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NAHRO News

Direct News - Washington Update
FY 2014 HUD Budget Released

Apr 10, 2013

After a two-month delay attributable to the protracted FY 2013 appropriations process and an ultimately unsuccessful effort to undo sequestration, President Obama earlier today released his budget for the 2014 federal fiscal year. In a summary document accompanying the budget, the President describes the spending blueprint as “a plan to reduce the deficit in a balanced way,” alluding to the budget’s proposed combination of new revenues from tax reform, savings from reforms to Medicare and other mandatory programs, additional targeted cutes to defense and non-defense programs, and savings from a controversial proposal to adopt “a more accurate measure of inflation for cost-of-living adjustments.” The budget assumes that the adoption of these deficit reduction measures will be sufficient to reverse the across-the-board cuts imposed on March 1 under sequestration.

The President’s FY 2014 budget would provide a total of $47.6 billion in direct appropriations and other resources for the U.S. Department of Housing and Urban Development, up nearly 10 percent from the FY 2012 enacted level. However, NAHRO’s initial review of the proposal suggests that the budget falls short of proposing the restoration of truly responsible funding levels for many core housing and community development programs.

Today’s Direct News item is intended to provide NAHRO members with a high-level overview of the FY 2014 budget proposal as it relates to key housing and community development programs administered by NAHRO members. Starting tomorrow, NAHRO will begin rolling out comprehensive summaries of the FY 2014 budget proposal’s treatment of Public Housing, Section 8 programs, and Community Planning and Development programs, respectively. Our ongoing coverage of the President’s proposed budget will conclude with the release of NAHRO’s programmatic funding recommendations for FY 2014.

Public Housing Operating Fund: The administration’s budget requests $4.6 billion for the Operating Fund for 2014, which the administration describes as equivalent to 90 percent of estimated eligibility. In addition, the administration’s budget includes language that would allow HUD to alter formula allocations by taking into account the effects of proposed changes to flat rents and medical expense deduction thresholds. HUD’s budget appendix states that these rent reforms would reduce PHAs’ eligibility for operating subsidies by $40 million and $23 million respectively. For 2013, the administration requested $4.524 billion for the Operating Fund, sufficient to fund 92 percent of PHAs’ subsidy eligibility, though the Congress ultimately appropriated only $4.063 billion.

Public Housing Capital Fund: The President’s FY 2014 budget requests a total of $2 billion for the Capital Fund, with $1.957 billion to be applied toward formula grants, barely half of what is required to keep pace with annually accruing needs according to HUD’s most recent Capital Needs

Assessment and less than the requested FY 2013 appropriation. Under sequestration, the Capital Fund is funded at $1.78 billion for FY 2013.

Self-Sufficiency/CORE: The administration once again proposes eliminating funding for the Resident Opportunities and Self-Sufficiency (ROSS) program. The FY 2014 budget includes a proposed set-aside of $15 million under the Capital Fund for a Jobs-Plus Pilot, which would provide competitive grants to partnerships between PHAs and other entities to help public housing residents obtain employment and increase earnings.

The administration is again proposing to merge the Public Housing and Section 8 Family Self-Sufficiency (FSS) programs and to fund the program as a stand-alone account. The budget also includes a proposal for a new Consolidated Opportunities for Resident Enrichment (CORE) initiative. CORE would provide no additional funding, but would allow non-troubled PHAs the flexibility to combine funds for resident services from the Operating and Capital Fund, as well as Section 8 administrative fees, for activities including service coordination, case management, and other supportive services.

Public Housing Funding Flexibility: The President's budget again proposes to provide all PHAs, regardless of their size, with the flexibility to use Operating and Capital Funds interchangeably. Last year's budget framed this flexibility as an intermediate step to be authorized for a single year. The FY 2014 budget seeks to permanently embed this flexibility in the 1937 Act.

Choice Neighborhoods Initiative: The President's FY 2014 budget requests $400 million for the Choice Neighborhoods Initiative, a significant increase over the Administration's FY 2013 request of $150 million**.** Authorizing legislation for the Choice Neighborhoods Initiative has yet to be enacted. The administration's budget proposal does not include language enacted in previous years that requires two thirds of funds to go to applications for which a PHA is the lead applicant or co-applicant.

Rental Assistance Demonstration (RAD): The FY 2014 budget proposes a number of modifications to RAD and includes $10 million in incremental funding to facilitate the conversion of approximately 3,330 units of public housing "that cannot feasibly convert at existing funding levels and are located in high-poverty neighborhoods, including designated Promise Zones, where the Administration is supporting comprehensive revitalization efforts."

Section 8 Tenant-Based Rental Assistance: For the Tenant-Based Rental Assistance account (which includes funding for both the Housing Choice Voucher and Project-Based Voucher programs), the administration's FY 2014 budget proposes $19.989 billion, an increase compared to the FY 2013 level of approximately $17.96 billion under sequestration.

For Housing Assistance Payment (HAP) renewals, HUD's FY 2014 budget would make available $17.968 billion in *direct* funding, compared to the FY 2013 level of $16.35 billion under sequestration. The FY 2014 request includes both direct appropriations and offsets of PHAs' net restricted HAP assets (NRA), if needed to prevent termination of rental assistance for families as a result of insufficient funding and to avoid or reduce the extent of downward prorations for HAP renewals.

HUD's FY 2014 budget proposes a series of HAP "cost-saving" measures totaling $235 million, including: (1) increasing the threshold for deducting unreimbursed medical expenses that are not offset by an increase in the existing elderly/disabled household allowance from 3 to 10 percent of family income ($30 million); 2) broadening the definition of "extremely low-income" to apply to families with incomes that are the higher of 30 percent of area median income or the federal poverty level ($155 million); and 3) determining utility allowances based on the bedroom size of the voucher for which a household qualifies under the PHA subsidy standards regardless of size of unit leased ($50 million). The budget proposal also states that the Department's pending proposed legislation will: 1) authorize the renewal formula to ensure predictability and stability for the program; 2) improve the Project-Based Voucher program; 3) address homelessness through expansion of the sponsor-based assistance model; 4) provide PHAs greater flexibility in the use of their funds for supportive services; 5) streamline the Family Self-Sufficiency program; 6) simplify and improve the annual plan requirement.

The FY 2014 budget proposes to increase funding for ongoing administrative fees to $1.635 billion, a significant increase compared to the $1.260 billion for ongoing administrative fees appropriated for FY 2013. HUD's FY 2014 Congressional Budget Justifications state that this amount is sufficient to fund 82 percent of PHAs' fee eligibility. The Justifications note that the "requested level of administrative fee funding is critical" given the PHAs (29 in CY 2012, 13 in the first quarter of CY 2013) that "gave up administration of the HCV program due to the severity of the 2012 cuts." As is the typical appropriations practice, the budget also includes an additional $50 million in administrative fees for PHAs that need additional funds to administer their Section 8 programs related to tenant-protection vouchers, HUD-VASH and other special purpose vouchers.

HUD's FY 2014 budget also proposes a series of administrative cost-saving measures including enabling biennial and alternative inspections and streamlining the process for establishing annual Fair Market Rents by not requiring their publication for comment in the Federal Register. The Administration also continues to improve the management of the Housing Choice Voucher program by working on the development of the Next Generation Management System, which will comprehensively overhaul and improve HUD information technology systems to better manage and administer the program.

Section 8 Project-Based Rental Assistance Programs: HUD's FY 2013 budget requests a total of $10.272 billion for the Section 8 Project-Based Rental Assistance (PBRA) program, a significant increase over the $8.86 billion provided for FY 2013 under sequestration. Under the FY 2014 proposal, up to $265 million would be available for the Section 8 Project-Based Contract Administrators (PBCA) program.

Community Development Fund and CDBG: The budget requests a total of $3.143 billion for the Community Development Fund for FY 2014, essentially level funding compared to the FY 2013 enacted level under sequestration. The budget, however, provides only $2.798 billion for the Community Development Block Grant (CDBG) program, a proposed reduction of approximately $300 million compared to the FY 2013 level under sequestration. This reduction can be attributed to a number of proposed set-asides included in the budget, including $200 million for a new, competitive round of Neighborhood Stabilization Program funding.

HOME Program: The President's budget requests $950 million in formula funding for the HOME Investment Partnerships program for FY 2014, the same amount of funding provided for the program for FY 2013 under sequestration.

Housing Trust Fund: The administration is once again proposing $1 billion in mandatory funding for the Housing Trust Fund enacted through the Housing and Economic Recovery Act of 2008. The funding would be identified outside of the appropriations process. The President's budget includes no details on how such funding would be generated.

Section 108: For the fifth year in a row, the administration is proposing to eliminate the direct appropriation to cover the credit subsidy costs of the Section 108 Community Development Loan Guarantee Program. The administration again offers legislative language authorizing HUD to collect fees from Section 108 borrowers in amounts that would result in a credit subsidy cost of zero. The Section 108 program is funded at just under $6 million for FY 2013, with the program's total maximum level of guaranteed loan principal set at approximately $240 million. HUD's FY 2014 budget proposes to raise the loan guarantee limit to $500 million.

Homeless Assistance Grants and HOPWA: The budget proposes a total of $2.381 billion in funding for HUD's Homeless Assistance Grant programs for FY 2014, a significant increase compared to the effective level of approximately $1.93 billion for FY 2013 under sequestration. The budget also proposes $332 million in funding for Housing Opportunities for Persons with AIDS (HOPWA), which is funded at $315 million for FY 2013 under sequestration.

Section 202 and Section 811: The budget proposes $400 million for the Section 202 Supportive Housing Program for the Elderly for FY 2014, an increase over the effective FY 2013 level of approximately $377 million under sequestration. Excluding HAP renewals, the administration requests $126 million for the Section 811 Supportive Housing Program for Persons with Disabilities, a reduction compared to the FY 2013 level of approximately $166 million under sequestration.

Important Links

- HUD's FY 2014 Budget Presentation (PDF)
- HUD's FY 2014 Budget (OMB Summary) (PDF)
- HUD's FY 2014 Congressional Budget Justifications for Estimates
- FY 2014 Budget Appendix for HUD (PDF)

If you have questions regarding this Direct News item, please contact Jeff Falcusan, NAHRO's Director of Policy and Program Development, at jfalcusan@nahro.org (ext. 7212).

NAHRO News

Direct News - Washington Update
FY 2014 Budget In-depth: Public Housing

Apr 12, 2013

As NAHRO previously reported, President Obama released his budget for FY 2014 on April 10. Today's Direct News item is intended to provide NAHRO members with a comprehensive summary of the budget proposal's treatment of public housing programs, including the Operating Fund, Capital Fund, and Choice Neighborhoods, as well as the Administration's new and troubling proposal to restrict PHA employee compensation. NAHRO will issue similar pieces covering Section 8 programs and our analysis of the budget's treatment of community development and affordable housing programs early next week. We will conclude our coverage with the release of NAHRO's FY 2014 funding recommendations for key housing and community development programs.

Operating Fund

The President's FY 2014 budget requests $4.6 billion for the Operating Fund for 2014. According to HUD's budget, this figure represents 90 percent of estimated eligibility under the Operating Fund formula. According to the accompanying Congressional Budget Justifications, HUD assumes PEL inflation at 3.3 percent and UEL inflation at 5.3 percent, along with a .59 percent decrease in tenant income. Despite a projected decrease in eligible unit months, total estimated eligibility is expected to be $5.11 billion, 3.8 percent higher than in 2013. For 2013, after taking into account the impacts of sequestration, the Operating Fund received $4.055 billion, resulting in a proration of approximately 82 percent.

The President's budget also proposes to adjust allocations based on proposed changes to both flat rents and the threshold for claiming medical deductions. These two changes, along with an increase in the minimum rent that does not appear in the FY 2014 budget, were previously proposed by the Administration in last year's budget submission.

The FY 2014 proposal would require PHAs to set their flat rents at no lower than 80 percent of FMR, though these increases would be phased in to ensure that rental payments do not increase by more than 35 percent per year as a result of this change. While last year HUD estimated that this change would reduce PHAs' subsidy eligibility by $150 million, this year the Department is estimating that it will result in only $40 million of savings. NAHRO has strongly opposed this requirement, noting that such an across-the-board policy fails to account for the actual market value of the public housing based on its physical condition and surroundings.

Additionally, the budget proposes to raise the threshold for deducting medical expenses from income for purposes of rent determinations from 3 to 10 percent of the family's annual income. This change is anticipated to reduce eligibility by only $23 million, down from the FY 2013 estimate of $37 million.

As it has in recent years, the Administration proposes that up to 0.5 percent of the total requested appropriation for the Operating Fund ($23 million) may be transferred to the Department's Transformation Initiative. Additionally, the budget anticipates a transfer of $32 million from the

Operating Fund to the Project-Based and Tenant-Based Rental Assistance accounts to support units that convert under the Rental Assistance Demonstration (RAD) in 2013.

Public Housing Capital Fund

The President's FY 2014 budget requests $2 billion for the Public Housing Capital Fund, $70 million lower than the FY 2013 request and $405 million lower than the FY 2012 request. For FY 2013, the Capital Fund received $1.789 billion after accounting for the impact of sequestration, the lowest level in the history of the program. The budget anticipates that, after set-asides, approximately $1.95 billion would be applied toward formula grants for FY 2014. This request continues to fall far short of the $3.4 billion in annually accruing capital needs estimated by the 2010 Abt Associates Capital Needs Assessment study. Furthermore, the budget proposes that up to 0.5 percent of the FY 2014 request, or $10 million, be transferred to the Department's Transformation Initiative.

Capital Fund Set-asides:

REAC and Receiverships: As in past years, the Administration's FY 2014 budget requests a set-aside under the Capital Fund of $8 million to support the Public Housing Financial and Physical Assessment activities, substantially less than the $15 million requested in previous years. Unlike past years, the budget does not request any funding for the cost of administrative and judicial receiverships for FY 2014. The decrease in requested REAC funding and the absence of a request for funding for receiverships are due to large carryover balances from previous years.
Emergency Capital Needs: The President's request maintains the FY 2013 funding level of up to $20 million for emergency capital needs resulting from natural disasters or unpreventable emergencies except those with Presidential declarations. The President's request for FY 2014, as in previous years, seeks to strike the appropriations language making needs resulting from safety and security emergencies eligible uses of the funding.

ROSS: For the fifth year in a row, the Administration's FY 2014 budget proposes eliminating funding for the Resident Opportunities and Supportive Services (ROSS) program, which includes the Public Housing Family Self-Sufficiency program (FSS). The budget contains language which would merge the Housing Choice Voucher (HCV) and PH FSS programs and provide $75 million for the consolidated program, an amount equivalent to the combined historic funding for the two programs. However, the budget also notes that the consolidated FSS program will likely not reach households that a service coordinator funded through the ROSS program would, and states that PHAs still have discretion to use a portion of their operating subsidies to retain ROSS service coordinators. The Department's FY 2013 budget contained a similar proposal, but it was not adopted in the funding bills considered by the House or Senate.
In addition, the budget once again requests authorization for a new Consolidated Opportunities for Resident Enrichment (CORE) initiative. CORE would provide no additional funding, but would allow non-troubled PHAs the flexibility to combine funds for resident services from the Operating and Capital Funds, as well as Section 8 administrative fees, for activities including service coordination, case management, and other supportive services.

Jobs-Plus Pilot: For the second year in a row, the President's budget includes a set-aside for a Jobs-Plus Pilot as an expansion of the Jobs-Plus demonstration carried out from 1998-2003. The pilot is proposed to be funded at $15 million, substantially less than the original FY 2013 proposal for $50

million, and would award competitive grants to partnerships between PHAs and local workforce investment boards or other agencies. According to an evaluation of the demonstration, participants earned an average of an additional $1,300 every year.
Community Facilities: For FY 2014, the President's budget does not request set-aside funding for this program. This set-aside was made available in FY 2010 and FY 2011, but has not been proposed or funded since.

Public Housing Subsidy Flexibility

Building on language included in the FY 2013 budget and feedback from HUD's 2012 Listening Tour, the Administration's budget includes proposed legislative language that would permanently amend the US Housing Act of 1937 to provide all PHAs, regardless of size, the flexibility to use Operating and Capital Funds interchangeably.

Under the FY 2014 budget's proposal, to be eligible to take advantage of this flexibility, a PHA must not be "designated pursuant to section 6(j)(2) as a troubled public housing agency," and must, "in the determination of the Secretary, [be] operating and maintaining its public housing in a safe, clean, and healthy condition." This flexibility is currently granted, under the same conditions, only to small agencies, defined as those with fewer than 250 units of public housing, under section 9(g)(2) of the Act. NAHRO supports the extension of this policy to all PHAs as a way to provide agencies with additional flexibility in meeting their highest priority needs with the resources available to them. This proposal has taken the place of a proposal previously under consideration which sought to fully merge the Operating and Capital Funds.

Rental Assistance Demonstration

The President's FY 2014 budget requests $10 million in incremental funding for the Rental Assistance Demonstration (RAD) authorized by the FY 2012 appropriations act. In addition, the budget anticipates transfers of $32 and $11.2 million from the Operating and Capital Fund respectively, which would be split evenly between the Project-Based and Tenant-Based Rental Assistance accounts. The FY 2012 act limited RAD to 60,000 units; the FY 2014 budget proposes to increase the authorization to 150,000 units. The budget also proposes to exempt Mod Rehab units converted under the program from this cap.

NAHRO is continuing to analyze this request, but notes that it appears to differ substantially from the corresponding assumptions that were embedded in the FY 2013 request. In the FY 2013 request, HUD anticipated that 48,000 units of public housing would convert in that year, necessitating the transfer of $102 and $46 million from the Operating and Capital Funds, respectively, to support those properties in that same fiscal year. At present, as only about 12,000 units have been approved for conversion to date, it appears that fewer than 25 percent of the anticipated properties will actually convert in 2013. The anticipated transfers for FY 2014 would draw proportionately much more heavily on the Operating Fund relative to the Capital Fund compared with the FY 2013 estimates. Finally, the Department's FY 2014 budget anticipates not only funding those properties that convert in 2014 out of the Operating and Capital Funds, but also using those sources to pay for renewal funding for properties which converted in 2013. It is unclear how many units in total this transfer is intended to support. NAHRO is seeking additional information to clarify how this provision will affect prorations for those properties that do convert as well as for those units that remain in the public housing program.

The $10 million in incremental funding is intended to supplement subsidy costs of converting assistance for public housing projects that cannot be converted at current funding levels and are located in areas deemed integral to the success of the Administration's broader efforts to revitalize and transform high-poverty areas, including so-called "Promise Zones." The Department estimates that the $10 million in incremental subsidies will support the conversion of approximately 3,300 public housing units.

HOPE VI/Choice Neighborhoods

The Administration's FY 2013 budget requests $400 million for Choice Neighborhoods, with no funding requested for HOPE VI. This is by far the largest year-over-year percentage increase proposed in the budget for an individual HUD program, as CNI is funded at $114 million for FY 2013 after accounting for sequestration. In addition to requesting additional program funding, HUD also seeks to increase the number of FTEs (program staff) it employs for Choice Neighborhoods by 39 percent. Authorizing legislation for the Choice Neighborhoods Initiative has yet to be enacted.

Choice Neighborhoods funding would be provided through competitive grants to transform neighborhoods of poverty into functioning, sustainable mixed income neighborhoods with appropriate services, schools public assets transportation and access to jobs. The budget includes a $5 million set-aside for technical assistance and contract expertise, as well a request to transfer 0.5 percent, or $750,000, to the Transformation Initiative. HUD anticipates awarding approximately 20 Planning Grants and 10 Implementation Grants using FY 2014 funding. CNI Implementation Grants would also increase in size from $20-30 million to $30-40 million.
Grantees would include local governments, PHAs, and non-profit and for-profit developers. HUD's budget asserts that the "HOPE VI program, in coordination with funding from the Public Housing Capital Fund, has accomplished its goal of contributing to the demolition of 100,000 severely distressed public housing units." Although every appropriations bill that has funded Choice Neighborhoods has required that two thirds of the funding be awarded to applications where a PHA was the lead applicant or co-applicant, the Administration's budget once again seeks to strike this requirement and provides no protections for the interests of PHAs or public housing. NAHRO continues to support dedicated funding to PHAs for the revitalization of severely distressed public housing.

Exemption from Asset Management

The President's request removes the language included in recent HUD appropriations bills providing an exemption from asset management requirements for smaller agencies. For the past several fiscal years, Congress has, through a provision in the annual appropriations bill, provided PHAs that own and operate 400 or fewer units with the ability to "elect to be exempt from any asset management requirement imposed by the Secretary of [HUD] in connection with the operating fund rule."

PHA Employee Compensation

The President's budget includes a proposal, first unveiled by HUD on June 5, 2012, that would peg PHA employees' base salaries to the federal General Schedule (GS), including a locality adjustment. Unlike previous efforts aimed at limiting PHA employee compensation, this change would amend the US Housing Act of 1937, making the new compensation restrictions permanent rather than a feature of an annual appropriations act.

For PHAs with fewer than 250 combined public housing and Section 8 units, salaries would be capped at the GS-11 step 10 rate, currently $65,703 before taking into account the locality adjustment. For PHAs with 250 to 1,249 combined units, salaries would be capped at the GS-13 step 10 rate, currently $93,641 before the locality adjustment. Finally, for employees of PHAs with 1,250 or more combined units, the cap would be $130,168, reflecting the current GS-15 step 10 before the locality adjustment. Any amounts in excess of these caps would have to be paid from "non-Federal non-Act sources," meaning that any funds that were originally appropriated for programs authorized under the Housing Act of 1937, including Public Housing and Section 8, cannot be used to fill such a gap.

NAHRO remains deeply concerned by federal efforts to intervene in what we believe to be a local issue. Furthermore, this proposal seeks to codify in statute arbitrary limitations that do not take into account relevant contextual information, such as an employee's length of tenure, level of education, or degree of responsibility. In addition, this proposal, along with HUD's previous guidance on implementation of existing caps and reporting requirements, undermines HUD's own system of asset management. Under asset management, PHAs pay themselves as though they were third-party administrators and managers, thereby "defederalizing" the fees earned. The Administration's proposal would not consider these funds to be "non-Federal non-Act sources," since the funds, despite being "defederalized," originated as federal appropriated funding for programs authorized under the 1937 Act. This misguided approach calls into question the fundamental principles of HUD's own asset management system.

Although senior HUD officials have repeatedly stated that the pressure to institute these limitations is coming from Capitol Hill, NAHRO notes that these restrictions are much more severe than the $155,000 limit enacted by the Congress in the FY 2012 appropriations bill. It is also worth noting that, in addition to its program requests, the President's budget includes a request for $159 million for PIH employee salaries and an additional $44 million for their attendant benefits. In other words, HUD is requesting averages of $102,514 and $28,369, respectively, in salary and benefits for each of its 1,551 PIH employees.

NAHRO will vigorously oppose HUD's latest attempt to restrict PHA compensation and interfere with local decision-making. We will provide additional information on HUD's proposal in the near future. Until then, we urge NAHRO members to review our previous coverage of HUD's efforts to restrict PHA salaries and NAHRO's consistent work in opposition to those efforts:

- April 15, 2013 NAHRO Monitor: NAHRO Comments on Proposed Changes to Executive Compensation Reporting
    - March 14, 2013: NAHROLetter to HUD on Executive Compensation Reporting Change
- February 15, 2013 Monitor: HUD Seeks to Revise Executive Compensation Info Collection
- June 20, 2012 Direct News: NAHRO Launches HUD Salary Search Tool
- June 5, 2012 Direct News: HUD to Impose New Limitations on PHA Executive Compensation

- June 5, 2012: NAHRO Press Release: The Overwhelming Majority of Public Housing Professionals Serve Their Communities with Integrity
- February 24, 2012 NAHRO Direct News:HUD Issues Guidance on Executive Compensation Restrictions
- January 15, 2012 Monitor: Congress Restricts Use of Federal Funds for PHA Employee Salaries
- September 15, 2011 Monitor: HUD Ignores Public Comments, Institutes Mandatory Executive Compensation Reporting Requirements for PHAs
- August 30, 2011 Monitor: NAHRO Files Second Set of Comments on Compensation Reporting Proposal
    - August 10, 2011: NAHRO Letter to OMB on PHA Employee Compensation Reporting
- June 28, 2011 Direct News: NAHRO Comments on PHA Compensation Notice, FOIAs HUD Salaries
    - June 27, 2011: NAHRO Letter to HUD on PHA Employee Compensation Reporting

Community Service

As part of its budget, HUD plans to submit authorizing legislation to the Congress in the spring of 2013 that would streamline the community service requirement. According to the Congressional Budget Justifications, the Department will propose an amendment to the statute authorizing resident self-certification of compliance in order to reduce administrative burdens placed on PHAs.

Other Reforms

As in the FY 2013 budget, the FY 2014 budget reiterates a proposal for a five-year rent demonstration project that would allow PHAs to carry out rent policy demonstrations involving a limited number of families assisted under the United States Housing Act of 1937 to determine the effectiveness of different rent policies. Rent policies could include providing income disregards, family self-sufficiency accounts, and policies under which families pay amounts different from 30 percent of their adjusted income for rent, to encourage families to obtain employment, increase their incomes, and achieve economic self-sufficiency, while reducing administrative burdens and maintaining housing stability. Demonstrations would include PHAs of various sizes. HUD would publish a report regarding the results and effectiveness of any demonstrations.

The Department also plans to submit comprehensive legislation authorizing triennial recertification of fixed-income families, eliminating the requirement that PHAs complete and submit PHA Annual Plans, amending the definition of a PHA to include consortia of PHAs, and launching a utilities conservation pilot modeled on the frozen rolling base.

Important Links

- NAHRO's Feb. 10 Initial Overview of the FY 2014 Budget
- HUD's FY 2014 Budget Presentation (PDF)
- HUD's FY 2014 Budget (OMB Summary) (PDF)
- HUD's FY 2014 Congressional Budget Justifications for Estimates
- FY 2014 Budget Appendix for HUD (PDF)

Direct News - Washington Update
FY 2014 Budget In-depth: Section 8 Programs

Apr 15, 2013

As NAHRO previously reported, President Obama released his budget for FY 2014 on Wednesday, April 10. Today's Direct News item is intended to provide NAHRO members with a comprehensive summary of the President's FY 2014 budget proposal's treatment of Section 8 programs, including but not limited to voucher program Housing Assistance Payments (HAP), HAP Reserves, ongoing administrative fees, Family Self-Sufficiency, Moving-to-Work, HUD-VASH, Tenant-Protection Vouchers, and Project-Based Rental Assistance programs. Today's alert also covers a host of authorizing proposals included in the budget.

NAHRO issued a similar piece covering public housing programs on April 12, and our analysis of the budget's treatment of Community Planning and Development programs is scheduled for distribution tomorrow. We will conclude our ongoing coverage later this week with the release of NAHRO's FY 2014 funding recommendations for key housing and community development programs.

Section 8 Tenant-Based Rental Assistance

For the Tenant-Based Rental Assistance account (which includes funding for both the Housing Choice Voucher and Project-Based Voucher programs), the administration's FY 2014 budget proposes $19.989 billion, an increase compared to the FY 2013 level of approximately $17.96 billion under sequestration.

HAP Funding: For Housing Assistance Payment (HAP) renewals, HUD's FY 2014 budget would make available $17.968 billion in direct appropriations, compared to the FY 2013 level of $16.35 billion under sequestration. HUD's budget justifications do not estimate the proration represented by the Administration's direct HAP funding request. Instead, the FY 2014 budget proposes to combine direct appropriations with offsets of PHAs' excess HAP Reserves, if needed to prevent termination of rental assistance for families as a result of insufficient funding and to avoid or reduce a downward proration for HAP renewals.

Overall, HUD's budget justifications characterize the combination of direct and indirect HAP funding as an "increase [that] will ensure uninterrupted assistance to families under lease during calendar year 2013" while fully funding the renewal of "vouchers first leased in 2013." The proposed statutory language in HUD's FY 2014 budget does not define the level of excess HAP Reserves subject to offsets, leaving it instead to the Department's discretion assuming the authorization of such a provision in the annual appropriations bill. HUD's budget justifications state that "[t]his authority will enable HUD to assure that resources are used to assist very low-income families in desperate need of rental assistance, while still ensuring that PHAs have reasonable reserves (typically no more than 1 month) to address unanticipated costs or spikes in rents during the calendar year."

Renewal HAP Funds for Sec. 811 Conversion to HCV Program: Contract renewals provide funding to renew expiring HCV program Housing Assistance Payments (HAP) funding increments on a calendar-year basis. An additional $111 million in contract renewal funding is provided under the larger account to support contracts and administrative fees originally funded under the Section 811

Housing for Persons with Disabilities (Mainstream) Program. These vouchers were converted to the HCV program under the Frank Melville Supportive Housing Investment Act of 2010 (Public Law 111-374 — enacted on January 4, 2011).

HAP Renewal Formula: HUD's FY 2014 budget offers a prior calendar year-based voucher HAP renewal formula.

Under the proposal to account for each PHA's contract renewal needs, HUD may take into account the anticipated impact of changes in income targeting, medical expense thresholds and changes in utility allowances (see subsection below titled "HAP Cost Saving Measures"). NAHRO's concerns as raised in our Congressional testimony before Senate and House authorizers with respect to each of these three areas as included in both the Affordable Housing and Self-Sufficiency Act Initiative (AHSSIA) discussion draft and HUD's FY 2013 budget proposal would be addressed to some degree in HUD's proposed changes for FY 2014, although further analysis will be needed.

HUD's budget would revise the existing requirement for HUD to notify PHAs of their FY 2014 base voucher HAP renewal funding from 60 days from the bill's enactment to 60 days from enactment or March 1, 2014, whichever is later. It is likely that this measure is needed to help HUD implement a calendar year funding formula, which includes VMS data through December 31, 2013.

HAP Set-Aside Fund: Up to $50 million would be available for: (1) adjustments in the allocations for PHAs that experienced a significant increase in renewal costs of vouchers resulting from "unforeseen circumstances" or from net portability HAP deficit expenses in 2013; (2) vouchers that were not in use during the 12-month period in order to be available to meet a commitment in the Section 8 Project-Based Voucher program; (3) adjustments for costs associated with HUD-Veterans Affairs Supportive Housing (HUD-VASH) vouchers; (4) adjustments in the allocations for PHAs that experienced a significant increase, in renewal costs as a result of participation in the Small Area Fair Market Rent demonstration; and (5) PHAs that despite taking reasonable cost savings measures, would otherwise be required to terminate rental assistance for families as the result of insufficient funding.

Busting the ACC Caps: HUD's FY 2014 budget would bust the cap for each PHA's authorized number of vouchers, such that those agencies with HAP and available HAP Reserves in 2014 would be able to serve as many eligible households as possible. HUD's proposal to "bust the caps" stands in sharp contrast with appropriations law which has retained language every year to restricting total leasing with HAP and HAP Reserves funds to no more than 100 percent of authorized vouchers. Without knowing yet how appropriators will respond to this request for FY 2014, and absent a change in authorizing language, there are currently no assurances that PHAs will actually be credited in their FY 2015 HAP renewal eligibility for any unit months leased (UMLs) over 100 percent of their authorized vouchers during FY 2014.

Moving-to-Work (MTW) PHAs: HUD's budget proposes that, in determining calendar year 2014 funding allocations for MTW agencies, HUD may also take into account the anticipated impact of proposed changes to income targeting, medical expense thresholds, and changes in utility allowances. If enacted, this provision would allow HUD to effectively override MTW agencies' contractual agreements with the Department which could lead to reductions in the amount of funding they would otherwise receive to account for the savings realized from these proposed programmatic reforms. As in previous years, HUD's budget would subject MTW PHAs to the same pro-rata adjustments as non-MTW PHAs. However, HUD's FY 2014 budget proposes a significant legislative change that would supersede existing MTW agencies' 10-year contract agreements, by allowing HUD to offset MTW PHAs' excess HAP Reserves as determined by the Department. This means that rather than limiting offsets of excess HAP Reserves to special purpose vouchers outside of MTW agencies' MTW contracts as has been the case in the past, HUD would be able to offset MTW PHAs' HAP Reserves for Housing Choice Vouchers within their 10-year contract agreements.

HAP Cost-Saving Measures: HUD's FY 2014 budget proposes a series of HAP "cost-saving" measures totaling $235 million, including: (1) increasing the threshold for deducting unreimbursed medical expenses that are not offset by an increase in the existing elderly/disabled household allowance from 3 to 10 percent of family income ($30 million); 2) broadening the definition of "extremely low-income" to apply to families with incomes that are the higher of 30 percent of area median income or the federal poverty level ($155 million); and 3) determining utility allowances based on the bedroom size of the voucher for which a household qualifies under the PHA subsidy standards regardless of size of unit leased ($50 million).

The budget proposal also states that the Department's pending legislative proposal will: 1) authorize the renewal formula to ensure predictability and stability for the program; 2) improve the Project-Based Voucher program; 3) address homelessness through expansion of the sponsor-based assistance model; 4) provide PHAs greater flexibility in the use of their funds for supportive services; and 5) streamline the Family Self-Sufficiency program. HUD's budget would codify existing regulations as they relate to required interim Housing Quality Standard (HQS) inspections when there is a tenant complaint or a report from a governmental official that the assisted dwelling unit is in non-compliance.

HUD's proposal to determine utility allowances based on the bedroom size of the voucher for which a household qualifies under the PHA subsidy standards regardless of size of unit leased, was originally put forward by Tony Bazzie, Executive Director of the Raleigh County Housing Authority, on behalf of NAHRO in his June 2011 testimony before the House Subcommittee on Housing, Insurance and Community Opportunity. NAHRO's proposal was subsequently included in the AHSSIA discussion draft. In making this request, a PHA must approve a utility allowance which is higher than the applicable amount on the utility allowance schedule if a higher utility allowance is needed as a reasonable accommodation to make the program accessible to and usable by the family member with a disability.

Administrative Fees: The FY 2014 budget proposes to increase funding for ongoing administrative fees to $1.635 billion, a significant increase compared to the $1.258 billion for ongoing administrative fees provided for FY 2013 under sequestration. HUD's FY 2014 Congressional Budget Justifications state that the requested amount is sufficient to fund 82 percent of PHAs' fee eligibility. The justifications note that the "requested level of administrative fee funding is critical" given the number of PHAs (29 in CY 2012, 13 in the first quarter of CY 2013) that "gave up administration of the HCV program due to the severity of the 2012 cuts." According to the justifications:

> Transfers in 2012 transfer exceeded the number of transfers that took place over the course of each of the 3 preceding calendar years (2011 - 25 transfers, 2010 - 24 transfers, and 2009 - 16 transfers) and 2013 transfers are on pace to do the same. The process of transitioning administration of programs that essentially go out of business to other administering entities can be extremely disruptive to families and owners in the impacted communities. The

> reduction in administrative fees also contributed to several PHAs refusing new allocations of HUD-VASH vouchers in 2012. At least six PHAs indicated an inability to take on additional vouchers, citing increased costs associated with administering such vouchers, being short-staffed, or otherwise underfunded."

During NAHRO's 2013 Legislative and Regulatory Conference, NAHRO provided attendees with charts illustrating PHAs Terminating Voucher Programs and the correlation with HAP/Admin Fee Pro-Rations and Voucher Lease-up Rates (2003-2013).

As is the typical appropriations practice, the FY 2014 budget also includes an additional $50 million in administrative fees for PHAs that need additional funds to administer their Section 8 programs related to tenant-protection vouchers, HUD-VASH and other special purpose vouchers.

Other than where noted, HUD's budget continues the restriction on the use of administrative fees earned and Unrestricted Net Assets post-FY 2003 to support voucher program operations and for other related development activities.

Administrative Cost Saving Measures: HUD's FY 2014 budget also proposes a series of administrative cost-saving measures including enabling biennial and alternative inspections and streamlining the process for establishing annual Fair Market Rents by not requiring their publication for comment in the Federal Register. Specifically, PHAs will be able to satisfy inspection requirements through alternative standards if those standards are established by other Federal housing programs, such as the HOME Investment Partnerships and Low-Income Housing Tax Credit programs.

The Administration also continues to improve the management of the Housing Choice Voucher program by working on the development of the Next Generation Management System, which HUD characterizes as an effort to "comprehensively overhaul and improve HUD information technology systems to better manage and administer the program."

Family Self-Sufficiency: HUD's FY 2014 budget requests $75 million for a consolidated Family Self-Sufficiency (FSS) Program to help Housing Choice Voucher and Public Housing residents achieve self-sufficiency and economic independence. HUD's request of $75 million is an amount equivalent to the combined historic funding for the two programs. The FSS program is designed to provide service coordination through community partnerships that link assisted residents with employment assistance, job training, child care, transportation, financial literacy, and other supportive services. The funding will be allocated through one competition to eligible PHAs to support service coordinators. Rather than operate two separate and independently administered FSS programs for Housing Choice Voucher and Public Housing families, HUD proposes to consolidate and align the FSS program into one program to enable PHAs to more uniformly serve both programs' residents. In addition to the FSS program consolidation, HUD's budget includes flexible authorities for PHAs to combine and use a portion of their funds from the Public Housing Operating and Capital Funds, and Tenant-Based Rental Assistance administrative fees towards additional service coordination that could complement the FSS program or provide residents with other supportive services that promote positive resident outcomes related to education, health, self-sufficiency and quality of life. In addition, the budget once again requests authorization for a new Consolidated Opportunities for Resident Enrichment (CORE) initiative. CORE would provide no additional funding, but would allow non-troubled PHAs the flexibility to combine funds for resident services from the Operating and Capital Funds, as well as Section 8 administrative fees, for activities including service coordination, case management, and other supportive services.

In the near future, NAHRO will analyze HUD's proposed authorizing changes to the FSS program as compared with the recently introduced "Family Self-Sufficiency Act" (S.454) sponsored by Sen. Jack Reed (D-R.I.).

Tenant-Protection Voucher HAP Funds: Compared with FY 2012, HUD doubled the requested HAP funding for first-time tenant protection vouchers to $150 million in its FY 2014 budget. HUD's budget justifications state, "HUD anticipates that most tenant protection actions in 2013 will only be funded through the end of the calendar year (instead of the typical 12 months) in order to meet the anticipated need. Therefore, the Department has included the full cost (12 months) of Housing Assistance Payment (HAP) funding for these vouchers in 2014."
Historically, subject only to the availability of funds, Congress and HUD have provided PHAs with replacement vouchers for Public Housing units that were occupied within the previous 24 months that cease to be available as assisted housing. HUD's FY 2014 budget proposes to strike this statutory language which could result in PHAs receiving fewer replacement vouchers. NAHRO would oppose striking this statutory language.

HUD awarded 21,098 tenant protection vouchers in 2009, 17,726 in 2010, 14,430 in 2011, and 16,436 in 2012 (with $1.3 million in unobligated commitments made in FY 2011). HUD did not estimate how many tenant-protection vouchers would likely be issued under its FY 2014 budget request at $150 million. By comparison, HUD estimated that its FY 2013 budget request for $75 million for tenant-protection voucher programs would serve approximately 10,000 HUD-assisted families. It was presumed that HUD's actions through PIH Notice 2012-7 would have reduced the number of approved demo/dispo applications including replacement vouchers, thereby reducing the "need" for greater appropriations. However, the President's budget request suggests not only that the $71 million appropriated for FY 2013 would be insufficient to provide full-year funding for all TPVs issued in 2013, but also that the Department anticipates an increased need for FY 2014, even without accounting for the conversion of public housing units to Section 8 assistance through the Rental Assistance Demonstration.

As HUD's budget justifications also state,

> "This request has not been increased to reflect units that are anticipated to convert from public housing to Project-Based Voucher (PBV) assistance under the Rental Assistance Demonstration (RAD). At this point, it very difficult to predict the number of public housing units that will have completed the conversion process in calendar year 2013 or the number that will require renewal funding under the Tenant-Based Rental Assistance (TBRA) account. Therefore, the Department will use its statutory authority under the Consolidated and Further Continuing Appropriations Act of 2012 (Public Law 112-55) to transfer amounts from the fiscal year 2014 Operating Fund and Capital Fund appropriation to the TBRA account to fund the calendar year 2014 renewal costs for public housing units that have converted in calendar year 2013 to PBV (this is the same statutory transfer authority the Department is using to cover the initial cost for those public housing units that converted in calendar year 2013 under RAD). The Department currently estimates that $43.2 million will need to be transferred from the Operating and Capital Funds to the TBRA and/or PBRA accounts in calendar year 2014 for this purpose, though the precise amount will be

> determined based on the number and characteristics of units that actually complete conversion in calendar year 2013. Subsequent budget year requests will reflect the RAD renewal needs in the TBRA account, as actual numbers become known."

HUD-VASH: HUD's FY 2014 budget requests $75 million for incremental vouchers for homeless veterans through the HUD-Veteran Affairs Supportive Housing (HUD-VASH) program.

Special Voucher Renewals: HUD's FY 2014 budget includes new language under the Choice Neighborhoods Initiative that would include the provision of housing vouchers as an eligible use of CNI grant funds. Although no restrictions are imposed by the budget proposal, previous NOFAs have limited the portion of funds that can be used for community and resident services and non-housing community improvements, the category to which housing vouchers has been added. The FY 2014 budget also states that the renewal of these vouchers will come solely from the CNI account, a provision which greatly concerns NAHRO. Unlike vouchers provided under HOPE VI for Project-Based Vouchers as replacement units, these new vouchers would not roll into the HAP renewal account, thereby creating a permanent obligation on the Choice Neighborhoods account to provide additional annual funding.

The budget proposes similar treatment for units converting under RAD, requiring that renewal funding for these units come from the Public Housing Operating and Capital Funds rather than the HAP renewal and Project-Based Rental Assistance accounts. HUD's budget proposal does not provide sufficient details for NAHRO to evaluate the impact of this provision on the Operating and Capital Funds, as it is unclear whether HUD included these units in its calculations of the eligible unit months which drive Operating Fund eligibility calculation. It is also unclear whether funding RAD units for these accounts will further decrease the proration for traditional Public Housing remaining in the portfolio. NAHRO is seeking additional clarification on these issues.

Special Purpose Vouchers: HUD will separately track all special purpose vouchers and their funding.

NAHRO Analysis of HUD's FY 2014 HAP Funding Request: Over the years, HUD's HAP funding requests to Congress as well as the Department's subsequent estimates of 100 percent HAP pro-ration funding levels to Appropriations Committee conferees have fallen short of the amount needed to achieve 100 percent prorations. Even if one assumes that HUD's estimated $235 million in HAP savings (plus and additional $60 million from eliminating the HCV FSS program as a dedicated line-item) is correct for FY 2014, HUD would still have the authority to offset an unlimited amount from PHAs' with "excess" HAP Reserves as of 12/31/13, as determined by the Department, in order to provide 100 percent HAP pro-rations and help prevent termination of housing assistance to households in 2014. In FY 2013, NAHRO published an article titled "NAHRO Analyzes Impact of HUD Proposed Savings" which included our analysis of the impacts HUD's cost-saving measures would have had by household type within each program, based on the information we received from a Freedom of Information Act (FOIA) request. NAHRO will undertake a similar exercise in response to the FY 2014 proposal.
It is worth noting that the Department's methodology of using regional inflation factors for FY 2014 lowers the amount of all PHAs' eligible HAP costs. PHAs' lowered eligible HAP costs do not accurately reflect their true HAP costs but do enable HUD to request less HAP funding to declare higher HAP pro-rations. In practice, HUD's regional inflation factors and accompanying HAP

funding request results in PHAs receiving less funding to serve the same number of leased households in the previous calendar years at their actual HAP costs.

Unfortunately, the Department has interpreted the same inflation factor language in the FY 2012 appropriations act to mean that HUD has the authority to 1) use only one of four regional inflation factors (i.e. Midwest, Northeast, West and South) at a lower rate and 2) completely eliminate specific Metropolitan Statistical Areas and specific metropolitan counties as bases for adjustments. In the past, HUD used eight regional Annual Adjustment Factors for both metropolitan and non-metropolitan areas (i.e. New England, New York/New Jersey, Mid-Atlantic, Southeast, Midwest, Southwest, Great Plains, Rocky Mountains, Pacific/Hawaii, and Northwest/Alaska) as well as specific Metropolitan Statistical Areas and specific metropolitan counties. HUD abandoned this practice after FY 2005. This has had the effect of lowering each PHAs' HAP renewal eligibility so that the true amount of appropriated HAP funds needed to accurately reflect each PHAs' housing costs is greater than the adjusted amount calculated by the Department. In addition to the above provisions, HUD's budget proposes making the same historical adjustments as in previous years for the costs associated with the first-time renewal of vouchers under this paragraph, including tenant projection and HOPE VI vouchers.

Section 8 Project-Based Rental Assistance Programs

HUD's FY 2013 budget requests a total of $10.272 billion for the Section 8 Project-Based Rental Assistance (PBRA) program, which includes the Moderate Rehab program, representing a significant increase over the $8.86 billion provided for FY 2013 under sequestration. Under the FY 2014 proposal, up to $265 million would be available for the Section 8 Project-Based Contract Administrators (PBCA) program.

HUD's FY 2014 budget proposes legislative reforms to the PBRA program. In addition to crosscutting reforms, which are summarized under the Tenant-Based Rental Assistance programs above, HUD's budget includes proposals that are specific to the PBRA program, including: (1) collecting excess reserves (residual receipts) from owners in the PBRA program and uses them to cover a portion of the assistance payments; (2) establishing a demonstration allowing HUD to enter multi-year agreements to repay private investors who provide upfront funding for energy efficiency retrofits of HUD-assisted housing; and (3) amending the Low-Income Housing Preservation and Resident Homeownership Act (LIHPRHA) to align owner distribution policies in properties governed by LIHPRHA with other PBRA-assisted properties in order to facilitate preservation transactions. HUD also plans to implement a Flexible Portfolio Demonstration, which would offer regulatory and administrative flexibilities to high-performing multifamily owners in exchange for commitments to provide costs savings and to preserve property affordability.

PHA Employee Compensation

The President's budget includes a proposal, first unveiled by HUD on June 5, 2012, that would peg PHA employees' base salaries to the federal General Schedule (GS), including a locality adjustment. Unlike previous efforts aimed at limiting PHA employee compensation, this change would amend the US Housing Act of 1937, making the new compensation restrictions permanent rather than a feature of an annual appropriations act. See our April 12 Direct News item for a complete review of HUD's proposal.

Transformation Initiative

HUD's FY 2014 budget request for the Transformation Initiative Fund would capitalize this program by allowing HUD to transfer up to the lesser of 0.5 percent or $15 million from the Section 8 Tenant-Based Voucher Account for the operation of a second-generation Transformation Initiative (TI2), including HUD's Next Generation Management System (NGMS).

The Information Technology Portfolio (formerly the Working Capital Fund) funds the information technology (IT) systems that support Departmental programs and operations, including FHA Mortgage Insurance, housing assistance, grant and disaster relief programs, as well as core financial and general operations. HUD's FY 2014 budget provides $285.1 million for the development, modernization, enhancement, operation and maintenance of HUD's IT infrastructure and systems. The Budget renames the Working Capital Fund to more accurately describe the account, and consolidates all IT funding within the IT Portfolio to align to the integrated IT investment strategy and governance processes that HUD has instituted in recent years.

Other Reforms

Although more details are to follow, HUD's budget proposes sponsor-based assistance for homeless families. HUD's proposal supports the Federal Plan to Prevent and End Homelessness by proposing flexible authority for sponsor-based voucher assistance. PHAs would administer competitions to award voucher funding to not-for-profit service providers that leverage and deliver supportive services for homeless families.

As in the FY 2013 budget, the FY 2014 budget reiterates a proposal for a five-year rent demonstration project that would allow PHAs to carry out rent policy demonstrations involving a limited number of families assisted under the United States Housing Act of 1937 to determine the effectiveness of different rent policies. Rent policies could include providing income disregards, family self-sufficiency accounts, and policies under which families pay amounts different from 30 percent of their adjusted income for rent, to encourage families to obtain employment, increase their incomes, and achieve economic self-sufficiency, while reducing administrative burdens and maintaining housing stability. Demonstrations would include PHAs of various sizes. HUD would publish a report regarding the results and effectiveness of any demonstrations.

The Department also plans to submit comprehensive legislation authorizing triennial recertification of fixed-income families, eliminating the requirement that PHAs complete and submit PHA Annual Plans, amending the definition of a PHA to include consortia of PHAs, and launching a utilities conservation pilot modeled on the frozen rolling base.

Important Links

- NAHRO's Feb. 10 Initial Overview of the FY 2014 Budget
- NAHRO's Feb. 12 Overview of the Budget's Treatment of Public Housing
- HUD's FY 2014 Budget Presentation (PDF)
- HUD's FY 2014 Budget (OMB Summary) (PDF)
- HUD's FY 2014 Congressional Budget Justifications for Estimates
- FY 2014 Budget Appendix for HUD (PDF)

Direct News - Washington Update
FY 2014 Budget In-depth: Community Development and Affordable Housing

Apr 16, 2013

As NAHRO previously reported, President Obama released his budget for FY 2014 on Wednesday, April 10. Today's Direct News item is intended to provide NAHRO members with a comprehensive summary of the President's FY 2014 budget proposal's treatment of Community Planning and Development and other community development and affordable housing related programs, including the Community Development Block Grant and HOME Investment Partnerships programs, Section 108 loan guarantees, homeless assistance grants, and the New Markets and Low Income Housing Tax Credit programs.

NAHRO previously issued similar pieces covering public housing programs (April 12) and Section 8 programs (April 14). We will conclude our ongoing coverage later this week with the release of NAHRO's FY 2014 funding recommendations for key housing and community development programs.

Community Development Block Grant (CDBG) Program

The FY 2014 budget requests a total of $3.143 billion for the Community Development Fund (the account that includes the CDBG program), essentially level funding compared to the FY 2013 enacted level under sequestration. The budget, however, provides only $2.798 billion for the CDBG program, a proposed reduction of approximately $300 million compared to the FY 2013 level under sequestration.

Set-asides under the Community Development Fund: The Administration's FY 2013 budget proposes three set-asides under the Community Development Fund:

Indian Community Development Block Grant program: As is the typical appropriations practice, the FY 2014 budget sets aside funding under the Community Development Fund for the Indian Community Development Block Grant program. This year's proposal would provide $70 million for the program, an increase over the FY 2013 level of approximately $57 million under sequestration. The increase is attributable to the Administration's proposal to set aside $10 million to address mold remediation and prevention in Indian housing.

Neighborhood Stabilization Initiative: The President's budget includes a $200 million set-aside for a new Neighborhood Stabilization Initiative modeled after the Neighborhood Stabilization Program. This initiative would award grants competitively to states, local governments, and state housing finance agencies to support a variety of eligible uses, including purchasing and rehabilitating abandoned and foreclosed properties, establishing land banks, demolishing blighted structures, and redeveloping vacant or demolished property, as well as new housing construction.

Integrated Planning and Investment Grants: The Administration's budget requests $75 million in set-aside funding for Integrated Planning and Investment Grants. These grants would essentially take the place of the Sustainable Housing and Communities Initiative, which was not funded for either FY 2012 or FY 2013. The newly proposed grant program, to be administered by HUD's "Office of Economic Resilience," would support HUD's partnership with the Department of

Transportation and the Environmental Protection Agency aimed at “expand[ing] job opportunities and improv[ing] the quality of life for families by providing incentives to regions and communities to align planning efforts, invest public and private resources to attract businesses, modernize land use and building codes, attract private capital for community revitalization efforts, and sponsor robust community engagement efforts.”

Program Reforms: According to documents accompanying the budget, the Administration “recognizes that CDBG funds represent a significant expenditure that is not optimally targeted based on community need or used most effectively in many cases.” The FY 2014 budget proposal includes several proposals intended “to better target funds based on community need and ensure that communities receive grants large enough to be more effective in advancing the goals of the program.”

These proposals would establish a minimum grant threshold and eliminate the current entitlement community "grandfathering" provision. Entitlement communities would essentially need to continue to receive an allocation equal to at least 0.0125 percent of the annual appropriation (approximately $385,000 for FY 2013) in order to maintain their entitlement status. Newly qualified entitlements would need to be eligible for at least $500,000 in annual formula funding to actually receive a formula allocation.

The budget also indicates that HUD plans to convene stakeholders over the coming months to solicit input “regarding further programmatic changes that would improve the targeting of formula funds and strengthen their accountability and performance.”

Section 108

For the fifth year in a row, the Administration is proposing to eliminate the direct appropriation to cover the credit subsidy costs of the Section 108 Community Development Loan Guarantee Program. The Administration again offers legislative language authorizing HUD to collect fees from Section 108 borrowers in amounts that would result in a credit subsidy cost of zero. The Section 108 program is funded at just under $6 million for FY 2013, with the program’s total maximum level of guaranteed loan principal set at approximately $240 million. HUD’s FY 2014 budget proposes to raise the loan guarantee limit to $500 million.

HOME Program

The President’s budget requests $950 million in funding for the HOME Investment Partnerships account for FY 2014, essentially the same amount of funding provided for FY 2013 under sequestration. The HOME program was funded at $1 billion for FY 2012.

The Administration is recommending that the Self-Help Homeownership Opportunity Program (SHOP) be funded as a $10 million set-aside under the HOME account, effectively reducing the budget’s request for HOME formula funding to $940 million for FY 2014. The Administration had in previous years called for the elimination of the SHOP program, arguing that SHOP-funded activities are eligible under the HOME program.

Program Reforms: The FY 2014 budget includes proposed statutory language that would authorize HUD to recapture Community Housing Development Organization funds and reallocate those funds by formula to HOME Participating Jurisdictions. The budget also proposes a statutory change to "establish a single qualification threshold of $500,000 irrespective of the appropriation amount" for entitlement eligibility under the program. A related proposal would revise the HOME program's "grandfathering" provisions in a manner that would make an existing Participating Jurisdiction ineligible for continued entitlement funding if its allocation falls below the new $500,000 threshold for three years or more out of a five year period. The budget also proposes to facilitate the eviction of certain HOME rental unit tenants "who pose an imminent threat," a change long supported by NAHRO and other industry groups.

Homeless Assistance Grants

The budget proposes a total of $2.381 billion in funding for HUD's Homeless Assistance Grant programs for FY 2014, a significant increase compared to the effective level of approximately $1.93 billion for FY 2013 under sequestration. According to documents accompanying the budget, the Administration estimates that its FY 2014 request will provide $1.95 billion for competitive renewals and $40 million for new competitive supportive housing projects under the Continuum of Care.

The budget would require that "not less than $346 million" of FY 2014 homeless assistance grant funding be available for the Emergency Solutions Grant (ESG) program, funding for which was capped at $200 million before sequestration for FY 2013, down from $250 million for FY 2012. Of the funding set aside for the ESG program, $60 million would be earmarked for rapid re-housing in "high-need communities" as defined by the Secretary.

Housing Opportunities for Persons with AIDS (HOPWA)

The FY 2014 budget proposal includes $332 million in funding for HOPWA, which is funded at $315 million for FY 2013 under sequestration. The Administration intends to introduce a legislative proposal that will update the HOPWA formula "based on living cases of HIV and adjusted for an area's fair market rent and poverty rates, focusing HOPWA funds on areas that have the most need." According to the budget, this proposal will also include "several changes that will allow better targeting of HOPWA resources and more flexibility for grantees to provide the most cost-effective, timely interventions."

Housing Trust Fund

The Administration once again proposes $1 billion in mandatory funding for the Housing Trust Fund enacted through the Housing and Economic Recovery Act of 2008. The funding would be identified outside of the appropriations process. The President's budget includes no details on how such funding would be generated.

<u>Low-Income Housing Tax Credit (LIHTC) Program</u>

The President's FY 2014 budget includes several proposals related to the LIHTC program:

Preservation: The budget proposes to make the preservation of federally assisted affordable housing a required selection criterion for all state Qualified Allocation Plans.

Income Averaging: This proposal would allow for a development to qualify for credits by choosing from three income averaging options:

- At least 20 percent of the units have rent restrictions in place and will be occupied by households with income at or below 50 percent of area median income (AMI); or
- At least 40 percent of the units have rent restrictions in place and will be occupied by households with incomes at or below 60 percent of AMI; or
- At least 40 percent of the units must be occupied by households whose incomes average no more than 60 percent of AMI. This option would preclude renting rent-restricted units to households with incomes over 80 percent of AMI, while households tenants with incomes below 20 percent of AMI would be treated as having incomes equal to 20 percent for the purpose of calculating the average.

Earlier versions of this proposal appeared in the FY 2012 and FY 2013 budgets.

Credit Rates: The budget proposes to alter the formulas used to set the actual values of the so-called 9 percent credits and 4 percent acquisition credits. This proposal would result in rates that are slightly higher than the rates calculated under the current formula and would apply to allocations made after December 31, 2013.

Bond Conversion: The budget would authorize states to convert a portion of its private-activity-bond volume cap into authority to allocate additional tax credits.

Real Estate Investment Trusts (REITS):This proposal would make the LIHTC program more beneficial to REITS by allowing a REIT that receives Housing Credits to designate as tax-exempt some of the dividends that it distributes and, according to the description of the proposal.

New Markets Tax Credits Program

The President's budget proposes to permanently reauthorize the NMTC and requests $5 billion of allocation authority per year. The budget also seeks authority to allow NMTCs to offset Alternative Minimum Tax liability.

Important Links

- NAHRO's April 10 Initial Overview of the FY 2014 Budget
- NAHRO's April 12 Overview of the Budget's Treatment of Public Housing
- NAHRO's April 15 Overview of the Budget's Treatment of Section 8 Programs
- HUD's FY 2014 Budget Presentation (PDF)
- HUD's FY 2014 Budget (OMB Summary) (PDF)
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NAHRO News

Direct News - Washington Update
HUD Promises Relief as NAHRO Continues Reform Push

Apr 9, 2013

With the FY 2013 appropriations process finally concluded, local housing agencies are coming to grips with the fiscal realities confronting them for the remainder of the program year. NAHRO will remain unrelenting in our pursuit of the meaningful relief measures that simply must be in place for agencies to be able to continue to meet their missions in this challenging financial environment. Encouragingly, HUD appears poised to finally take action in response to our advocacy.

Advancing Regulatory and Administrative Reform

Letter to Deputy Secretary: NAHRO CEO Saul Ramirez recently communicated a series of recommended regulatory reforms to HUD Deputy Secretary Maurice Jones, who served as the closing speaker at NAHRO's Legislative Conference in March. Prior to delivering his remarks, the Deputy Secretary met with NAHRO's leadership and invited NAHRO to share its ideas for regulatory and administrative relief with him. NAHRO's April 1 letter, available at www.nahro.org/sites/default/files/searchable/DeputySecretary040113.pdf, takes the Deputy Secretary up on his offer and urges him to use the powers of his office to help to ensure the implementation of our recommendations as soon as possible. Recommendations in this letter include but are not limited to the following:

- Suspend Full Management Reviews until further notice.
- Suspend annual planning requirements until further notice.
- Establish a streamlined and expedited waiver process through which individual PHAs may request and receive waivers.
- Suspend information collections, including executive compensation reporting
- Suspend SEMAP ratings for the purpose of sanctions until such time as ongoing administrative fees are meaningfully restored.
- Allow 100 percent retention of funds through fraud recovery.
- Immediately designate all PHAS scores above 59 as advisory and evaluate whether the source of an agency's troubled designation is a direct result of inadequate federal appropriations.
- Indefinitely suspend implementation of the PNA requirement.
- Formally reinstate longstanding policy that capital improvements are an eligible use of operating reserves for all agencies.
- Remove fixed dollar caps for asset management fees and allow PHAs to set their fees based on reasonable factors related to their individual operating environments.
- Allow for the subordination of the Deed of Trust in order to make the Public Housing Mortgage Program a meaningful tool through which PHAs may leverage the value of their assets and attract private investment into their properties.

Development of Joint List of Recommendations: NAHRO has also been working closely with our industry partners PHADA and CLPHA to develop a joint list of regulatory and statutory reform recommendations to present to HUD. In addition to regulatory and administrative recommendations similar to those included in our letter to the Deputy Secretary, these proposed reforms, many of which NAHRO and others have previously advocated, include but are not limited to:

<u>Regulatory Reforms</u>

- Blanket regulatory suspensions and waivers under 24 CFR Part 5.
- Expedited implementation of lower payment standards.
- A moratorium on new rules and data requests that increase administrative burden.
- Flexibility in waiving asset management regulations affecting funding, such as cash transfers between properties, fee caps and AMP configurations.
- Simplifying the income verification process by allowing use of EIV inflated as acceptable verification (starting with elderly and disabled participants) and streamlining the income verification hierarchy.
- Simplifying portability.
- Revising PEL, using the neg-reg inflation factor and taking age of properties into account.

<u>Statutory Reforms</u>

- Expanding the MTW demonstration
- Full fungibility between Operating and Capital Funds.
- Permitting HAP Net Restricted Assets to be used for administrative purposes when the administrative fee proration falls below 90 percent.
- Biennial HQS inspections.
- Triennial recertifications for fixed-income and biennial for variable income.
- Freezing the rolling base.
- Eliminating Section 3 requirements beyond what is required under Office of Housing programs.
- Making the community service requirement at the discretion of the PHA.
- Small agency reform.

Meetings with Assistant Secretary and Secretary: Two recent meetings with senior HUD officials give us reason to believe that our efforts are paying off. On April 3, the executive directors of NAHRO, PHADA and CLPHA met with Assistant Secretary for Public and Indian Housing Sandra Henriquez to talk about various reforms intended to ease the administrative burdens placed on PHAs. During this meeting, the Assistant Secretary shared information on initiatives already underway and relief that will be provided in the near term as well as longer-range efforts that the Department is pursuing, both through regulatory relief as well as supporting changes to statute, some of which will be included in the President's FY 2014 budget proposal.

On April 8, NAHRO Senior Vice President Preston Prince, NAHRO Vice President for Housing Chris Lamberty, and CEO Ramirez, along with counterparts from PHADA and CLPHA, met directly with HUD Secretary Shaun Donovan to discuss the joint list of recommended regulatory and statutory reforms mentioned above and to review the relief efforts the Department is preparing to roll out. Based on that meeting and the earlier meeting with the Assistant Secretary, the following list represents NAHRO's best understanding of the reforms HUD has committed to implementing soon:

Short-term reforms, to be implemented within the next 30 days:

- Suspend issuance/implementation of final PNA rule.
- Suspend SEMAP confirmatory reviews (NAHRO previously convinced HUD to postpone the most imminent scheduled reviews. See the March 31 NAHRO Monitor for more information.)
- Reduce/suspend PHA Plan requirements.
- Reduce/suspend EPIC reporting requirements
- Reduce/suspend Capital Fund P&E report
- Revisit 2013-3 and EIV notices

Intermediate-term reforms, to be implemented within 60+ days:

- Eliminate or reduce PHA plan requirements
- Make financial and management PHAS scores advisory
- Suspend SEMAP scoring
- Eliminate community service reporting and allow tenants to self-report participation

NAHRO will provide updates on the commitments HUD has made as more information becomes available.

Statutory Reform and Responsible Funding

As previously discussed in the February 1 NAHRO Monitor, NAHRO has worked for years to secure meaningful legislative reforms for the Section 8 Housing Choice Voucher program as well as the Public Housing program. We remain fully engaged with the House Financial Services Committee and the Senate Banking Committee as lawmakers work to develop the next iteration of what has most recently been known as the “Affordable Housing and Self-Sufficiency Improvement Act,” or AHSSIA. Although no new version of AHSSIA had been introduced in the 113th Congress as of this writing, we are hopeful that a responsible version of this critically important and long overdue legislation is forthcoming and have been consistent in communicating the need for comprehensive legislative reform to the Hill.

In addition to our ongoing efforts around AHSSIA or its successor, NAHRO remains committed to 1) the reauthorization and expansion of the Moving to Work (MTW) demonstration in a manner that fully protects existing contracts, and 2) the enactment of the NAHRO/PHADA Small Housing Agency Reform Proposal (SHARP), which was recently re-introduced by Senators Mike Johanns (R-Neb.) and Jon Tester (D-Mont.) as S. 576, the “Small Housing Opportunity Act of 2013.”

Finally, even as we focus intently on the need for reform, NAHRO will not lose sight of the importance of restoring responsible funding for our core programs. The President’s FY 2014 budget proposal will be released on Wednesday, April 10, and NAHRO plans to release its own funding recommendations for key housing and community development programs for the 2014 federal fiscal year shortly thereafter. As always, NAHRO will provide members with detailed analyses of the President’s FY 2014 budget’s implications for public housing, Section 8 programs, and Community Planning and Development programs, as well as an explanation of our own FY 2014 funding recommendations. These resources will be made available to NAHRO members through Direct News and online at www.nahro.org/news.

NAHRO will continue to work hard, through its own actions and as part of various coalitions, to persuade lawmakers to restore housing and community development funding to responsible levels. As we have done in recent years, we will also provide the Hill with a series of technical recommendations intended to achieve programmatic reforms and efficiencies through the annual appropriations measure.

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