data currently available, however, HUD's estimate of the amount needed to provide full funding in 2010 appears likely to fall several hundred million dollars below the amount that will actually be

needed. Most significantly, HUD appears to underestimate the amount for which housing agencies will be eligible to cover utility costs.

For the Capital Fund, the budget provides \$2.24 billion, \$206 million less than was provided for by the 2009 appropriations act. However, \$4 billion in additional capital funding was provided by the American Recovery and Reinvestment Act of 2009.

The Administration's budget proposes no new funding for HOPE VI (although housing agencies would be eligible for funding to revitalize public housing under the Choice Neighborhoods Initiative mentioned below).

Housing Trust Fund

The President's budget includes \$1 billion for the new national Housing Trust Fund, which was created by the Housing and Economic Recovery Act of 2008. This funding would be provided by a mandatory appropriation, which means that it must be approved by legislation originating in one of the authorizing committees (and not the appropriations committees). Any such legislation would be subject to Pay-As-You-Go rules — that is, its cost would likely have to be offset by provisions that either raise revenue or reduce funding for other mandatory programs. The budget does not propose a specific funding offset.

Other Low-Income Housing Programs

The Administration's budget proposes the following funding levels in 2010 for other HUD-administered low-income housing programs:

- HOME: \$1.825 billion, the same as was allocated for 2009;
- Homeless Assistance: \$1.8 billion, \$117 million more than was provided in 2009;
- Section 202 Housing for the Elderly: \$765 million, same as in 2009;
- Section 811 Housing for Persons with Disabilities: \$250 million, equal to the 2009 funding level.

Community Development and New Initiatives

The Administration's budget proposes a large increase in funding for the Community Development Block Grant (CDBG) program to accompany proposed major changes in the allocation formula. For 2010, the program would be funded at \$4.45 billion, \$550 million above the 2009 level; this amount includes \$4.19 billion for formula grants, compared to \$3.64 billion provided in 2009. The proposed increase in funding is intended to prevent reductions in funding for communities that otherwise could be affected by proposed changes in the formula. Other than noting that the revised formula would better target resources on communities with the greatest economic needs, the budget provides no details on the Administration's legislative proposal.

The budget also includes \$200 million for three new initiatives:

- \$150 million for a Sustainable Communities Initiative, which will provide grants aimed at improving the coordination of transportation and housing investments to encourage more

sustainable development patterns, reduce greenhouse gas emissions, and provide more transit-accessible housing choices for residents;

- \$25 million for a Rural Innovation Fund, for competitive grants to states to promote innovative approaches to improving housing conditions in rural communities; and
- \$25 million for a University Community Fund to promote revitalization of communities surrounding universities, especially institutions that have historically served minority students.

Choice Neighborhoods Initiative

The goal of the Choice Neighborhoods Initiative appears to be to revitalize areas of concentrated poverty by implementing the lessons of HOPE VI, the Jobs Plus Demonstration, and the Harlem Children's Zone. To this end, the budget proposes to spend \$250 million for grants to fund the preservation, rehabilitation, and transformation of public and private assisted housing. This amount is \$130 million more than Congress provided for HOPE VI in 2009. Funds could be used for a range of activities, including providing resident and community services, promoting community development, and developing or preserving affordable housing. Preference would be given to areas engaged in school reform or early childhood intervention activities. Potential grantees would include non-profit intermediaries and private firms, as well as governments and public housing agencies. The budget indicates that the Administration will be submitting separate legislation detailing how this new program would operate.

This promising proposal represents an approach to community revitalization of poor communities with concentrations of HUD-assisted housing that is more comprehensive than the 15-year-old HOPE VI program. Initial funding is modest, however, compared to the magnitude of the task.

Energy Innovation Fund

The Administration requests \$100 million for a new Energy Innovation Fund, which would promote a variety of efforts to make housing — including HUD-assisted housing as well as single family homes — more energy efficient.

Transformation Initiative

The Transformation Initiative would set aside up to 1 percent of HUD funding (including funding for all major low-income housing and community development programs) to improve research and evaluation of programs, update HUD's antiquated technology systems, and provide program-oriented technical assistance. The initiative springs out of the recognition that HUD faces significant structural challenges to improving the performance of its programs and fulfilling its core missions. While the goals of this initiative are important, it would be funded by transfers of budget authority from existing programs — which could, in some cases, leave programs with less funding than they need. For example, up to \$178 million could be set aside from the voucher program, and up to \$46 million from the Public Housing Operating Fund.