To: Interested Parties
From: CBPP staff
Date: December 15, 2014
Re: Update on HUD budget for FY 2015

Over the weekend, Congress passed legislation (the so-called "CRomnibus") to fund the Department of Housing and Urban Development and most other federal agencies for fiscal year 2015.[1] The law provides $45.4 billion for HUD programs; this is $90 million less than Congress provided in 2014, $677 million more than the House approved earlier this year, and $459 million less than the Senate Appropriations Committee included.

The final FY 2015 law avoids the House bill's deep cuts in Housing Choice Voucher administrative fees, public housing capital funding, and the HOME program (see Table 1 below). It also provides what is likely to be sufficient funding to renew all housing vouchers in use (under the calendar-year funding formula), and includes a new funding adjustment provision that will help agencies to renew vouchers initially leased at the end of 2014 as well as those issued in late 2014 but not leased until 2015. In addition, it expands the cap on Rental Assistance Demonstration (RAD) conversions from 60,000 to 185,000 units, and makes families receiving section 8 Project-based Rental Assistance eligible to participate in the Family Self-Sufficiency program.

Yet the law leaves in place most of the sequestration cuts in housing vouchers, and continues to fund nearly every housing and community development program at historically low levels.

Housing Choice (Section 8) Vouchers

The FY 2015 law provides a total of $19.3 billion for Housing Choice Vouchers. This amount includes $17.5 billion for housing voucher renewals, $1.53 billion for administrative fees, $130 million for tenant protection vouchers, and $75 million for new veterans' supportive housing (VASH) vouchers. The law does not include the House bill amendment, introduced by Rep. Schock, that would have prohibited area or neighborhood "exception" voucher payment standards above 120 percent of the HUD Fair Market Rent.

Housing Voucher Renewals

Adhering to recent policy, the law directs HUD to allocate renewal funding to housing agencies based on their calendar year 2014 voucher leasing and costs, adjusted by a HUD-determined inflation factor and for costs associated with the first-time renewal of tenant protection and other new vouchers first used in 2014. HUD is also authorized to reduce renewal funding allocations for agencies with excess funding reserves (including agency-held and HUD-held reserves) to raise any

[1] The bill and explanatory report are available on the Rules Committee website, http://rules.house.gov/bill/113/hr-83. The CBO-scored HUD total in the omnibus is $35.6 billion after netting out FHA receipts and other offsets.

renewal funding proration or to prevent terminations of assistance due to insufficient funding. HUD must notify agencies of their 2015 renewal allocations by March 1.

The law also sets aside $120 million of the renewal amount to make further funding adjustments in five categories: (1) for increased costs due to "unforeseen circumstances" or portability; (2) for costs associated with project-based vouchers that were committed but not fully leased in 2014; (3) for VASH voucher costs; (4) for agencies with end-of-year voucher leasing that exceeds their average leasing for the calendar year and for agencies with vouchers leased that were issued but not yet leased at the end of the calendar year; and (5) to prevent terminations of assistance due to insufficient funding.

The 4th adjustment category is new for 2015, and reflects Congress' interest in ensuring that any vouchers leased or issued by the end of 2014 will be renewed. (There's evidence that housing agencies have been restoring vouchers to use in the second half of 2014 after sharply reducing the number of families assisted following the sequestration cuts in 2013; see our report at http://www.cbpp.org/cms/index.cfm?fa=view&id=4229.) In 2014, HUD awarded some $45 million in set aside funds for adjustments in the other four categories, which suggests that roughly $75 million could be available in 2015 to cover end-of-year leasing costs, although the actual amount available could be higher or lower. It will be up to HUD to determine the specific eligibility criteria used to distribute these funds.

In spite of the fact that the FY 2015 law increases funding for housing voucher renewals by only $120 million, or 0.7 percent, above 2014, the funding should be sufficient to renew all vouchers in use under the formula, according to our estimates. With respect to the renewal of vouchers leased or issued at the end of 2014, the reach of the set aside funds will depend in part on HUD's distribution policy. If, as we surmise above, roughly $75 million becomes available for this purpose, the set aside could cover the *full-year* costs of some 10,000 housing vouchers. However, HUD is likely to distribute the funds more judiciously — for example, by limiting eligibility to agencies where there is a gap between available renewal and reserve funds and the full 2015 costs of any vouchers leased in late 2014 or early 2015. Under such a policy, the set aside could conceivably fund a portion of the costs of 40,000 or more such vouchers, if the demand for such aid materializes.

One may wonder how a 0.7 percent increase in funding could fully fund the renewal formula in 2015, when rental housing costs are growing at a roughly 3 percent annual rate nationally and housing agencies have likely leased some 28,000 new tenant protection and VASH vouchers in 2014 that must be renewed for the first time in 2015. There are several reasons for this:

1) Actual per-voucher costs have been rising much more slowly that rental costs in the private market — indeed, average per-voucher costs were actually *lower* in mid-2014 than in 2013, a fact that almost certainly reflects the actions taken by agencies in response to the sequestration cuts, such as reducing payment standards. While this trend cannot continue indefinitely without undermining the ability of families to use vouchers successfully, it has lowered the cost of renewing vouchers in 2015, relative to earlier estimates.

2) While housing agencies received sufficient funding in 2014 to begin reissuing housing vouchers and partly reverse sequestration cuts, most have been slow to do so. As we explained in our recent report, voucher usage continued to fall during the first half of 2014. While many agencies began to reissue vouchers in the spring, and the number of vouchers

"on the street" in June, July, and August was unusually high — indicating that agencies will be assisting more families at the end of 2014 — it seems likely that most agencies will spend in 2014 considerably less than 100 percent of the renewal funding they received this year.

3) The average voucher renewal inflation factor that HUD applies in the 2015 renewal formula is likely to be far below the 3 percent trend in the private market. This is because HUD's recently-developed model for estimating inflation factors is based largely on recent per-voucher cost inputs rather than data on private market rental costs.

Administrative Fees

As noted above, the law includes $1.53 billion for voucher administrative fees, an increase of $30 million, or 2.4 percent, over 2014. As in recent years, the bill authorizes HUD to use unobligated voucher funds from prior years to reduce any fee proration (in 2014, HUD distributed some $41 million in so-called "carryover funds" to reduce the administrative fee proration from 75 to 79 percent). The estimate that HUD provided with its FY 2015 budget request implies that agencies will receive roughly 75 percent of the fees for which they are eligible under the final FY 2015 law. Our own rough estimates suggest that the proration could be somewhat less — about 78 percent — if one assumes that $41 million in carryover funds will again be available in 2015.

Tenant Protection Vouchers

Continuing the policy enacted in recent years, the FY 2015 funding law authorizes tenant protection vouchers only for units that have been occupied during the previous 24 months. However, the law includes a new limitation: after families that initially receive tenant protection vouchers exit the program, the vouchers may not be reissued to other families, except in the case of "replacement" vouchers, as to be defined by the HUD Secretary by notice.

Public Housing

The public housing capital fund is flat funded at $1.875 billion, while the operating fund receives a $40 million increase to $4.44 billion. Housing agencies will likely receive about 87 percent of the operating funds for which they are eligible in 2015, somewhat below the 88.8 percent proration in 2014. Of the capital funding, $15 million is set aside for a Jobs-Plus demonstration.

Flexibility in Use of Public Housing Funds

The FY 2015 funding law allows housing agencies to transfer up to 25 percent of their fiscal year 2015 public housing capital fund grants to be used as operating funds, and permits HUD to waive the 25 percent limit for transfers that fund anticrime and antidrug activities. This expands flexibility compared to current law, which caps transfers from the capital fund to the operating fund at 20 percent for large and mid-sized agencies. (Non-troubled agencies with fewer than 250 units already have unlimited flexibility to shift funds between the two accounts.) It is more limited, however, than provisions in the Senate appropriations bill that would have allowed agencies to shift up to 30 percent of their 2015 capital funds to the operating fund and up to 20 percent of their operating funds for 2015 or later years to the capital fund. The law also leaves out a Senate provision allowing agencies to use public housing funds to establish replacement reserves.

Flat Rents

The funding law would allow HUD to set more nuanced standards for public housing flat rents. The fiscal year 2014 appropriations bill required that housing agencies set flat rents no lower than 80 percent of the applicable HUD fair market rent (FMR). HUD, however, generally sets a single FMR for an entire metropolitan area and sets statewide minimums that raise FMRs in low-rent rural areas. As a result, in some areas the new floor exceeded the market value of public housing units, an outcome that could force families to choose between leaving their homes and staying but paying above-market rents. (Public housing tenants choose whether to pay 30 percent of their income or the flat rent, so flat rents mainly affect tenants with relatively high incomes.)

The 2015 law allows HUD to apply the flat rent floor using FMRs for smaller areas than those now used for Section 8 FMRs. HUD currently calculates zip code-level "small area FMRs" for every metropolitan area in the country, so it could opt to use those for this purpose. In addition HUD could choose not to apply state minimums to the FMRs used for flat rents, allowing lower floors in low-rent rural counties. The new provision would also allow local agencies to apply to HUD for approval to set a lower flat rent based on market data showing that HUD's floor is too high.

Congress did not include a more sweeping change to flat rents proposed by Rep. Randy Neugebauer (R-TX), which would have allowed HUD to sever the connection between flat rents and local market rents. The appropriations law also leaves out an increase in rental assistance minimum rents that had been included in Rep. Neugebauer's bill.

Rental Assistance Demonstration

The FY 2015 law makes several changes to permit the Rental Assistance Demonstration (RAD) to preserve additional units of affordable housing. First, it would raise from 60,000 to 185,000 the number of public housing units that can be converted to long-term Section 8 project-based voucher (PBV) and project-based rental assistance (PBRA) contracts and delay expiration of HUD's authority to accept applications from 2015 to 2018.[2] HUD has already approved nearly the full 60,000 conversions permitted under current law and reported that there were 120,000 units on a waiting list at the end of October 2014, so most of the added conversions will likely be of units now on the waiting list.

The law also would permanently extend a second component of RAD that allows conversion of developments subsidized under the Rent Supplement, Rental Assistance Payment (RAP), and Section 8 Moderate Rehabilitation programs. There is no cap on the number of units that can be converted under this component. Authority for these conversions had been due to expire at the end of December 2014. In addition, the law would allow developments from these programs to convert to PBRA; the second component currently allows only conversion to PBVs. Finally, the law extends eligibility for RAD to single-room occupancy units authorized under the McKinney Vento Homeless Assistance Act. HUD will have to issue new instructions reflecting these policy changes.

[2] Some conversions of units from the Section 8 Moderate Rehabilitation program to other types of Section 8 subsidies are also counted against these caps, but HUD has approved only a small number of such conversions.

Section 8 Project-Based Rental Assistance

Section 8 project-based rental assistance (PBRA) receives $9.7 billion for 2015, consistent with the Obama Administration's proposal to transition the program over two years to a calendar-year funding cycle. This amount should be sufficient to renew all PBRA contracts through December 2015. To complete the funding cycle transition, a funding increase of more than $1 billion will be required in 2016.

Family Self-Sufficiency Program

The FY 2015 funding law provides $75 million for FSS coordinators, and makes PBRA tenants eligible to participate in HUD's Family Self-Sufficiency program. It specifies that PBRA tenants can accumulate savings when their rent increases due to increased earnings, and that owners may use residual receipts to hire FSS coordinators. Whether to offer the program would be up to individual owners. 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).

The funding law also authorizes a new research demonstration on the effectiveness of FSS for homeless youth who are receiving housing voucher assistance under the Family Unification Program. As part of the demonstration, FUP voucher assistance for youth exiting foster care can last for up to five years, rather than the current 18-month limitation.

Rental Assistance Cost Saving Provisions

The FY 2015 funding law does not include the change in the medical expense deduction that was proposed in the President's budget, or any other provisions to reduce costs in HUD rental assistance programs.

Homeless Assistance Grants

The funding law provides $2.14 billion for homeless assistance grants, $30 million more than in 2014, and $271 million below the President's request. The law sets aside at least $250 million for Emergency Solutions Grants and at least $1.86 billion for continuum of care grants.

It is unclear whether the appropriation will be sufficient to renew all continuum of care grant applications for FY 2015. Renewals totaled $1.56 billion for FY 2013, but the annual renewal burden is difficult to predict, and the FY 2014 renewal awards have not yet been announced. In its recent budget requests, HUD has estimated that the renewal burden would increase by $90 – 95 million per year in 2014 and 2015.

[Funding table appears on the next page.]

Table 1					
HUD Program Funding for FY 2015 (in millions)					
Program	**2014**	**Obama 2015**	**House 2015**	**Senate 2015**	**Final 2015**
Housing Vouchers	$19,177	$20,045	$19,357	$19,562	$19,304
Renewals	$17,366	$18,006	$17,693	$17,719	$17,486
Admin fees	$1,500	$1,705	$1,350	$1,555	$1,530
Tenant protections	$130	$150	$130	$130	$130
VASH	$75	$75	$75	$75	$75
811 Mainstream	$107	$108	$108	$83	$83
Section 8 PBRA	$9,917	$9,746	$9,746	$9,746	$9,730
Public housing operating	$4,400	$4,600	$4,400	$4,475	$4,440
Public housing capital	$1,875	$1,925	$1,775	$1,900	$1,875
Family Self-Sufficiency	$75	$75	$75	$75	$75
Choice Neighborhoods	$90	$120	$25	$90	$80
Homeless Assistance	$2,105	$2,406	$2,105	$2,145	$2,135
HOPWA	$330	$332	$303	$330	$330
Section 202 elderly	$384	$440	$420	$420	$420
Section 811 disabilities	$126	$160	$135	$135	$135
HOME	$1,000	$950	$700	$950	$900
Native American grants	$650	$650	$650	$650	$650
CDBG formula	$3,030	$2,800	$3,000	$3,020	$3,000