Center on Budget and Policy Priorities

To: Interested Parties
From: Barbara Sard, Doug Rice and Will Fischer
Date: March 5, 2014
Re: Preliminary Analysis of President's HUD Budget for FY 2015

Overview

The President's budget requests $46.7 billion for HUD programs and operations in fiscal year 2015, an increase of $1.2 billion, or 2.6 percent, over the level enacted by Congress for 2014. (Net of offsetting receipts, the HUD budget request totals $32.6 billion for FY 2015, slightly below the final 2014 level.) It provides increases for most rental assistance accounts, including a significant increase for the Housing Choice Voucher program, and in funding to combat homelessness.

The proposal will renew all existing low-income rental assistance, adhering to the principle Secretary Donovan has emphasized that renewal of existing rental assistance is his top budget priority. It also will help restore at least some of the housing vouchers lost in 2013 due to sequestration, and target added resources where they are needed most – effective strategies that help those who are unable to afford stable housing or are already homeless. Given the austere funding limits on discretionary programs and these important priorities, the Administration proposes reductions totaling $280 million in the housing and community development block grant programs. (HUD's table with program funding levels requested in 2015 in comparison to funding enacted in 2013 and 2014 is available at http://www.houserscorner.org/wp-content/uploads/2014/03/FY-2015-HUDs-Budget-Table.pdf.)

We will update this memo after HUD makes more detailed information available concerning the budget request.

Housing Choice (Section 8) Vouchers

Due to sequestration, state and local housing agencies were assisting some 70,000 fewer low-income families at the end of 2013, compared to a year earlier.[1] The 2014 funding increase will enable agencies to restore less than half of these vouchers to use this year. It is critically important that funding in 2015 be sufficient to restore the remaining vouchers cut under sequestration. In a promising step, the Administration's budget explicitly adopts this goal, and indicates that funding for 40,000 vouchers above the number in use in 2014 is needed to fully reverse the effects of sequestration on the number of families using vouchers. Budget documents assert that the HCV

[1] "Sequestration's Toll: 70,000 Fewer Low-Income Families Have Housing Vouchers," http://www.offthechartsblog.org/sequestrations-toll-70000-fewer-low-income-families-have-housing-vouchers/.

request is sufficient to fund this number of additional vouchers. As explained below, however, we have significant doubts about whether the request would achieve this worthy goal.

The FY 2015 budget requests $20 billion for Housing Choice Vouchers (Tenant-Based Rental Assistance). It proposes to increase funding by $641 million for the renewal of Housing Choice Vouchers, and by $205 million for the administrative costs of public housing agencies.

We estimate that the renewal request will be sufficient to fully renew all vouchers in use in 2014, with adjustments for inflation and the renewal of new vouchers that were in use for only part of the year. With respect to restoring cut vouchers to use, however, the budget request appears to rely on aggressive estimates about the extent to which agencies' per-voucher costs will be reduced in 2015 as a result of policy changes (targeting and utility allowances) enacted in 2014 and additional changes (deduction of medical expenses) proposed in the budget for 2015 (discussed below).[2] In addition, the Administration again proposes to reduce renewal funding eligibility for agencies with "excess" reserves in 2015, which could also free up resources to assist additional families under the proposal. Moreover, the Administration counts the new vouchers for homeless veterans that the budget will fund in meeting this restoration goal, when it was highly likely that these additional vouchers would have been requested and funded even if last year's sequestration cuts had never occurred. Overall, while we agree that both the policy changes and renewal funding offset will generate resources that agencies may use to assist more families, we are skeptical that they will be of a magnitude sufficient to fully reverse the sequestration cuts.

Regarding administrative fees, we estimate very roughly that the request would raise the proration to within the range of 83 – 86 percent of eligibility, significantly higher than the 75 percent that HUD recently projected for 2014.

Due to the increased need for tenant protection vouchers to respond to the redevelopment activity generated by the Choice Neighborhoods Initiative and the Rental Assistance Demonstration as well as private owners opting out of HUD assistance, the budget requests $150 million for this purpose in 2015, an increase of $20 million. But the budget also includes a new policy that would prevent the reissuance of tenant protection vouchers to new families, unless the voucher qualifies as a permanent replacement for a HUD-assisted unit that will no longer be available. This proposal would prevent a long-term net increase in the number of HUD-assisted households by reducing the size of agencies' HCV programs when replacement units are provided and the original relocated families turns in their vouchers, either upon moving back to the revitalized property or for other reason. This change is evidence of the severe budget constraints under which the Department is operating. How HUD would implement this policy is key to whether it is a fair to local communities.

The budget also requests $75 million for approximately 10,000 new vouchers for homeless veterans (VASH) and $108 million to renew so-called "mainstream" vouchers authorized under Section 811,

[2] For more information on the policy provisions enacted in 2014, see our memo at http://www.houserscorner.org/wp-content/uploads/2014/01/Omnibus-memo-1-15-14.pdf/ HUD has not yet implemented these changes.

Section 8 Project-Based Rental Assistance

The budget proposes to reduce funding to renew expiring Section 8 project-based rental assistance contracts and amend existing contracts by $116 million compared with the 2014 enacted level, and to reduce funding for contract administrators by $55 million. The $9.536 billion requested in renewal and amendment funding should be sufficient — in light of 2014 funding and various savings policies — to carry all contracts through the end of the 2015 calendar year, so that beginning in 2016 the program will be funded on a calendar year basis like the HCV and public housing programs. Calendar-year funding, in contrast to the current policy of forward-funding contracts for various lengths of time beyond their "anniversary" or renewal dates, has the advantage of making renewal funding more transparent to owners, advocates, and members of Congress, and thereby reducing the risk of Congress failing to provide sufficient renewal funds. This "reset," as Secretary Donovan termed it, demonstrates that the Administration has a multi-year strategy to return to providing full 12-month renewal funding in the PBRA account.

PBRA Tenants Eligible for Family Self-Sufficiency Program Savings Incentives

The budget proposes to make PBRA tenants eligible to participate in HUD's Family Self-Sufficiency program, which would enable them to 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,[3] 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.[4]

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 budget would allow private owners interested in offering their own FSS programs, rather than having families participate in a program operated by a local public housing agency, to compete for funding for FSS coordinators. But the budget does not increase the funds available for coordinators. Some owners already provide case management

[3] 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.

[4] 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 .

services for tenants or could raise funds for this purpose, making HUD funding unnecessary. S. 454, the Family Self Sufficiency Act introduced by Senators Jack Reed (D-RI) and Roy Blunt (R-MO), would allow owners to tap their residual receipts accounts to help fund FSS coordinators.

Public Housing

The budget proposes to raise public housing operating funding from $4.4 billion to $4.6 billion, and capital funding from $1.875 billion to $1.925 billion. These increases together provide about $120 million above the amount needed to keep pace with general inflation. They would give agencies some added resources to maintain and repair public housing developments, but do not come close to fully addressing public housing funding needs (including an estimated $26 billion backlog of unmet capital needs). The operating fund proration would be well above the 89.3 percent HUD estimates for 2014, but capital funds would still fall short of the cost of meeting the new repair needs that accumulate each year. The budget also provides full flexibility to shift funds between the capital and operating funds for all housing agencies except those that have been designated as troubled. (Larger agencies are now limited to shifting 20 percent of capital funds to cover operating costs.)

The budget would take a modest but important step to preserve public housing for the long run by eliminating a cap on the number of public housing units that can convert under the Rental Assistance Demonstration (RAD). RAD allows agencies to convert public housing to long-term project-based Section 8 contracts that provide more reliable funding and make it easier to leverage private sector investment to preserve developments. Housing agencies have applied to convert more than 175,000 units under RAD, but conversions are currently capped at 60,000 units. The budget also requests $10 million to supplement RAD subsidy levels, which currently are limited based on the public housing funding a development received prior to conversion. Supplemental funds are needed to make RAD feasible at many developments, but unfortunately the budget proposes to limit them to developments in high-poverty areas — even though family public housing developments in low-poverty areas with good schools should be a top priority for preservation.[5]

The budget requests $120 million for the Choice Neighborhoods Initiative, which provides grants to revitalize distressed public and privately owned assisted housing and help transform distressed neighborhoods. This is up from $90 million in 2014, but that increase would likely be adequate to fund revitalization of just one or two added developments.

The budget request also includes $25 million for the Jobs-Plus Pilot initiative, provided as a set-aside within the Public Housing Capital Fund. The Jobs-Plus pilot, modeled on the successful demonstration in the 1990s, funds financial incentives and employment services for public housing residents. The 2015 request likely would enable HUD to expand the pilot to additional developments beyond those covered by the $15 million provided in 2014, but the materials released so far do not detail how the funds would be used.

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[5] In addition to the public housing-related RAD provisions discussed in the text, the budget proposes to 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 contracts, and make Section 8 Moderate Rehabilitation Single Room Occupancy properties eligible for RAD.

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

The budget includes modest increases for the programs that provide supportive housing for the elderly (section 202, $56.5 million increase) and people with disabilities (section 811, $34 million increase). 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.

From a policy perspective, the increases represent a significant shift in how the programs would assist additional individuals. Rather than providing a combination of capital funds to construct or rehabilitate properties and rental assistance, the budget requests $45 million ($20 million for the elderly and $25 million for people with disabilities) to provide rental assistance tied to new supportive housing units that are developed using other funds, such as Low Income Housing Tax Credits (LIHTCs). By leveraging other sources of capital funds, the request for new rental assistance will stretch HUD funds to assist about 5,000 seniors and people with disabilities, far more than would have been possible if the same amount of funds also had to cover capital grants. To facilitate combining the new funds for rental assistance with LIHTCs, the budget indicates that the new rental assistance grants would be provided to states. (In nearly all states, a state-level agency, usually the state housing finance agency, administers the federal LIHTC program.)

Cross-cutting Cost Savings

The budget includes only one cost-savings proposal that would apply to all of HUD's rental assistance programs – a change in the deduction for medical and handicapped assistance expenses. Currently, the rent these households would otherwise owe is reduced by 30 percent of the out-of-pocket costs above 3 percent of household income for medicine and other health care for households where the head or spouse is elderly or disabled, and for certain handicapped assistance expenses for people with disabilities. The budget would increase the threshold for these deductions to 10 percent of income, in effect increasing the required rent contribution for affected households. In 2012, the Congressional Budget Office estimated that a similar policy change would save nearly $1 billion over five years; an earlier CBO estimate indicated nearly two-thirds of the anticipated savings would come from the PBRA program.

Reasonable proposals that reduce costs for HUD's rental assistance programs are needed. But Congress left the medical deduction proposal out of the 2014 appropriations legislation that enacted all of the other rental assistance savings proposals in the Administration's 2014 budget, suggesting that Congress does not view this proposal standing alone as reasonable. The draft of the Affordable Housing and Self-Sufficiency Improvement Act (AHSSIA) released by the majority staff of the House Financial Services Committee in 2012 combined this deduction change with an increase in the standard deduction for the same types of households from $400 to $525 and indexed the standard deduction to inflation.[6] This increase in the standard deduction for elderly and disabled households would cut the 5-year savings roughly in half, but would reduce the impact of the deduction change on highly vulnerable people. AHSSIA also included some protection for households that would face hardships from the rent increase, which could be strengthened.

[6] The April 2012 draft of AHSSIA is available at http://www.cbpp.org/files/4-12-12-AHSSIA-text.pdf.

If Congress is inclined to revisit this issue in the 2015 budget, a package of modest changes related to the rent paid by elderly and disabled households would make sense. Such a package should include the increase in the medical and handicapped assistance deduction threshold proposed by the Administration, the standard deduction increase in AHSSIA, and a policy to limit the extent of annual rent increases for individual families and to provide other hardship exemptions. In addition, to reduce administrative costs substantially for public housing agencies and private owners, Congress should include the related policy of requiring income recertifications for fixed-income families only every three years, rather than annually. The Administration's budget indicated its support for this cost-neutral policy change though it did not propose legislative language to enact it.

Added Requests under Opportunity, Growth, and Security Initiative

In addition to the regular HUD budget requests, the budget proposes $480 million for HUD programs as part of a broad Opportunity, Growth, and Security Initiative (OSGI). This includes $280 million for the Choice Neighborhoods Initiative (for a total of $400 million when combined with the regular request), $125 million for the Jobs-Plus program (for a total of $150 million), and $75 million for an Integrated Planning and Investments Grants program to "create jobs and reduce the combined costs of housing and transportation" (which would not be funded under the regular request). Overall, OSGI contains $56 billion in spending on wide range of activities split equally between defense and non-defense programs, and would be paid for through reductions in tax expenditures and mandatory spending.

The regular HUD requests are part of a package of program-by-program requests that add to the total 2015 spending level that both parties agreed to in last year's Murray-Ryan budget deal. As a result, those requests are likely to play a significant role in deliberations this year over 2015 appropriations bills. By contrast, the OGSI requests would rely on a new agreement to raise discretionary spending above the Murray-Ryan levels as part of a balanced deficit reduction package (a prospect most analysts see as unlikely this year) and are much less likely to be considered as part of the regular appropriations process.