Center on Budget and Policy Priorities

To: Interested Parties
From: Center on Budget and Policy Priorities
Date: April 15, 2013
Re: Preliminary Analysis of the HUD FY 2014 Budget Request for Major Rental Assistance Programs

Overview of the HUD Budget Request for FY 2014

The President's budget requests $47.6 billion for HUD discretionary programs in fiscal year 2014, $4.3 billion above the enacted 2012 level.[1] This increase reflects in part the fact that $1.8 billion in public housing and voucher program reserve offsets and other one-time savings measures artificially reduced the 2012 funding level. Still, after taking this into account, the request for HUD programs is about $2.5 billion, or 5.5 percent above the 2012 level– a substantial increase, particularly in light of the tight constraints on the budget overall. Table 1 below compares the President's request for major HUD programs to funding levels in 2010 and 2013 (post-sequestration).

Consistent with recent budgets, the 2014 request prioritizes the renewal of rental assistance for low-income families currently served by HUD's large rental assistance programs, as well as assistance for individuals and families who are homeless, and targets additional funding to initiatives such the Choice Neighborhoods Initiative and the Rental Assistance Demonstration (RAD). It also proposes a host of important policy reforms in the major rental assistance programs.

More generally, the President's FY 2014 budget request assumes that Congress and the Administration will agree to cancel sequestration, and it provides a plausible road map for doing so, largely sustaining the existing safety net for low-income families, including low-income housing programs, while also reducing projected budget deficits and achieving fiscal balance over the next decade. It achieves these important goals because it proposes to replace sequestration with a set of deficit reduction measures that includes significant new revenues.[2] Absent an agreement to replace sequestration with a balanced set of alternatives, it will be exceedingly difficult to secure the President's requested funding levels for HUD programs.

The remainder of this memo provides a preliminary analysis of HUD's FY 2014 budget request for the three major rental assistance programs, including the savings and other relevant policy proposals, as well as our sense of the budget and appropriations outlook for the year.

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[1] And roughly $3.9 billion above the 2013 funding level, prior to sequestration. These figures ignore FHA insurance premiums and other budgetary offsets. Taking offsetting receipts into account, the President is proposing $33.1 billion in new budget authority for HUD in FY 2014, $3.3 billion less than in FY 2012.

[2] See Sharon Parrott et al., "President Obama's Deficit-Reduction Package and Other Proposals in the 2014 Budget," http://www.cbpp.org/cms/index.cfm?fa=view&id=3952.

Table 1 Funding Levels and Sequestration Cuts in Major Housing and Community Development Programs, 2013 (in millions of dollars, not adjusted for inflation)				
Programs	**FY 2010**	**Sequestration cut, FY 2013**	**FY 2013 after sequestration**	**Obama FY 2014**
Housing Choice Vouchers				
Renewals	$16,339	-$854	$16,354	$17,968
Administration	$1,575	-$68	$1,304	$1,685
Section 8 Project-Based	$8,558	-$470	$8,851	$10,272
Public Housing				
Operating Fund	$4,775	-$199	$4,054	$4,600
Capital Fund	$2,500	-$94	$1,777	$2,000
Homeless Assistance	$1,865	-$96	$1,933	$2,381
HOME	$1,825	-$50	$948	$950
Native American Housing	$700	-$33	$616	$650
Housing for People with AIDS	$335	-$17	$314	$332
Section 202 Elderly Housing	$825	-$19	$355	$400
Section 811 Housing for People with Disabilities	$300	-$8	$157	$126
CDBG formula	$3,900	-$147	$2,795	$2,798

Sources: Sequestration figures are from OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013. Figure for CDBG formula grants in FY 2013, after sequestration, does not include an additional $285 million for disaster relief that could also be used for formula grants. In FY 2013 and 2014, the renewal of Section 811 mainstream vouchers is funded out of the Housing Choice voucher account.

Housing Choice (Section 8) Vouchers

The number of families using housing vouchers is likely to decline sharply this year due to sequestration cuts.[3] These reductions in assistance will exacerbate homelessness and other hardships among low-income families, and it is therefore essential that the President and Congress agree not only to cancel sequestration but provide enough funding in 2014 to enable housing agencies to restore lost vouchers to use.

To its credit, the President's 2014 budget would likely achieve this goal. The request provides $20 billion for Housing Choice Vouchers, including $18.0 billion for voucher renewals, $1.69 billion for administrative expenses, $150 million for tenant-protection vouchers, $75 million for new vouchers for homeless veterans (VASH), and $111 million to renew vouchers for people with disabilities originally funded under the Section 811 program. The requested amount for renewal funding appears to be sufficient to renew all vouchers used by low-income families in 2012, with adjustments

[3] See Douglas Rice, "Sequestration Could Deny Rental Assistance to 140,000 Low-Income Families," http://www.cbpp.org/cms/index.cfm?fa=view&id=3945.

for inflation and new tenant protection and VASH vouchers that are expected to be leased for the first time in 2013, based on our preliminary analysis.

Under the President's budget, agencies' voucher renewal funding eligibility for 2014 would be based on leasing and costs in calendar year 2013, adjusted for inflation and costs associated with the first-time renewal of tenant-protection and other new vouchers, consistent with the policy in place since 2007.[4] In addition, the budget would authorize HUD to reduce renewal funding allocations for agencies with excess reserves, and use the funds made available by this offset to prevent terminations of assistance by other agencies due to insufficient funds or to reduce any overall proration of renewal funding. (Housing agencies are likely to have few reserves in 2014, however, as they will spend them down this year to cover shortfalls caused by sequestration.) The request would also enable HUD to take anticipated cost savings related to a package of rental assistance reform proposals (more on this below) into account in determining agencies' renewal funding eligibility.

Finally, the budget proposes to set aside $50 million in renewal funding to adjust agencies' allocations for various expenses not otherwise captured by the renewal formula, including costs related to portability, "unforeseen circumstances," project-based voucher commitments, VASH, or participation in the Small Area FMR demonstration. Set aside funds could also be used to prevent terminations of assistance due to insufficient funding.[5] This is roughly half the amount available for funding adjustments in 2012 and 2013.

To return vouchers to use in 2014, it will also be important to restore funding for program administration, which has seen deep cuts over the past several years. These cuts have made it increasingly difficult for housing agencies to perform basic but essential tasks, such as inspecting housing units annually to ensure that they meet federal housing quality standards and reissuing vouchers when families leave the program. The President's request of $1.79 billion for administrative fees would provide agencies with 82 percent of the funds for which they will be eligible, according to HUD estimates included in the budget, a significant improvement on funding levels in 2012 and 2013.

Notably, the President's request for tenant-protection vouchers is increased to $150 million from $75 million in 2013. HUD estimates that 29,500 tenant-protections may be issued in 2014, a greater number than in most recent years.[6]

Section 8 Project-Based Rental Assistance

For fiscal year 2013, the Section 8 PBRA program is funded at $8.9 billion, post-sequestration, about $1 billion *less* than will likely be needed to renew each assistance contract for a full 12 months

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[4] MTW agencies would continue to be funded in accord with the provisions of their MTW agreements.

[5] Similar to requests in recent years, the budget does not include the existing prohibition against the use of funds to lease vouchers above an agency's authorized cap would be eliminated.

[6] According to HUD budget documents, the primary reason for the increase in the request for tenant protection vouchers appears to be a significant anticipated increase in the number of privately-owned properties that prepay their mortgages and increase their rents, making many tenants eligible for voucher assistance. Recent appropriations acts have restricted the issuance of tenant protection vouchers to units that were occupied within the previous 24 months. In addition, the FY 2012 law authorized HUD to issue TPVs for certain properties with maturing HUD-assisted mortgages. The President's budget includes neither of these provisions.

when its funding expires this year. As a result, HUD will be required to "short fund" renewals – that is, to shift a portion of the 2013 renewal cost of each contract into fiscal year 2014.[7] While "short-funding" should have no effect on the timing or reliability of payments to owners of Section 8 properties, the policy makes owners, investors, and lenders nervous. To some stakeholders, the "short-funding" of Section 8 renewals raises questions about the long-term federal commitment to sustaining these rental assistance contracts, particularly in light of the growing pressure on the discretionary budget. Such concerns could lead some owners to end their participation in the program when existing contracts expire, rather than renewing them, thereby reducing the number of Section PBRA units available to low-income families. It could also make it more difficult or expensive for owners to secure the capital they need to rehabilitate aging Section 8 properties.

The President's budget proposes $10.3 billion for Section 8 PBRA in 2014, including $10.0 billion for contract renewals and amendments, more than $900 million above the 2012 funding level and $1.4 billion above 2013. This funding level is likely to be adequate to pay the roughly $1 billion in renewal costs that will remain for contracts that were "short-funded" in 2013, as well as to cover assistance payments due for renewals through federal fiscal year 2014. However, more than $1 billion of the cost of renewal contracts executed in 2014 will be shifted forward to 2015.

Finally, as in its FY 2013 budget, the President's request again assumes that various cost saving measures are implemented, such as using residual receipts to cover a portion of assistance payments. Some of the broader rental assistance reform proposals advanced in the budget request (discussed below), will also apply to Section 8 PBRA.

Public Housing

In 2013, the chronic underfunding of public housing was extended and deepened by an inadequate appropriation that has been worsened by sequestration. After sequestration, agencies will receive just 83 percent of the funds they require to operate public housing developments in 2013, according to HUD's preliminary estimate. Moreover, agencies will receive only about half of the capital funding they will require just to cover new repair and renovation needs that will emerge this year. As a result, the very large backlog of capital needs will continue to grow.

The President's 2014 budget request includes $4.6 billion for the public housing operating fund and $2 billion for the capital fund. According to estimates released with the budget, the operating fund request is about 90 percent of the funding for which agencies will be eligible under the HUD cost formula, or about $500 million short of full funding. Under the President's budget, 2014 would be the third consecutive year that there is a major shortfall in the operating fund. The 2014 budget would allow HUD to consider changes in flat rents and the medical deduction threshold in determining agencies' allocations, if Congress authorizes these changes (see below).

The budget request for the capital fund is somewhat higher than the enacted 2012 and 2013 levels, but is still far too little to cover the more than $3 billion in new renovation needs that a recent HUD study estimated accumulate in public housing each year, let alone address the estimated $26 billion backlog of unmet public housing capital needs. However, the President's budget also proposes $400 million for the Choice Neighborhoods Initiative, a competitive grant program aimed at revitalizing

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[7] HUD is able to shift costs in this way because Section 8 assistance contracts are renewed on a rolling basis throughout the year, and therefore the funding needs of most contracts overlap across two successive fiscal years.

distressed neighborhoods through the rehabilitation of public and other assisted housing, a substantial increase over the levels provided since the program's inception in 2012. While this funding is no substitute for more adequate public housing capital funding, a considerable portion of these funds would likely be used to address capital needs in the public housing stock.

The budget also requests $10 million for public housing developments converting to project-based rental assistance under the Rental Assistance Demonstration (RAD). These funds would be used to make conversion more feasible in developments with more substantial capital needs, but that are not so distressed as to qualify for grants under the Choice Neighborhoods Initiative.[8]

Like HUD's budget in other recent years, the 2014 budget does not set aside any funds for the Resident Opportunities and Supportive Services (ROSS) program, which received $50 million in 2012 funding. But the budget again proposes a new Consolidated Opportunities for Resident Enrichment (CORE) program that would allow agencies to combine voucher administrative funds and public housing operating and capital funds to provide services for residents. The budget also requests $15 million for an initiative based on the successful Jobs-Plus demonstration. Finally, the budget proposes to merge the Family Self-Sufficiency (FSS) programs for the voucher and public housing programs, and combine funding for FSS coordinators at a flat level of $75 million.

Finally, the President's budget seeks to establish a utilities conservation pilot to encourage agencies to take measures to reduce utility costs.

Proposed Changes in Authorizing (Permanent) Law

The budget includes a substantial number of proposed changes in the U.S. Housing Act, which governs the major HUD rental assistance programs. In addition to proposals that will lower federal costs, the budget includes provisions that will reduce administrative burdens for PHAs and owners or otherwise improve program effectiveness without achieving direct federal savings. Most of these provisions were not included in the Administration's FY13 proposal. The inclusion of these provisions signals the importance of rental assistance reform to the Administration, and may facilitate enactment of such changes in the FY 2014 appropriations bill. Notably, the budget also does *not* include the much-criticized FY13 proposal to increase the minimum rents that families with little or no income would be required to pay.

The budget omits a number of important, broadly supported elements of the Affordable Housing and Self-Sufficiency Improvement Act (AHSSIA), the rental assistance reform legislation considered in the House last year, including some AHSSIA provisions regarding rents and inspections, as well as entire sections of AHSSIA that would make the voucher admissions process fairer, establish a stable voucher funding formula as part of authorizing law, improve access to HUD programs for persons with Limited English Proficiency, and authorize the Rental Assistance Demonstration (RAD) to help preserve public and other assisted housing. Also omitted is a compromise provision permitting expansion of the Moving-to-Work (MTW) demonstration but adding protections to reduce the risks expansion could pose to low-income families. However, the budget indicates that

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[8] In addition, the budget proposes to raise the cap on RAD public housing conversions from 60,000 to 150,000, exclude Section 8 Moderate Rehabilitation properties from the cap, make Section 8 Single Room Occupancy (SRO) Moderate Rehabilitation properties eligible for conversion under RAD, and extend for 2 years the sunset date on Rent Supp, RAP, and Mod Rehab conversions.

HUD plans to submit "comprehensive" legislation later this spring that will include voucher funding and MTW expansion provisions, as well as other provisions that were not part of AHSSIA. (A list of 10 key provisions supported by 20 national organizations, including a broad cross-section of stakeholders in affordable housing, is at http://www.clpha.org/uploads/2013_Reports/2212013AHSSIAsign-onletter.pdf.) As discussed above, the budget also includes new funding and other beneficial changes to RAD.

Several of the proposals in the FY 2014 budget are similar to those the Administration included in its FY 2013 budget request:

- **Increasing the threshold for deducting medical expenses from income in determining the rent of elderly and disabled families from 3 percent to 10 percent.** Like last year, the budget does not propose any increase in the *standard* deduction for elderly and disabled families, which would reduce the impact of this change on tenants but also reduce the savings. The last version of the Affordable Housing and Self-Sufficiency Improvement Act (AHSSIA), released by House Financial Services Committee staff on April 13, 2012, includes the same change in the medical expense threshold but combines it with an increase in the standard deduction from $400 to $525 annually, and flexibility for HUD to establish a hardship policy to exempt households that could not pay their rent due to the reduced medical deduction.

- **Requiring "flat rents" for higher income public housing tenants to be set closer to market levels.** This provision is the same as the one proposed in FY13 and included in AHSSIA, except for a year's delay on the deadline for implementation.

- **Altering the targeting requirement.** The budget would allow the admission of applicants with incomes up to the federal poverty line, if higher than 30 percent of area median income, to meet the targeting requirements that apply to the Housing Choice Voucher (HCV), public housing and Section 8 Project-based Rental Assistance program (PBRA) programs.

- **Allowing biennial, rather than annual, inspections for units receiving HCV assistance.** Similar to the FY13 request, the budget omits other important elements of the inspection changes in AHSSIA, including flexibility to occupy and receive assistance for units that fail the initial inspection for minor reasons, and protections for families in units that fail inspection.

- **Flexibility to combine Operating and Capital Funds for public housing.** Similar to AHSSIA (and unlike the FY13 budget proposal), the flexibility to combine the two public housing funding streams would be limited to non-troubled agencies. The budget proposal omits the AHSSIA requirement that PHAs incorporate their intent to use this flexibility in their annual PHA plan, making it subject to public and resident comment (for agencies with more than 550 units that are required to submit an annual plan).

- **Streamlining funding and reporting requirements for consortia of public housing agencies that own properties assisted under the public housing program.** HUD needs this statutory authority to create operational efficiencies from consortia of public housing programs, but can make the same types of changes for voucher programs by changing its rules.

- **Temporarily enabling PHAs that are not part of the MTW demonstration to vary rent policies and savings requirements of the FSS program as part of research demonstrations.** HUD recently awarded contracts to conduct rigorous evaluations of rent policy changes and the effectiveness of the FSS program. Expanding the agencies eligible to participate in the rent policy demonstration may be important to learn useful policy lessons.

The budget also includes a number of additional policy changes based on AHSSIA provisions that were not included in the 2013 budget. Only the last of these reduces federal costs; the others streamline program operations:

- **Less frequent income recertifications.**
  - — Allows recertification every three years, rather than annually, for fixed-income families.
  - — Limits required interim recertifications of income to decreases or increases of 10 percent or more in annual adjusted income, except that recertification is not required for increases in earned income.

- **Project-based voucher changes** that are nearly identical to those contained in AHSSIA.

- **Merger of public housing and HCV Family Self-Sufficiency programs.** The budget proposal includes some of the FSS improvement provisions in AHSSIA and S. 454, the Family Self-Sufficiency Act filed by Senators Jack Reed (D-RI) and Roy Blunt (R-MO), but unlike those bills does not extend eligibility for FSS to families receiving Section 8 project-based rental assistance, and fails to specify a consistent formula that would govern the allocation of fees for FSS coordinators each year. These are both key changes in the FSS program that have strong stakeholder support. (Independent of proposed changes in the statute governing the FSS program, the budget would give HUD the authority to merge the FSS programs for HCV participants and public housing tenants, and create a unified stream of competitive funding for FSS coordinators at the current level, as noted above.)

- **Fair market rents.** The budget contains provisions similar to those in AHSSIA to streamline requirements governing HUD's process for setting FMRs.

- **Utility allowances in the HCV program.** The budget would limit allowances for tenant-paid utilities to the amount permitted for a unit of the size permitted by local agency policies, even if the family has rented a larger unit at its own additional cost. Higher allowances would continue to be required if necessary for a family that includes a person with disabilities. (The budget proposal does not include the additional exceptions for elderly families and families with children that were included in H.R. 6361, a bill approved by the full House of Representatives on September 9, 2012.) About 300,000 families would see rent increases, according to CBO estimates.

Additional materials on AHSSIA are available at: http://www.cbpp.org/research/index.cfm?fa=topic&id=143.

Budget and Appropriations Outlook

Prior to the release of the President's FY 2014 budget request, the House and the Senate had already approved separate FY 2014 budget resolutions. The House and Senate are unlikely to agree on a joint resolution, however, and so the appropriations committee in each chamber will proceed to draft separate funding bills for FY 2014, including Transportation-HUD bills, in accord with the discretionary funding levels set out in each chamber's respective resolution.

While both the House and Senate budget resolutions cancel sequestration, the discretionary funding limits put in place under each resolution for fiscal year 2014, as well as for later years, are very different. Under the Senate resolution, funding for non-defense discretionary (NDD) programs in FY 2014 would be at the level required by the Budget Control Act (prior to sequestration). (Budget resolutions generally do not set out funding levels for specific agencies or programs.) In this respect, the Senate resolution and the President's budget request are the same. Under the House resolution, funding for NDD programs would be slashed dramatically in FY 2014 to a level that is *far below* the sequestration level. (The House resolution "cancels" sequestration, but eliminates sequestration-level cuts for defense only, while deepening the cuts in non-defense programs by a proportional amount.)

The contents of the FY 2014 funding bills drafted in the next several months by the House and Senate appropriations committees, including those of the Transportation-HUD bill, are therefore likely to be dramatically different. Before Congress can finalize FY 2014 bills, it will have to reach agreement on overall discretionary program funding levels, as well as the share of funding to be allocated to each of the twelve bills. These differences could be resolved this summer as part of a deal to raise the federal debt limit, or later in the year as part of a final negotiation on FY 2014 funding levels.

Congress will have to act to raise the federal debt limit by the end of July, and this action may be accompanied by the approval of a package of deficit reduction measures. The House and Senate budget resolutions, as well as the President's budget, present important alternative frameworks for addressing projected budget deficits, as well as promoting economic growth, protecting the safety net, and achieving other important goals. These documents will shape the debate over coming months, a debate that could establish the boundaries of a debt limit agreement. This debate and the resulting debt limit agreement are an important opportunity to cancel or modify sequestration and to secure more adequate discretionary spending levels for FY 2014 and beyond.