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To: Interested Parties
From: Barbara Sard, Ehren Dohler and Will Fischer
Date: June 13, 2014 *updated June 17, 2014*
Re: Update on FY2015 HUD Appropriation Bills

This week the House passed its version of the FY2015 Transportation-HUD appropriation bill, H.R. 4745, by a nearly party-line vote of 229-192.[1] The Senate Appropriations Committee approved its version of the bill, S. 2438, on June 5, and the bill is due to be considered by the full Senate the week of June 16.

The Senate bill is a significant improvement over its House counterpart, as we highlight in these two recent blogs:
http://www.offthechartsblog.org/update-senate-housing-bill-improves-on-house-but-still-would-lock-in-large-voucher-losses/ and
http://www.offthechartsblog.org/senate-housing-bill-expands-reach-of-self-sufficiency-program/ .

But it still falls short in major respects, despite allocating about $1 billion more to HUD and its programs than the House bill. In advance of a full comparison after the Senate acts, this memo discusses briefly the rental assistance provisions of both bills.[2] A table showing comparative funding levels for key programs is included at the end.

Housing Choice (Section 8) Vouchers

The Senate's bill provides a total of $19.6 billion for Housing Choice Vouchers (HCVs, also known as Section 8 Vouchers or Tenant-Based Rental Assistance), just over $200 million more than the House bill but $280 million less than the President's request. The increase compared to the House primarily bolsters HCV administrative fees, as discussed below.

HCV Renewal Funding

The Senate bill includes $17.7 billion for voucher renewals, only $26 million more than the House. Overall, neither bill makes progress toward restoring the remainder of the vouchers lost due to sequestration that were not funded in 2014, and both risk locking in the full sequestration loss of 72,000 vouchers.

The Senate's 2015 proposed funding for voucher renewals is $353 million above the 2014 level, but nearly $300 million of this increase will go toward renewing HUD-VASH and tenant-protection vouchers that were funded for the first time in 2013 and 2014. (HUD-VASH and tenant protection vouchers are provided initially through separate funding streams, but after the first year they must be

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[1] 14 Democrats supported the bill and 12 Republicans voted against it. You can see how particular Representatives voted here.
[2] Our analysis of the House bill is here: http://www.cbpp.org/cms/index.cfm?fa=view&id=4148.

renewed in the voucher renewal account.) Although voucher renewal funding in 2014 is sufficient to restore roughly half of the more than 70,000 vouchers lost to sequestration, after accounting for first-time renewals and inflation the Senate and House bills will fail to renew these restored vouchers in 2015, unless PHAs freeze subsidies in spite of rising rent and utility costs. If PHAs do not increase their payment standards, tenants may be forced to pay higher out-of-pocket rent or utility costs, and their housing choices may be more limited. By undoing much or all of the progress toward restoring sequestration cuts made possible by the FY2014 funding levels, the House and Senate bills would likely lock in these losses for years to come.

Particularly if public housing agencies spend the additional funds they are receiving in 2014 to serve additional families, there is a reasonable chance that the final bill will increase the renewal funding level. The Statement of Administration Policy on the House bill expresses "deep concern" about the funding levels for HCV renewals and administrative fees in the House bill, indicating that the Administration will continue to push for higher funding levels in conference. The Senate Report states that the Appropriations Committee "will continue to monitor leasing data to make sure residents are protected."[3]

HCV Administrative Fees

The Senate committee bill provides a significant increase in funding for HCV program administrative fees. The Senate's funding level of $1.55 billion for administrative fees is $205 million more than the House and $55 million more than 2014. The Senate level would provide an estimated 76 percent of agency eligibility (otherwise known as the proration), compared to 66 percent in the House bill.

HUD-VASH

Both bills provide $75 million for about 10,000 new HUD-VASH vouchers for homeless veterans. New HUD-VASH vouchers have been funded every year since 2008, but have not been available to Native American veterans living on tribal lands. This year, the Senate directs HUD to set aside a portion of HUD-VASH funding to conduct a pilot to provide housing for homeless veterans living on tribal lands.

Other HCV Provisions

The Senate bill includes $83 million to renew so-called "mainstream" vouchers authorized under Section 811 for people with disabilities. Although $25 million less than the level in the House bill and the request, the Senate reports that the program has accumulated significant unspent balances which can be used to ensure that all mainstream vouchers are renewed.

The House and Senate both provide $130 million for tenant-protection vouchers which replace aid for families living in public or private assisted housing that is being demolished or otherwise removed from other federal rental assistance programs.

[3] Senate Report 113-182, p. 109, http://beta.congress.gov/113/crpt/srpt182/CRPT-113srpt182.pdf .

Restriction on HCV Payment Standards

The House passed an amendment on the floor (by one vote, 210 – 209) from Rep. Aaron Schock (R-IL) to prohibit neighborhood or area "exception" voucher payment standards above 120 percent of the applicable HUD Fair Market Rent (FMR). (The amendment does *not* prohibit higher payment standards for individuals, such as those approved as a reasonable accommodation for people with disabilities or "enhanced" voucher subsidies to enable residents to remain in a previously HUD-assisted property.) The payment standard sets the maximum rent a PHA will pay for a given sized unit. HUD generally sets FMRs for entire metropolitan areas or counties and uses rent data that are in some cases several years old, so current law and regulations give PHAs flexibility to set payment standards above or below the FMR to adjust for local rent variation or rapid shifts in rental markets.

PHAs have discretion to set payment standards anywhere within 10 percent of the FMR, and may seek HUD approval for a higher or lower payment standard in a neighborhood or part of an FMR area. Regulations prohibit HUD from approving higher standards unless the PHA submits objective, rigorous data demonstrating both that the increase is justified by market rents in the area and that without the increase families would be unable to use their vouchers or be compelled to use them in high-poverty neighborhoods. For payment standards above 120 percent of the FMR, the PHA must also show that the increase is needed to avoid financial hardship for families.

This amendment would prevent any such exceptions above 120 percent of FMR, making it difficult in high cost areas − such as areas where rents have escalated rapidly due to oil and gas drilling − for new voucher holders to find units and increasing financial hardship for current voucher holders. In some areas, it also would limit access to safer neighborhoods with good schools. *If you are aware of particular areas that now have payment standards above 120 percent, we would be interested in your views about the impact of the House provision. Please contact Will Fischer at fischer@cbpp.org.*

Public Housing

The Senate bill increases public housing funding compared to the House bill, but provides less than the Administration requested and falls far short of the amount needed to maintain and repair public housing developments. Commendably, the bill expands public housing preservation through the promising Rental Assistance Demonstration (RAD) and gives housing agencies needed flexibility in using public housing funds.

Operating and Capital Funds

The Senate bill provides $4.475 billion for the public housing operating fund, $75 million above the House bill and 2014 level (without adjusting for inflation), but $125 million below the Administration's request. Under the Senate bill, housing agencies would likely receive about 88 percent of the operating funds for which they are eligible, somewhat below HUD's current estimate of an 89 percent proration in 2014.

The bill provides $1.9 billion for the public housing capital fund. This is $25 million above 2014 and $125 million above the House bill. It falls $25 million below the HUD budget request, however, and is far less than housing agencies need to address pressing renovation needs in public housing developments.

Flexibility in Use of Funds

The bill contains two generally positive provisions that would allow housing agencies greater flexibility to use their operating and capital funds more efficiently. First, the bill would allow agencies to shift up to 20 percent of operating funds appropriated for 2015 or later years into the capital fund and would raise the limit on transfers from the capital fund to the operating fund to 30 percent for fiscal year 2015 funds only. HUD could waive the limit for transfers for security-related expenditures. Currently, large- and mid-sized agencies may shift up to 20 percent of their capital funds to the operating fund, but may not shift operating funds to the capital fund except under certain special circumstances. (Non-troubled agencies with fewer than 250 units already have unlimited flexibility to shift funds between the two accounts.)

Second, the bill would allow housing agencies to establish replacement reserves that would be exempt from capital fund obligation and expenditure deadlines. Such reserves are standard practice in unsubsidized housing and privately owned subsidized housing, and would give agencies more flexibility to accumulate funds to meet future repair and replacement needs. Agencies could deposit capital funds in the reserves, including the annual transfers of up to 20 percent of operating funds. In addition, HUD could allow agencies to deposit larger amounts of operating funds into a replacement reserve when it is first established, a step that might allow them to shift substantial operating fund reserves for this purpose.

Rental Assistance Demonstration

In addition, the bill would strengthen RAD, a promising initiative to preserve public housing and units assisted through several smaller programs by converting them to long-term Section 8 project-based voucher and PBRA contracts. The House bill does not include any changes to RAD.

Most importantly, the Senate bill would increase the cap on the number of public housing units that can be converted under RAD from 60,000 to 185,000, just above the 176,000 that had applied for the demonstration as of December 31, 2013. HUD had requested that Congress eliminate the cap entirely, so the Senate provision occupies a middle ground between HUD's proposal and the House bill's omission of any increase. The Senate bill would also extend the deadline for acceptance of RAD public housing applications from September 30, 2015 to September 30, 2018.

In addition, the bill would provide $10 million to supplement subsidies for public housing units converted under RAD.[4] Currently, RAD subsidies are capped based on the public housing funding a development received prior to conversion. HUD's budget requested the $10 million and indicated that it would target the funds on high-poverty neighborhoods where the Administration is supporting comprehensive revitalization, such as those designated as Promise Zones. The Senate report estimates that the funds would support conversion of 3,000 units.

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[4] In addition to the public housing-related RAD provisions discussed in the text, section 231 of the bill would extend until September 30, 2016 the deadline for conversion of Rent Supplement, Moderate Rehabilitation, and Rental Assistance Payment (RAP) developments under RAD's "second component," allow second component conversions (which currently can provide only Project-Based Voucher contracts) to provide Section 8 Project-Based Rental Assistance (PBRA) contracts, and make Section 8 Moderate Rehabilitation Single Room Occupancy properties eligible for RAD. The section includes a requirement that any increase in PBRA costs must be fully offset by transfers from other accounts.

Other Provisions

The bill would fund the Choice Neighborhoods Initiative, which provides grants to revitalize distressed public and privately owned assisted housing, at the 2014 level of $90 million. The Administration requested $120 million for the initiative, while the House bill provided $25 million.

The bill also provides up to $15 million for the Jobs-Plus Pilot as a set-aside within the Public Housing Capital Fund. This is the same amount as in the House bill but $10 million below the Administration's request. The pilot, modeled on a successful demonstration in the 1990s, funds financial incentives and employment services for public housing residents. Congress also provided $15 million for Jobs Plus in 2014, but HUD has not yet released details on how the funds will be used. The Senate report indicates that the committee "expects that HUD will complete the program design this fall and be able to award funding to PHAs quickly in fiscal year 2015."

Section 8 Project-Based Rental Assistance

Like the President's budget, both the House and Senate bills provide $9.7 billion for Section 8 Project-Based Rental Assistance (PBRA) for fiscal year 2015. This is a $171 million reduction from 2014 funding but is consistent with a plan the President's budget proposes to transition the program over two years to a calendar-year funding cycle that should be more transparent and stable. The modest reduction in the amount of new funding required for 2015 is possible because the fiscal year 2014 appropriation will be sufficient to make payments on some Section 8 PBRA contracts through the early months of calendar year 2015, leaving a reduced amount for the fiscal year 2015 appropriation to cover. In fiscal year 2016, however, sufficient funding to cover a full 12 months' of rental assistance payments — which HUD currently estimates will cost about $10.9 billion, or $1.2 billion more than the President's 2015 funding request — will be needed. The Administration has indicated its commitment to including this funding in its fiscal year 2016 budget request, and both the House and Senate have acknowledged the additional funding that will be required.

The proposed policy would be a change from Congress' traditional policy of providing, in advance, sufficient budget authority to cover contract payments for many months beyond the end of the current federal fiscal year. Yet there is no strong argument, other than custom, in favor of forward funding Section 8 PBRA contracts in that way. What matters most to owners is that HUD deliver monthly payments to owners on time, in accordance with the terms of their contracts. The budgeting process that underlies these payments is largely invisible to owners, as it should be. Indeed, a calendar year funding policy could help to alleviate some lender and investor concerns. HUD's implementation of the current policy of "short funding" contracts is entirely ad hoc and opaque to owners. Under a firm calendar-year funding policy, it would be clear to owners that each year's appropriation would cover 12 months' of payments for all contracts.

PBRA Tenants Eligible for Family Self-Sufficiency Program Savings Incentives

The Senate bill improves on the budget proposal to make PBRA tenants eligible to participate in HUD's Family Self-Sufficiency program, by clarifying that PBRA tenants can accumulate savings when their rent increases due to increased earnings. Unlike residents of public housing and families assisted by the HCV program, residents in PBRA-assisted units have never been eligible for FSS.

FSS assists families to develop five-year self-sufficiency plans and access services that can help them increase their earnings and become independent of welfare assistance; participants accumulate savings based on the increased rent they pay as their earnings rise, which agencies set aside for them in special escrow accounts. Completing the program enables families to receive their escrowed savings. Studies have shown substantial increases in earnings for families that complete the FSS program,[5] which could help increase the share of non-elderly, non-disabled households in the PBRA program who are employed, which lags behind the other major HUD rental programs.[6]

Whether to offer the program would be up to individual owners. Some private assisted owners are likely to be interested in offering the program because they see promoting residents' self-sufficiency as part of their mission or as good for the stability of their property, and HUD would pay for the cost of residents' savings accounts. The Senate bill would not allow private owners to compete for funding for FSS coordinators, but would allow them to tap their residual receipts accounts for this purpose. The expansion of FSS eligibility to PBRA tenants is consistent with S. 454, the Family Self Sufficiency Act introduced by Senators Jack Reed (D-RI) and Roy Blunt (R-MO).

McKinney-Vento Homeless Assistance Grants

The Senate provides $2.145 billion for Homeless Assistance Grants, $40 million more than the House, which funds the program at the same level as 2014. Due to the expiration of multi-year grants and rising rent and utility costs, this increase is necessary to maintain the current level of service. The House bill, by flat-funding the program, would likely shrink the number of people served. Yet the Senate did not fund the more than 30,000 new units of permanent supportive housing requested by the Administration to help end chronic homelessness by 2016. The Senate committee recognizes this shortcoming, but recommends that homeless service providers look to other existing resources to help end homelessness, including Housing Choice Vouchers. Although Housing Choice Vouchers have been leveraged effectively in many communities to create additional permanent supportive housing, the voucher renewal funding level in the Senate bill will likely reduce, rather than make it possible to increase, the number of families served, as discussed above.

Within the Homeless Assistance Grants account, the Senate dedicates at least $250 million to Emergency Solutions Grants, $1.848 billion to Continuum of Care grants (and the Rural Housing Stability Assistance Program, although HUD has yet to implement this program), and up to $7 million to homelessness data analysis and technical assistance. If money is available after allocating ESG funds and renewing CoC contracts, the Senate directs HUD to put the extra money into new

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[5] Robert C. Ficke and Andrea Piesse, "Evaluation of the Self-Sufficiency Program: Retrospective Analysis, 1996 to 2000," HUD, April 2004, http://www.huduser.org/Publications/pdf/selfsufficiency.pdf; and Lalith de Silva et al, "Evaluation of the Family Self-Sufficiency Program: Prospective Study," HUD, February 2011, http://www.huduser.org/portal/publications/familyselfsufficiency.pdf. See also Nandita Verma et al, "Working Toward Self-Sufficiency: Early Findings from a Program for Housing Voucher Recipients in New York City," MDRC, December 2012, http://www.mdrc.org/publication/working-toward-self-sufficiency, regarding an evaluation of a modified FSS program, which found early positive results for the poorest households. A HUD-funded rigorous controlled evaluation of FSS is now in process.

[6] Barbara Sard, "Most Rental Assistance Recipients Work, Are Elderly, or Have Disabilities," Center on Budget and Policy Priorities, July 17, 2013, http://www.cbpp.org/cms/index.cfm?fa=view&id=3992 .

projects. It is unclear how much, if any, funds will be available to do so. The final House bill has lower funding levels for ESG (at least $200 million) and CoC grants ($1.81 million).

Supportive Housing for the Elderly and Persons with Disabilities (202 and 811 programs)

The Senate and House bills include modest increases for the programs that provide supportive housing for the elderly and people with disabilities. Both bills include $420 million for Section 202 Housing for the Elderly, an increase of $36.5 million over 2014, and $135 million for Section 811 Housing for Persons with Disabilities, an increase of $9 million over 2014. These increases reflect the rising cost of renewing the subsidies for rental assistance in each program, as prior multi-year grants expire and are added to the base of annual renewals. Although these levels are sufficient to renew all grants in 2015, they do not provide the additional $45 million that the President requested for new supportive housing units.

Cost Savings Provisions

Neither the House nor the Senate bills include the change in the medical expense deduction proposed by the President's budget, or any other provisions to reduce costs in the rental assistance programs. (The stated rationale for the amendment to the House bill discussed above to cap area-wide voucher payment standards at 120 percent of the HUD Fair Market Rent was to serve additional families, not to save money.)

2015 HUD Program Funding Proposals (Millions of nominal dollars)

	2014	2015 President	2015 House	2015 Senate
Housing Choice Voucher Renewals	$17,366	$18,006	$17,693	$17,719
Housing Choice Voucher Admin	$1,500	$1,705	$1,350	$1,555
Public Housing Operating	$4,400	$4,600	$4,400	$4,475
Public Housing Capital	$1,875	$1,925	$1,775	$1,900
Section 8 Project-Based Rental Asst.	$9,917	$9,746	$9,746	$9,746
Homeless Assistance	$2,105	$2,406	$2,105	$2,145
Section 202 Elderly Housing	$384	$440	$420	$420
Section 811 People with Disabilities	$126	$160	$135	$135
Native American Housing Grants	$650	$650	$650	$650
HOME	$1,000	$950	$700	$950
CDBG Formula Grants	$3,030	$2,800	$3,000	$3,020