



To: Interested Parties
From: Center on Budget and Policy Priorities
Date: November 18, 2011
Re: HUD Program Funding for FY 2012

Yesterday the House and Senate both passed by solid majorities legislation (the first “minibus”) that includes the final HUD funding bill for fiscal year 2012 and two of the other twelve annual spending bills. The bill also extends funding for other government agencies through December 16. The President is expected to sign the bill shortly.

The Big Picture View of the HUD Budget for FY 2012

The conference report provides \$37.3 billion in new budget authority for HUD, not counting \$100 million in emergency funding for disaster relief under the Community Development Block Grant program.¹ This amount is \$3.8 billion (9.2%) below the nominal 2011 budget, and is lower than any HUD budget since 2003, in inflation-adjusted terms (see Table 1). While the final bill does a good job of sustaining Congress’ commitment to preserving rental assistance for low-income families under the Section 8 programs (with the qualifications noted below), the depth of the overall reduction in the HUD budget resulted in sharp cuts in other areas. Among the hardest hit were funding for public housing capital repairs, Section 8 voucher program administration, the production of new affordable housing under HOME and the housing programs for the elderly and people with disabilities, and community development block grants.

Of the \$3.8 billion reduction in the HUD budget, about \$1.2 billion results from a 2.7 percent cut in program funding. The remaining \$2.6 billion reduction in new budget authority is made possible by a combination of increased revenue that goes directly to HUD and rescissions of unspent funds from several programs. Specifically, FHA/GNMA receipts (fees charged to borrowers and others) increased by \$1.5 billion compared to FY 2011, and the bill rescinds \$1.1 billion of unspent funds from prior years (including a \$650M rescission associated with the housing voucher reserve offset, as explained below).²

During conference negotiations, reports that conferees had agreed to increase by \$300 million the overall spending limit for the Transportation-HUD bill generated cautious optimism that the final bill would improve upon both the House and Senate bills. Yet analysis of the bill’s details yields a disappointing conclusion. The \$37.3 billion HUD budget is \$345 million higher than the Senate bill level, for instance, yet this increase largely reflects the removal of the emergency designation for

¹ These disaster relief funds are not subject to the spending caps imposed by the Budget Control Act of 2011.

² It remains to be seen whether any of the funding rescissions will have an impact on program service levels in 2012 and later years.

\$300 million in disaster CDBG funds that were included in the Senate bill.³ Program funding levels in the final bill are actually slightly below those in the Senate bill (see the figures in the last row of Table 1).⁴

Table 1						
Comparison of Final HUD Funding Bill for FY 2012 to Earlier Bills (Figures in millions)						
	2011	Obama 2012	House 2012	Senate 2012	Final 2012	Final 2012 minus 2011
HUD budget authority*	\$41,119	\$42,080	\$38,085	\$36,989	\$37,334	(\$3,786)
<i>Receipts (FHA/GNMA)</i>	(\$4,122)	(\$5,765)	(\$5,762)	(\$5,762)	(\$5,626)	(\$1,504)
<i>Rescissions</i>	(\$41)	(\$57)	(\$7)	(\$1,182)	(\$1,082)	(\$1,041)
HUD program funding (excluding emergency disaster relief & before deducting receipts and rescissions)	\$45,282	\$47,902	\$43,854	\$43,933	\$44,041	(\$1,241)
HUD program funding (including emergency disaster relief & before deducting receipts and rescissions)	\$45,282	\$47,902	\$43,854	\$44,333	\$44,141	(\$1,141)
* HUD budget authority figures exclude funding designated as emergency disaster relief, which is not subject to the spending caps imposed by the Budget Control Act of 2011, and is net of rescissions and offsetting receipts. The figures in the final row include emergency funding for disaster relief.						

Housing Choice Vouchers: Renewals

The final HUD bill provides \$18.9 billion for Housing Choice vouchers, including \$17.2 billion for renewals. These figures exclude a rescission of \$650 million in voucher funds that is associated with the reserve offset authorized by the bill. Taking the rescission into account, the bill provides \$18.3 billion in net funding for the HCV program, \$107 million less than in 2011.

As shown in Table 2, the final bill increases funding for HCV renewals in comparison to the House and Senate bills. However, the bill provides at least \$100 million less than the amount needed to renew all vouchers in use, according to our estimates. We project a voucher renewal funding proration of 99.0 to 99.5 percent in 2012, i.e., housing agencies will receive 0.5 to 1 percent

³ Put another way, \$300 million of the increase in the T-HUD spending cap may have reflected the agreement by conferees that \$300 million in disaster CDBG funds included in the Senate bill be counted under the spending cap imposed by the Budget Control Act. The remaining \$45 million increase in the conference allocation helped reduce the program impacts from a \$136 million downward re-estimate of the amount of likely FHA/GNMA receipts.

⁴ While the details are different, a comparison of the final bill with the House bill yields a similar conclusion. The last row in Table 1 shows that HUD program funding in the final bill is \$287 million above the House bill level, but this simply reflects the inclusion of \$300 million in disaster relief funds under the spending cap, rather than treating it as emergency funding.

less than the amount for which they are eligible under the 2012 renewal formula.⁵ As a result, housing agencies will receive no funding to renew roughly 12,000 to 24,000 housing vouchers that are currently used by low-income families, by our estimate.

Table 2					
Housing Choice Voucher Program Funding for 2012 (in millions)					
	2011	Obama 2012	House 2012	Senate 2012	Final 2012
Total	\$18,371	\$19,223	\$18,468	\$18,872	\$18,914
Voucher renewals	\$16,669	\$17,144	\$17,044	\$17,144	\$17,242
<i>Set-aside for adjustments</i>	\$150	\$135	\$135	\$103	\$103
<i>Rescission (renewals)*</i>				(\$750)	(\$650)
Administrative fees	\$1,447	\$1,648	\$1,100	\$1,400	\$1,350
FSS Coordinators	\$60	\$60	\$60	\$60	\$60
Tenant protection	\$110	\$75	\$75	\$75	\$75
VASH	\$50	\$75	\$75	\$75	\$75
Homeless demonstration	-	\$57	-	\$5	-
Section 811 renewals	\$35	\$114	\$114	\$113	\$112

* Amounts shown do not reflect the reduction in new budget authority due to these rescissions.

The effects of the renewal funding shortfall in local communities will vary depending on local factors. One such factor is local trends in tenant incomes and rental housing costs. Agencies' voucher renewal funding eligibility in 2012 will be based on leasing and costs in calendar year 2011, with adjustments for inflation.⁶ If rental housing costs in the local market are rising at rates that significantly exceed the inflation adjustment factor used by HUD, then the effects of the renewal funding shortfall will be exacerbated. Conversely, if local market costs are changing at a lower rate than the inflation factor used by HUD to calculate renewal funding eligibility, then the effects of the shortfall will be minimized. Agencies that experience unforeseen cost increases may be eligible for additional funding, as discussed below.

Equally important is the amount of agencies' funding reserves ("net restricted assets"). Many agencies will be able to draw on funding reserves to cover the shortfall in renewal funding and avoid reductions in the number of families they serve.⁷ A significant fraction of agencies, however, are

⁵ Our estimate is based in part on projections of program costs from June to December 2011. Because such projections are uncertain to a modest degree, actual program costs – and therefore actual renewal funding eligibility and prorations – may turn out to be somewhat higher or lower than we anticipate.

⁶ Under the voucher renewal funding policy specified in the final bill, additional adjustments in formula eligibility will be made for costs associated with the first-time renewal of tenant protection and incremental vouchers. As in previous years, the bill prohibits the funding of leased vouchers that exceed an agency's authorized number (except for MTW agencies).

⁷ For instance, a housing agency with reserves equal to 6 percent of its annual funding eligibility remaining after the offset could prevent reductions in the number of assisted families by reducing reserves to a level of 5 percent, under a renewal funding proration of 99 percent.

likely to have low reserve levels that will prevent them from supplementing the new renewal funding they receive from HUD.

As noted above, the final HUD funding bill for 2012 authorizes HUD to reduce the renewal funding eligibility of housing agencies with excess funding reserves (“net restricted assets”), with the expectation that such agencies will draw on reserves to renew vouchers in use. The bill does not define “excess,” however, leaving it up to HUD to determine the specific reserve offset policy. The structure of the reserve offset policy will be of critical importance to agencies that are counting on the use of reserves to sustain leasing increases achieved at the end of 2011. The reserve offset is paired with a rescission of \$650 million in 2012 funding that was provided in advance in the 2011 appropriations act, which implies that the total amount of offsets will be limited to \$650 million.

Similar reserve offset authority was provided in the 2008 and 2009 appropriations acts, with one major difference: the 2012 bill directs HUD, for the first time, to offset the renewal funding eligibility of agencies participating in the Moving to Work demonstration. This modification is a logical extension of the longstanding policy set by Congress that funding for MTW agencies shall be subject to the same proration policy as non-MTWs (a reserve offset is essentially a renewal funding proration targeted to agencies with excess funding reserves).

Finally, the bill sets aside \$103 million for adjustments in agency renewal funding eligibility for: (1) cost increases due to “unforeseen circumstances” or portability; (2) project-based vouchers that are committed to developments but not fully leased; (3) costs associated with VASH vouchers; and (4) tenant-based assistance under the Disaster Voucher Program.⁸

Housing Choice Vouchers: Administrative Fees and Other Issues

The final bill reduces funding for voucher program administration to \$1.35 billion, including \$1.3 billion for formula funding. At this funding level, housing agencies will receive approximately 75 percent of the fees for which they are eligible under the HUD formula, on our estimate. This is a substantial reduction below the 2011 (a proration of about 83 percent) and 2010 (proration of 93 percent) funding levels.

There is growing concern that extending deep reductions in administrative funding into 2012 will make it difficult for housing agencies to administer their programs effectively and to continue to assist the same number of low-income families. Administrative funding covers the cost of processing new admissions to the program, performing eligibility and income verifications, inspecting housing units, and other activities that are essential to enabling eligible families to use vouchers made available when others leave the program. These functions also help to ensure that funds are used in the manner intended by Congress.

The bill provides \$75 million for approximately 10,000 new (incremental) housing vouchers for the Veterans Supportive Housing program, which provides rental assistance and supportive services to homeless veterans.

The bill also provides \$75 million for tenant protection vouchers, which are allocated to housing agencies when other types of assisted housing are lost, e.g., when public housing is demolished. Of this amount, HUD may use \$10 million to provide rental assistance to residents in certain properties

⁸ DVP funds are used to provide housing voucher assistance for families displaced by disasters. Such vouchers may not be re-issued when the initial recipients leave the program.

with HUD-assisted mortgages that are expiring, rental assistance contracts that are expiring, or where other types of affordability restrictions are expiring.

Finally, in contrast to recent HUD appropriations acts, the final bill for 2012 does not include authorization for HUD to expand participation in the MTW demonstration. Some participating agencies have used MTW to administer effective, innovative programs. But the demonstration also has had significant adverse effects, and further expansion is unjustified, as explained in a recent Center paper available here: <http://www.cbpp.org/cms/index.cfm?fa=view&id=3590>. The final bill does not include funding for the homeless demonstration proposed by the Obama Administration, for which the Senate bill had provided \$5M.

Section 8 Project-Based Rental Assistance

The final HUD bill provides \$9.34 billion for Section 8 project-based rental assistance, including \$9.05 billion to renew and amend assistance contracts. This is \$119 million above the 2011 level for Section 8 PBRA renewals, but \$95 million below the Obama Administration's request.

Following the Senate bill, the final bill rescinds \$200 million from the Housing Certificate Fund, an account now dedicated to covering the costs of the remaining original, long-term, Section 8 PBRA contracts. HUD's budget request for FY 2012 anticipated the recovery of \$100 million from this account in 2012, but assumed these funds would be used to pay for contract amendments (i.e., for costs of remaining long-term contracts for which the amount of budget authority originally set aside is insufficient to cover the costs). The rescission therefore raises the possibility that HUD will have insufficient funds to meet its commitments to Section 8 PBRA contracts, although HUD may have reestimated funding needs since February when the budget was submitted. If \$200 million is not available from the Housing Certificate Fund, the Senate bill directs HUD to rescind the funds from other sources in the HUD budget.

Public Housing

For public housing, the final HUD funding bill for 2012 adheres closely to the provisions of the Senate bill, avoiding the deeper cuts proposed by the House, as shown in Table 3. The bill provides \$1.88 billion for capital improvements, \$165 million less than Congress provided in 2011. At this funding level, the backlog of capital repair needs in public housing — pegged at \$26 billion in a recent HUD study — will continue to grow in 2012.

In addition, the bill provides \$3.96 billion for public housing operating costs, only about 80 percent of the funding for which agencies will be eligible under HUD's cost formula. As in both the House and Senate bills, the final bill permits HUD to target reductions in operating funding on agencies that have accumulated reserves by operating their developments at a cost below their revenue level. Following the Senate bill, the final bill limits these "reserve offsets" to \$750 million, leaving the remaining \$250 million shortfall to be distributed to agencies through an across-the-board, pro-rata reduction in funding. The bill stipulates that MTW agencies receive a pro-rata reduction consistent with reductions applied to other housing agencies.

Table 3					
Public Housing Funding for 2012 (in millions)					
	2011	Obama 2012	House 2012	Senate 2012	Final 2012
Capital Fund	\$2,040	\$2,405	\$1,532	\$1,875	\$1,875
Operating Fund	\$4,617	\$3,962	\$3,962	\$3,862	\$3,962
Choice Neighborhoods	\$65	\$250	-	\$120	\$120
HOPE VI	\$35	-	-	-	-

The final bill includes a welcome clarification of policy regarding the use of public housing operating funds, directing HUD to allow agencies to use excess operating reserves to make capital improvements. Earlier this year, HUD had notified agencies that such uses were prohibited.

Finally, in contrast to the House bill, the final HUD bill contains no prohibition against using funds for public housing units that were federalized under the 2009 economic recovery law.

Other HUD Low-Income Housing and Community Development Programs

Table 4 compares funding levels in the final bill for the remaining major low-income housing and community development programs. Of particular note are the deep reductions in the two block grant programs, HOME and CDBG, compared to the 2011 funding levels. The bill includes no separate funding for the Sustainable Communities Initiative.

The bill provides \$375 million for the Section 202 elderly housing program and \$165 million for the Section 811 housing for people with disabilities program. According to the Obama budget request, these amounts should be sufficient to renew existing rental assistance contracts, but the bill text does not appear to authorize the use of funds for the construction of new units of affordable housing. A portion of these funds may be used, however, for the new types of project-based rental assistance authorized by the 202 and 811 bills enacted at the end of the last Congress.

Homeless assistance grants are flat-funded at \$1.9 billion in the final bill, which appears to be sufficient to renew existing projects. See Table 4 on next page.

Table 4					
Funding for Other HUD Low-Income Housing and Community Development Programs in the Final HUD Bill for 2012 (in millions)					
	2011	Obama 2012	House 2012	Senate 2012	Final 2012
HOME	\$1,607	\$1,650	\$1,200	\$1,000	\$1,000
Section 202 elderly	\$399	\$757	\$600	\$370	\$375
Section 811 people with disabilities	\$118*	\$196	\$196	\$150	\$165
Homeless Assistance	\$1,901	\$2,372	\$1,901	\$1,901	\$1,901
CDBG formula	\$3,336	\$3,691	\$3,501	\$2,851	\$2,948**
* The Section 811 figure for 2011 excludes \$32 million for renewal of Section 811 mainstream vouchers to make a consistent comparison with 2012 figures.					
** The final bill includes an additional \$400 million under CDBG for disaster relief.					

SESA/SEVRA Provisions

The Senate bill, but not the House bill, included a number of positive changes to the U.S. Housing Act, the main authorizing statute governing the public housing and Section 8 voucher and project-based rental assistance programs. The changes were proposed in HUD's 2012 budget, and also appear in the Section 8 Savings Act (SESA) drafts circulated by Rep. Judy Biggert (R-IL) and the Section 8 Voucher Reform Act (SEVRA) considered in previous sessions of Congress. Unfortunately, these provisions were dropped in the final HUD funding bill for FY 2012. (The House Insurance, Housing, and Community Opportunity Subcommittee is expected to mark up SESA in December.)

Rental Assistance Demonstration

Following the Senate bill, the final bill authorizes HUD to conduct a Rental Assistance Demonstration (RAD) under which up to 60,000 public housing and Section 8 moderate rehabilitation units will be converted to Section 8 project-based vouchers or project-based rental assistance. RAD, which HUD proposed in its 2012 budget, is designed to provide more reliable subsidies for these properties and make it easier to borrow private funds to rehabilitate developments.

Like the Senate bill, the final bill does not provide the \$200 million that HUD requested to support RAD. Instead, the initial year of the Section 8 contracts for converted public housing properties would be funded with transfers from the public housing operating and capital funds.

The bill provides some important protections for residents (including a prohibition on using subsidy conversions as a basis for rescreening tenants), and some improvements upon the provisions of the Senate bill. For instance, the final bill requires HUD to offer, and public housing agencies to accept, contract extensions to ensure the long-term affordability of converted properties.