

To: Interested Parties  
From: Barbara Sard, Douglas Rice, Will Fischer  
Date: January 15, 2014  
Re: HUD provisions of the FY 2014 omnibus funding bill

Congress is expected to approve the Consolidated Appropriations Act of 2014 by January 18<sup>th</sup> to fund federal agencies and programs for the remainder of the year.<sup>1</sup> Overall, the omnibus includes \$32.8 billion for HUD for fiscal year 2014. If one excludes offsetting receipts from HUD mortgage credit programs, this amounts to a \$3 billion increase above post-sequestration funding in 2013, a good outcome, in light of the budget constraints under which the negotiators were working. It enabled Congress to fully reverse sequestration cuts for most HUD programs, although funding levels in many areas remain well below 2010 levels. The highlights of the bill include:

- Sufficient, or close to sufficient funding to renew all Housing Choice Vouchers in use, based on calendar year 2013 usage and costs. Many housing agencies that ceased issuing vouchers in 2013 due to sequestration cuts should be able to issue vouchers again to families on their waiting lists in 2014, and some may be able to adjust policy changes made in 2013 to reduce costs that have increased tenants' rent burdens.
- An 8.5 percent increase in funding for the Public Housing Operating Fund and a 5.5 percent increase for the Capital Fund, compared to 2013 actual (post-sequestration) funding.
- A nearly \$1.1 billion increase for Section 8 Project-Based Rental Assistance, which will ensure that all contracts will be paid through fiscal year 2014.
- The rental assistance reform provisions contained in the Senate bill that will streamline program administration and reduce costs.

### **Housing Choice Vouchers**

The bill provides \$19.2 billion for housing vouchers, including \$17.37 billion for renewals, \$1.5 billion for administrative fees, \$130 million for tenant protection vouchers, and \$75 million for about 10,000 new VASH vouchers for homeless veterans. Overall, HCV funding is \$1.2 billion above 2013 (post-sequestration), and \$276 million above the pre-sequestration funding level.

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<sup>1</sup> The text of the bill is available at [http://docs.house.gov/billsthisweek/20140113/CPRT-113-HPRT-RU00-h3547-hamdt2samdt\\_xml.pdf](http://docs.house.gov/billsthisweek/20140113/CPRT-113-HPRT-RU00-h3547-hamdt2samdt_xml.pdf).

Consistent with recent policy, renewal funding eligibility in 2014 will be based on voucher usage and costs in the prior calendar year (2013), adjusted for inflation and costs associated with the first-time renewal of new tenant protection and VASH vouchers. In determining renewal funding eligibility, the bill authorizes HUD to offset PHA reserves (i.e., to reduce renewal funding eligibility for PHAs with excess reserves) up to a total amount of \$200 million.<sup>2</sup> Funds made available by the offset must be used to reduce or eliminate any renewal funding proration, or to prevent terminations of assistance by PHAs facing funding shortfalls. The bill also authorizes HUD to take into account savings made available by certain policy changes authorized by the bill – specifically, the targeting and utility allowance provisions described below – in determining PHAs’ renewal funding eligibility. The bill requires HUD to notify agencies of their renewal funding allocations within 60 days of the bill’s enactment.

Because of sequestration cuts, most housing agencies were reducing the number of families they served in the second half of 2013, which makes it unusually challenging to predict the overall cost of renewing vouchers in 2014 until complete validated data for the entire calendar year are available. With this caveat in mind, we are nevertheless confident that the bill amount will fully fund the renewal of vouchers in use *on average* in 2013, particularly if HUD makes use of the reserve offset authority, if needed, to reduce any proration that would otherwise occur. To be specific, we estimate that the renewal amount will be sufficient, or very close to sufficient, to fund 100 percent of agency renewal eligibility, based on CY 2013 leasing and costs. However, the renewal amount is not likely to be sufficient, in our estimate, to fully restore voucher usage to pre-sequestration levels overall – that goal must likely wait for the 2015 appropriations bill.

The bill sets aside \$75 million of renewal funding for the following purposes: (1) to address significant cost increases due to unforeseen circumstances or portability; (2) to meet commitments of project-based vouchers that were not leased throughout 2013; (3) for certain cost adjustments associated with VASH vouchers; and (4) to prevent terminations due to funding shortfalls at agencies that have taken reasonable cost-savings measures. As noted above, a portion of any funds made available by a reserve offset may also be used for the 4<sup>th</sup> purpose just described.

Funding for administrative fees is increased by 15 percent, which will raise the proration to approximately 75 percent of agency eligibility, according to the estimates provided in the Administration’s fiscal year 2014 budget request, although an updated estimate may be somewhat higher or lower.

## **Public Housing**

The bill includes \$1.875 billion for capital needs (about the same as pre-sequestration 2013) and \$4.4 billion for operations (\$147 million above pre-sequestration 2013). The operating funding will cover roughly 86 percent of estimated PHA costs, according to the estimates provided in the Administration’s budget request, taking into account HUD’s projection of cost savings from the flat rent provision (see below).

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<sup>2</sup> See the Joint Explanatory Statement, <http://docs.house.gov/billsthisweek/20140113/113-HR3547-JSOM-J-L.pdf>, p. 41 of Division L.

Choice Neighborhoods is funded at \$90 million in the bill, at least \$55 million of which must be allocated to public housing agencies.

## **Section 8 Project-Based Rental Assistance**

Section 8 PBRA is funded at \$9.9 billion, an increase of nearly \$600 million above the 2013 pre-sequestration level, including \$9.7 billion for contract renewals. This amount is more than sufficient to cover rental assistance payments through FY 2014, but falls short of the amount required to fully restore the forward funding of all contracts for 12 months at annual renewal.

## **Homeless Assistance**

The bill provides \$2.1 billion for homeless assistance grants, including at least \$250 million for Emergency Solutions Grants (for shelter, homeless prevention, and rapid rehousing activities). With respect to the funding of Continuum of Care grants, the explanatory statement released with the bill directs HUD to use these funds to renew existing qualified CoC grants, and to use any remaining funds to increase the amount available for ESG, particularly rapid rehousing activities. This implies that no new CoC grants will be awarded under the FY 2014 appropriation.

The table appended below summarizes funding levels for these and other major HUD housing and community development programs.

## **Policy Changes**

The omnibus 2014 bill includes a number of policy changes in the rental assistance programs. The changes fall into two areas: cost savings and promoting self-sufficiency. In addition, the bill permits HUD to convert rent supplement, RAP, and mod rehab units to project-based vouchers under the Rental Assistance Demonstration (RAD) through the end of December 2014, but does not expand the number of public housing units that may be converted to section 8 project-based assistance. (The public housing portion of the demonstration is authorized through September 2015, but is limited to 60,000 units.)

### *Cost Savings*

The bill includes the five changes in authorizing law to reduce costs in the HCV and public housing programs that were proposed by the Administration's budget and included in the Senate fiscal year 2014 bill.

- 1. Requiring "flat rents" for higher income public housing tenants to be set closer to market levels.** This provision requires flat rents to be no lower than 80 percent of the applicable Fair Market Rent. It is the same change included in the draft of the Affordable Housing and Self-Sufficiency Improvement Act of 2012 (AHSSIA) circulated by the House Financial Services Committee in April 2012. Agencies must implement the change by June 1, 2014, except that rent increases for

individual families cannot exceed 35 percent per year. (Section 210 of Division L, Title II.)

2. **Altering the targeting requirement.** The bill allows the admission of applicants with incomes up to the higher of the federal poverty line, or 30 percent of area median income, to meet the targeting requirements that apply to the Housing Choice Voucher (HCV), public housing and Section 8 Project-based Rental Assistance program (PBRA) programs. (Section 238.)
3. **Utility allowances in the HCV program.** The bill limits allowances for tenant-paid utilities to the amount permitted for the unit size covered by the family's voucher, even if the family has rented a larger unit at its own additional cost. Higher allowances would continue to be required if necessary for a family that includes a person with disabilities. About 300,000 families will face rent increases, according to CBO estimates. (Section 242.)
4. **Allowing biennial, rather than annual, inspections for units receiving HCV assistance.** To reduce costs for local agencies, the bill permits agencies to inspect units receiving HCV assistance at least every two years, rather than every year, and allows agencies to rely on comparable inspections conducted for other programs. (Section 220.) Like the Administration's budget request, the bill omits other important elements of the inspection changes in AHSSIA, including flexibility to occupy and receive assistance for units that fail the initial inspection for minor reasons, and protections for families in units that fail inspection. It is important to note that while this policy change gives agencies some flexibility to focus inspection resources on the most risky units, the report accompanying the bill requires HUD to boost its oversight of HCV inspections significantly, by requiring HUD to use at least \$5 million of the funding provided for HCV salaries and expenses for inspection efforts, including "moving to a consistent inspection standard and oversight of Section 8 units."<sup>3</sup>
5. **Streamlining funding and reporting requirements for consortia of public housing agencies that own properties assisted under the public housing program.** Section 212 modifies the definition of "public housing agency" for public housing purposes to include consortia of agencies. HUD needs this statutory authority to create operational efficiencies from consortia of public housing programs, but can make the same types of changes for voucher programs by changing its rules. (HUD is expected to propose the change in the HCV consortia rule sometime this year.)

The Congressional Budget Office estimated that the first three changes would reduce federal rental assistance costs by \$3 billion over five years, with about half of the savings occurring in the HCV program and half in the public housing program. (The flexibility to perform inspections less frequently – and potentially the consortia provision -- will reduce PHAs' administrative costs but not directly affect federal costs.)

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<sup>3</sup> Joint Explanatory Statement on the Consolidated Appropriations Act, 2014, <http://docs.house.gov/billsthisweek/20140113/113-HR3547-JSOM-J-L.pdf>, pp. 37-38 of Division L.

The first-year savings, however, will be modest. The changes will become effective upon publication of a notice in the Federal Register, which HUD should be able to publish fairly quickly. (HUD must commence formal rulemaking, with an opportunity for public comment, within six months of publishing the notice. See Section 243.) HUD has discretion whether to adjust agencies' HCV renewal funding allocations in light of the reduced need for federal subsidies these policy changes make possible. Given the complexity of anticipating which agencies will be able to reduce their HCV subsidy costs during the remainder of 2014, and by how much, HUD may not make such adjustments this year in HCV funding. In contrast, the bill requires HUD to adjust public housing operating subsidy allocations in light of the flat rent change, which is estimated to reduce subsidy eligibility by about \$40 million in 2014, thereby boosting funding for other agencies by a modest amount.

### *Self-Sufficiency*

The bill includes two efforts at increasing work and earnings among assisted tenants.

- *Jobs-Plus.* The bill provides at least \$15 million for a competitive Jobs-Plus Pilot initiative for partnerships between public housing agencies, local workforce investment boards and other agencies. This pilot builds on the successful Jobs-Plus Demonstration that MDRC conducted more than a decade ago, which combined rent incentives, employment and training services and “community support for work” in six high-poverty public housing properties across the country.<sup>4</sup> (The funds are set aside within the Public Housing Capital Funds.)
- *Family Self-Sufficiency program.* The bill adopts HUD’s proposal to merge the Family Self-Sufficiency programs for families living in public housing or receiving HCV assistance, but carefully narrows HUD’s waiver authority to what it needs to enable local agencies to operate a unified program. The merger should reduce administrative costs for agencies that have been operating two separate FSS programs, and may provide flexibility for agencies that have had difficulty meeting their FSS obligations to enroll a broader range of families.<sup>5</sup> Unlike S. 454, the Family Self-Sufficiency Act filed by Senators Jack Reed (D-RI) and Roy Blunt (R-MO), the omnibus does not extend eligibility for FSS to families receiving Section 8 project-based rental assistance, and fails to specify a consistent formula that would govern the allocation of fees for FSS coordinators each year.

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<sup>4</sup> Testimony of James Riccio of MDRC provides a good overview of the rationale for the Jobs Plus strategy and its results. <http://www.mdrc.org/publication/jobs-plus-promising-strategy>

<sup>5</sup> This change is included in the new account the bill establishes for FSS coordinators. The \$75 million in coordinator funding the bill provides is about equal to the amount provided for both programs in 2012.

**Table 1:  
Funding for Major HUD Programs (in millions)**

	<b>2012</b>	<b>2013, post-sequestration</b>	<b>Obama 2014</b>	<b>House 2014</b>	<b>Senate 2014</b>	<b>Omnibus 2014</b>
<b>Housing Vouchers</b>	\$18,914	\$17,964	\$19,989	\$18,611	\$19,592	\$19,177
<i>renewals</i>	*\$17,242	\$16,349	\$17,968	\$17,000	\$17,568	\$17,366
<i>tenant protection</i>	\$75	\$71	\$150	\$75	\$150	\$130
<i>administration</i>	\$1,350	\$1,306	\$1,685	\$1,350	\$1,685	\$1,500
<i>FSS</i>	\$60	\$57	\$0	\$0	\$0	\$0
<i>New VASH</i>	\$75	\$75	\$75	\$75	\$78	\$75
<i>811 renewals</i>	\$112	\$106	\$111	\$111	\$111	\$107
<b>FSS Coordinators**</b>	\$0	\$0	\$75	\$60	\$0	\$75
<b>Section 8 PBRA</b>	\$9,340	\$8,851	\$10,272	\$9,051	\$10,772	\$9,917
<i>renewals</i>	\$9,051	\$8,577	\$10,007	\$8,851	\$10,507	\$9,916
<b>Public Housing Capital</b>	\$1,875	\$1,777	\$2,000	\$1,500	\$2,000	\$1,875
<b>Public Housing Operating</b>	\$3,962	\$4,054	\$4,600	\$4,262	\$4,600	\$4,400
<b>Choice Neighborhoods</b>	\$120	\$114	\$400	(\$120)	\$250	\$90
<b>Native American Housing</b>	\$650	\$616	\$650	\$600	\$675	\$650
<b>McKinney</b>	\$1,901	\$1,933	\$2,381	\$2,088	\$2,261	\$2,105
<b>HOPWA</b>	\$332	\$314	\$332	\$300	\$332	\$330
<b>Section 202 elderly housing</b>	\$375	\$355	\$400	\$375	\$400	\$384
<b>Section 811 disabled housing</b>	\$165	\$156	\$126	\$126	\$126	\$126
<b>HOME</b>	\$1,000	\$948	\$950	\$700	\$1,000	\$1,000
<b>Housing Counseling</b>	\$45	\$43	\$55	\$35	\$55	\$45
<b>SHHOP</b>	\$54	\$51	\$0	\$30	\$54	\$50
<b>Lead Hazard</b>	\$120	\$114	\$120	\$50	\$120	\$110
<b>Fair Housing</b>	\$71	\$67	\$71	\$56	\$75	\$66
<b>CDBG</b>	\$3,308	\$3,135	\$3,143	\$1,697	\$3,295	\$3,100
<i>Formula grants</i>	\$2,948	\$3,078	\$2,798	\$1,637	\$3,150	\$3,030

\* Amount includes \$650 million reserve offset.

\*\* Includes funding for programs that serve HCV participants and/or public housing residents.