Center on Budget and Policy Priorities

To: Interested Parties
From: Douglas Rice, Will Fischer, and Barbara Sard
Date: February 3, 2015
Re: President's FY 2016 budget request and HUD programs

The President's budget requests $49.3 billion for HUD programs and operations in fiscal year 2016, an increase of $4.0 billion or 8.7 percent above the amount that Congress enacted for 2015.[1] The increased resources are directed primarily to sustaining current rental assistance for low-income families, fully restoring the Housing Choice Vouchers cut under sequestration, and reducing homelessness. Highlights of the HUD budget request include:

- Renewing in 2016 all Housing Choice Vouchers that low-income families are likely to use in 2015, including some vouchers cut under sequestration that state and local housing agencies will be able to restore to use this year;

- Restoring an additional 67,000 housing vouchers cut due to sequestration, and targeting 30,000 of these vouchers on homeless families, homeless veterans, survivors of domestic and dating violence, and families that need rental assistance to reunite with children in the foster care system;

- Providing a $1 billion increase for Section 8 project-based rental assistance to cover all funding renewals and contract amendments during calendar year 2016, thereby completing the transition to a calendar-year funding cycle;

- Increasing public housing operating and capital funding by $255 million or 4 percent; and

- Funding more than 25,000 new units of permanent supportive housing for chronically homeless people through Continuum of Care grants.

The HUD budget request presupposes changes in the Budget Control Act's (BCA) sequestration-level spending caps for non-defense discretionary (NDD) programs for 2016 and beyond. Under current law, the NDD cap for 2016 is $492 billion, roughly equal to the caps in 2014 and 2015, in nominal terms. The President's budget proposes to raise this cap by $37 billion in 2016. While this proposal is sure to meet resistance in Congress — and the Appropriations Committees are likely to draft 2016 funding bills in accord with an NDD funding limit that is at, or even lower than, the current BCA sequestration-level cap — it would be wrong to conclude from this that the HUD budget request is meaningless. For one, some of the specific proposals in the President's budget request are sure to be considered during the appropriations process, regardless of the funding limit

[1] Net of FHA and other offsetting receipts, the budget requests $41.0 billion in new funding for HUD, $6.2 billion more than in 2015.

set by Congress. Moreover, the President and Congress are very likely to engage in budget negotiations later this year, and, as relaxing the BCA sequestration-level limits is one of the President's priorities, such changes are likely to be on the table during those negotiations.

This memo briefly discusses the key features of the President's request for HUD's major rental assistance and homeless programs, and several housing policy initiatives that cut across the rental assistance programs. Table 1 at the end compares the funding requested for HUD's major accounts to the appropriations enacted for 2014 and 2015.

Housing Choice (Section 8) Vouchers

Due to sequestration, state and local housing agencies were assisting 100,000 fewer low-income families as of last July. Agencies began to restore vouchers in the final months of 2014, however, and should have sufficient funds this year to restore at least a third of the vouchers cut.

The President's budget includes $21.1 billion for Housing Choice Vouchers, including $18.3 billion to renew vouchers, a 4.8 percent increase over 2015 renewal funding. This amount should be sufficient to renew all vouchers in use in 2015, even assuming that agencies restore as many as 30,000 vouchers this year.

In addition, the budget requests $512 million to restore an additional 67,000 vouchers in 2016, including:

- 37,000 vouchers to be distributed to agencies based on "relative need," as determined by HUD;

- 30,000 vouchers targeted on vulnerable individuals and families, including:

    — 22,500 for families, veterans (without regard to discharge status), and tribal families who are homeless, as well as victims of domestic and dating violence; HUD would distribute these vouchers under a competitive process;
    — 4,900 vouchers to implement the emergency transfer provisions for victims of domestic violence under the Violence Against Women's Act;
    — 2,600 vouchers under the Family Unification Program (FUP) to help families who are engaged with the child welfare system.

These vouchers, in combination with those funded under the appropriations laws of 2014 and 2015, would fully reverse the sequestration cuts, in our estimate, assuming that agencies spend available funds to restore vouchers in 2015.

The HUD request includes $2.0 billion for administrative expenses, a $490 million increase over the 2015 level. HUD estimates that the request is approximately 90 percent of the funds for which agencies will be eligible under the current administrative fee formula, a substantial improvement over the 73 – 74 percent proration that HUD anticipates for 2015. The budget also notes that HUD will issue in early 2015 the results of a detailed study of agency costs in administering the voucher program, and that this study will inform consideration of potential improvements to the administrative fee formula that would enable a more effective distribution of funds.

Finally, the housing voucher request includes $150 million for new tenant protection vouchers, which HUD indicates will cover the 2016 costs of 33,500 new vouchers, and $108 million to renew and administer Section 811 mainstream vouchers in 2016.

Section 8 Project-Based Rental Assistance (PBRA)

In its 2015 budget request, HUD proposed to shift the annual renewal of funding for PBRA contracts to a calendar year cycle. It did this for two reasons: to put in place a simpler and more predictable funding process; and to reduce — for one year only — the amount of new funding required to renew contracts in 2015. The President's 2016 budget completes the transition to a calendar-year funding cycle by requesting a $1 billion increase in PBRA funding, to $10.8 billion. According to HUD, the proposed funding levels will be sufficient to cover all funding renewals and contract amendments through calendar year 2016.

Public Housing

The budget proposes to raise public housing operating funding from $4.440 billion in 2015 to $4.600 billion, and to raise public housing capital funding from $1.875 billion to $1.970 billion. This would increase funding modestly above the rate of inflation, but would still fall far short of the amounts needed to operate public housing and address the large backlog of unmet public housing capital needs. HUD estimates that its operating fund request would cover 86 percent of the subsidies for which agencies will be eligible

The budget also proposes to permanently allow non-troubled large and mid-sized agencies to use up to 30 percent of their operating funds (plus any operating reserves) for purposes permitted under the capital fund, and up to 30 percent of their capital funds for purposes permitted under the operating fund. Today, non-troubled agencies with fewer than 250 units can shift unlimited funds between the operating and capital funds, but larger agencies only have permanent authority to shift 20 percent of their operating funds to capital purposes. (The 2015 appropriations act allows large and mid-sized agencies to use up to 25 percent of their capital funds for operating purposes and permits HUD to waive this limit to fund anticrime and antidrug activities, but those provisions only apply to fiscal year 2015 capital fund grants.)

Other provisions of the budget would permit agencies to use capital funds to establish replacement reserves and allow HUD to create a new Utility Conservation Pilot demonstration that would encourage housing agencies to adopt conservation measures in public housing by allowing them to retain a portion of any resulting utility cost savings for one to 20 years (depending on the magnitude of the savings).

The budget proposes a large expansion of the Rental Assistance Demonstration (RAD), an important initiative that helps preserve public housing developments by converting them to long-term project-based Section 8 contracts. The budget would eliminate a cap which currently limits RAD conversions to 185,000 of the nation's 1.1 million public housing units. In addition, it requests $50 million to increase subsidies for 25,000 units that cannot be preserved at the current public housing funding level (which is normally used to cap RAD subsidies). Problematically, the budget proposes to target the added subsidies exclusively on preserving developments in high-poverty areas, even though research shows that living in public housing located in low-poverty areas can lead to sharp improvements in educational outcomes for low-income children.[2]

In addition, the budget proposes to nearly triple funding for the Choice Neighborhoods Initiative (CNI) to $250 million, from $80 million in 2015. CNI provides grants to revitalize distressed public and privately owned assisted housing. HUD indicates that this increase would permit eight communities to receive CNI grants.

Finally, the budget proposes to set aside $100 million for the Jobs-Plus program from the $1.970 billion it requests for the capital fund, and to eliminate a capital fund set-aside for the Resident Opportunities and Supportive Services (ROSS) program. Jobs-Plus provides grants to support employment services and earnings incentives for public housing residents. The Administration has proposed to eliminate the ROSS set aside in each of its seven budget requests, but Congress has not done so. The 2014 and 2015 appropriations acts each set aside $15 million in capital funds to be used for Jobs-Plus incentives and $45 million for ROSS, and allowed HUD to use a portion of the ROSS set aside for Jobs-Plus services.

Homeless Assistance Grants

Homeless assistance grants receive a $345 million increase in the President's budget in 2016, to $2.48 billion. This includes $250 million for Emergency Solutions Grants, equal to the 2015 funding level, and $2.2 billion for Continuum of Care grants. HUD indicates that the increased funding for CoC grants will renew current grants and create 25,500 new units of permanent supportive housing for chronically homeless people.

Cross-cutting Cost Savings

The budget includes two cost-savings proposals that would apply to all of HUD's rental assistance programs: triennial recertifications for fixed-income families and an increase in the threshold for deduction of medical and handicapped assistance expenses from 3 percent to 10 percent of income.

- *Triennial recertifications for fixed-income families.* The Administration's proposal, in section 243 of the HUD General Provisions, is nearly identical to the policy change proposed in the Affordable Housing and Self-Sufficiency Improvement Act (AHSSIA) released by the majority staff of the House Financial Services Committee in 2012.[3] It would allow PHAs and owners to recertify incomes of families only every three years, instead of annually, if at least 90 percent of their income is from a "fixed income" source, such as Social Security or SSI. In the intervening years, families would have to certify that at least 90 percent of their income continues to be from such sources. PHAs and owners would be required to make annual adjustments for particular fixed income sources that have inflation adjustments, as specified by the Secretary. This simple, non-controversial reform would be among the most effective in reducing administrative costs for PHAs and owners, and would do so more

[2] Heather Schwartz, "Housing Policy is School Policy," The Century Foundation, 2010, http://tcf.org/publications/pdfs/housing-policy-is-school-policy-pdf/Schwartz.pdf.

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

effectively than the biannual recertification requirement in the *Streamlining Administrative Regulations* HUD proposed January 6, 2015.

- *Deduction of medical and handicapped assistance expenses*. Currently, the rent elderly or disabled households would otherwise owe is reduced by 30 percent of their out-of-pocket costs above 3 percent of household income for medicine and other health care costs. The same policy applies to certain handicapped assistance expenses for people with disabilities in all types of families. Section 229 of the HUD 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. It is not clear how much savings can realistically be expected in 2016, though HUD has assumed some savings in each of the three major rental assistance accounts discussed above.

  Reasonable proposals that reduce costs for HUD's rental assistance programs are needed. But Congress omitted the medical deduction proposal from the 2014 and 2015 appropriations bills, indicating that Congress does not view this proposal standing alone as reasonable. It is unclear whether the change in Senate control will lead to a different result. The 2012 AHSSIA draft 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. 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.

Moving to Work Expansion

The budget includes a problematic proposal for a major expansion of the Moving to Work (MTW) demonstration, a deregulation initiative that allows waivers of most statutory and regulatory provisions governing the voucher and public housing programs. Under the proposal (see Section 242 of the HUD General Provisions), HUD could add at least 15 agencies (and potentially many more, because it could count a consortium of agencies as a single agency) administering no more than 150,000 vouchers and public housing units to MTW. Today 39 agencies administering 440,000 units participate in the demonstration.

MTW has allowed some useful innovation, but also has had serious adverse consequences. In some communities, it has weakened important tenant protections and left needy families without assistance by allowing large shifts of voucher funds to other purposes. The Government Accountability Office and HUD's Inspector General have raised serious doubts about MTW expansion, based on concerns that HUD has not adequately evaluated and monitored the existing demonstration.

The budget proposes some new protections that would prohibit waivers of certain key program standards and address other shortcomings of MTW. It would, however, still permit many harmful changes, including some that would be prohibited under an MTW expansion proposal that the leadership of the House Financial Services Committee included in a draft of the Affordable Housing and Self-Sufficiency Improvement Act (AHSSIA) in 2012.

Unlike AHSSIA, the budget proposal does not require agencies to provide substantial rental assistance to a specified number of families. The budget would instead propose to require that agencies maintain "a voucher utilization rate of at least 90 percent of voucher funds, as defined by the Secretary," as long as they participate in MTW. This would be a useful rule if it were strictly defined and enforced. According to the latest documents it has released, however, HUD is on track to establish a similar 90 percent utilization requirement for current MTW agencies in a manner that would allow actual voucher utilization to fall far below 90 percent.[4] HUD would likely adopt similar policies for new MTW agencies, so the utilization requirement in the budget proposal may do little to prevent agencies from reducing the number of families they assist.

The budget's expansion proposal also significantly alters AHSSIA's list of "retained provisions" that would apply to newly admitted agencies. For example, the budget proposal, unlike AHSSIA, would allow full waivers of a requirement that agencies ensure that a large share of the families they admit to rental assistance have extremely low incomes (defined as incomes below the higher of the federal poverty line or 30 percent of the local median income). This provision, adopted by Congress in 1998, is important to ensuring that federal rental assistance resources are used efficiently, since families with extremely low incomes are far more likely than higher-income families to experience homelessness or other severe housing problems. Indeed, the Bipartisan Policy Center's Housing Commission recently proposed that all vouchers be issued on turnover to families with extremely low incomes. Under the budget proposal, however, agencies would be subject only to a 1996 requirement that MTW agencies ensure that most of the families they assist have incomes below 50 percent of median income.

[4] For more information on the agreements HUD is negotiating with current MTW agencies, see Will Fischer, "HUD Seeks Significant Improvements to 'Moving to Work' Demonstration, but Additional Changes Needed," Center on Budget and Policy Priorities, January 21, 2015, http://www.cbpp.org/cms/index.cfm?fa=view&id=5261.

Table 1

HUD Program Funding for FY 2016 (in millions)

Program	2014	2015	President's Budget 2016
Housing Vouchers	$19,177	$19,304	$21,123
Renewals	$17,366	$17,486	$18,334
Admin fees	$1,500	$1,530	$2,020
Tenant protections	$130	$130	$150
VASH	$75	$75	-
Restoration vouchers			$512
811 Mainstream	$107	$83	$108
Section 8 PBRA	$9,917	$9,730	$10,760
Public housing operating	$4,400	$4,440	$4,600
Public housing capital	$1,875	$1,875	$1,970
Family Self-Sufficiency	$75	$75	$85
Choice Neighborhoods	$90	$80	$250
Homeless Assistance	$2,105	$2,135	$2,480
HOPWA	$330	$330	$332
Section 202 elderly	$384	$420	$455
Section 811 disabilities	$126	$135	$177
HOME	$1,000	$900	$1,060
Native American grants	$650	$650	$660
CDBG formula	$3,030	$3,000	$2,800