

New England Housing Network Federal Budget Priorities for FY 2009

May 2008

The Administration's proposed budget for FY09 would provide \$39.1 billion for the Department of Housing and Urban Development, nearly \$1.1 billion (2.6 percent) less than Congress allocated in FY08, adjusted for inflation. However, the President's budget for HUD is significantly worse than this comparison suggests. This is because the FY08 funding law included a \$1.3 billion budgetary offset that will not be available in FY09 (and is not assumed in the President's budget). Once the loss of this offset is taken into account, the President's FY09 HUD budget drops to a level that is \$2.3 billion (or 5.6 percent) below the FY08 level, adjusted for inflation.

The FY09 budget resolutions passed by the House and Senate provide for a \$9 billion increase, on average, in total funding for non-security discretionary programs (a category that includes most housing and community development programs), in comparison to the FY08 funding level, adjusted for inflation. This is \$23 billion above the President's proposed level for spending on non-security programs in FY09.

Housing Choice Voucher Program (Section 8)

Established thirty-four years ago, the Section 8 Housing Choice Voucher program is the nation's largest and one of its most successful low-income housing assistance programs. Nationally, it helps over two million households to rent and, increasingly, own modest housing in the private market. Over 138,000 New England households currently receive tenant-based assistance. The vast majority are senior citizens, people with disabilities, and working families with children. Throughout the program's history it has enjoyed broad, bi-partisan support.

The New England Housing Network calls on Congress to fully fund tenant-based rental assistance, so that low-income families are not displaced or put at-risk of homelessness.

The President requests a total of \$15.9 billion for all tenant-based rental assistance programs in FY09, \$510 million less than the FY 08 appropriation. This amount is insufficient to cover inflation in rent and utility costs, as well as the increased number of vouchers that will require renewal in 2009. There is no doubt that the Administration's insufficient budget request will lead to further voucher losses.

Of the proposed amount, \$14.2 billion is for voucher contract renewals, a \$497 million decrease from the FY 08 funding level. The Center on Budget and Policy Priorities estimates that \$15.5 billion will be required to renew all vouchers in use in 2009, which means that the President has requested \$1.3 billion less than what will be needed to renew existing vouchers.

This under-funding would result in the loss of at least 100,000 vouchers in use by low-income families during the next fiscal year. Moreover, this figure may substantially understate the size of the potential cut, since the Administration's budget includes a proposal to sharply cut back housing agency reserves and to use large reserve amounts to cover a portion of 2009 voucher renewals. If Congress rejects the proposed deep cut in reserves without providing additional funds to supplement the President's request, nearly 200,000 vouchers in use will be eliminated.

Of the overall \$15.9 billion requested by the President, \$1.4 billion is for administrative fees. Although this represents a \$49 million increase over FY 08, the proposed funding level is unlikely to be sufficient to avoid a prorated cut. The Network supports continuation of the policy, first proposed in the Administration's 2008 budget and enacted by Congress for 2008, under which agencies earn administrative fees for each voucher leased based on a formula determined by HUD. In addition, \$48 million is allocated for the Family Self-Sufficiency Program, which the Network also supports.

It is absolutely critical that the FY 09 budget continue to use the "recent-cost" funding formula adopted by Congress for Section 8 for 2007 and 2008.

From 2004 to 2006, HUD used a "budget-based" funding formula, which used outdated and increasingly unreliable housing cost data as the basis for determining an individual housing authority's voucher renewal needs. This misguided formula, taken together with several other factors, resulted in the loss of approximately 150,000 vouchers nationwide, as well as general funding instability for the program, during this period.

The Administration's FY 09 budget request continues to use an inefficient method for allocating voucher renewal funding, again proposing to distribute funds based on outdated information. This policy would deepen funding shortfalls among agencies even beyond those caused by the budget's inadequate funding levels alone. It would also punish high-performing agencies that succeed in assisting more low-income families in 2008.

The Network is extremely pleased that Congress has consistently rejected HUD's ill-conceived block-grant style funding proposals over the last two years. Instead, Congress has allocated funds based on actual voucher usage and costs during the most recent 12-month period. This has allowed for the restoration of about two-thirds of the vouchers lost nationwide from 2004 to 2006. We are also encouraged by House passage of H.R. 1851, the Section Eight Voucher Reform Act (SEVRA), and introduction of S. 2684, its Senate companion, which would fix the voucher funding formula permanently while providing other welcome programmatic reforms (see below). It is our hope that this legislation will be enacted before FY 09 begins. If not, we urge Congress to continue fixing the formula on an annual basis through the HUD appropriation.

In order to restore the vouchers lost over the last several years due to HUD's misdirected funding formula – and to effect the first major increase in the number of vouchers in six years – the Network strongly urges Congress to include additional funding for 100,000 new, incremental vouchers in FY 09.

Tenant protection vouchers are funded at \$150 million in the President's budget, down from \$200 million appropriated in FY08. These vouchers help tenants avoid displacement when their subsidized housing is converted to market rate, or help them relocate when their subsidized homes are demolished. HUD continues to assert that the funds can only be used for units under lease. Historically, tenant protection vouchers have been funded for all units leaving the affordable housing inventory, not just those with current leases. This policy, as interpreted and implemented by HUD, has led to the loss of housing assistance to communities, since not all units have current leases. The Network urges Congress to include language that tenant protection vouchers must replace all units leaving the affordable housing inventory, not just those units under lease.

Project-based rental assistance contract renewals are funded at \$7.16 billion in the President's proposed FY09 HUD budget, including a \$400 million advance appropriation. Although this represents more than a \$1 billion increase over the FY 2008 funding level, it is insufficient to meet all contract renewal needs. The discovery during FY 2008 of major shortfalls, and HUD's prolonged unwillingness to support a complete solution to the problem, are unacceptable. Virtually every serious observer predicts administrative chaos and increased owner opt-outs after October 1, unless an increase of at least \$2.4 billion is provided through a supplemental FY08 appropriation. Further, the problem will be repeated in FY 09 unless HUD provides Congress with a full accounting of renewal needs on which to base its annual appropriation.

Last year, the Network expressed concern that the President's request was inadequate and urged Congress to seek additional data from HUD to ensure the renewal of all Section 8 project-based contracts. HUD's failure to produce accurate estimates for the nation's project-based renewal needs created serious and unfortunate consequences. Now that we have seen the results materialize, it is essential to solve this problem once and for all, and to recognize that a solution will have no adverse affect whatsoever on the federal deficit, because it will not change the growth of federal outlays. Continuation of existing project-based Section 8 contracts as they expire is an essential element of the HUD budget. Congress has repeatedly expressed its commitment to preserve these affordable homes. The Network requests the full amount of funding necessary to renew all project-based contracts, based on heightened due diligence as to actual needs.

CDBG and HOME

The Community Development Block Grant (CDBG) and HOME programs are valuable resources for cities and states struggling to ensure opportunities for residents to live in safe and affordable housing. These programs have funded projects that improve the quality of life across New England, including rental housing, homeownership, infrastructure improvement, and economic development.

The President's FY09 proposed budget cut of over \$659 million will have serious consequences for lower income communities throughout New England that are struggling with increasingly high foreclosure rates. We support efforts to increase funding for CDBG so that cities and

towns in partnership with community development corporations (CDCs) and other nonprofits can acquire foreclosed properties and provide assistance to homeowners and renters.

The Network remains concerned about any changes to the allocation formula that would negatively impact Northeast cities that have the nation's oldest housing stock. We request Congressional support to maintain level funding of CDBG for ongoing programs and ensure that the CDBG formula is not revised at the expense of New England cities and states. We also support an additional special allocation of funds to help local communities address the impact of foreclosures. We also continue to oppose the elimination of the Brownfield Program, Economic Development Initiative, Rural Housing and Economic Development Program and Section 108 Loan Guarantee program.

The Network continues to support restoration of funding for a flexible and effective HOME program. The program has a proven track record of success having financed more than 1 million homes. Adjusting for inflation, the HOME program would require \$2.4 billion just to remain level-funded. The President's budget would increase HOME funding from \$1.7 billion to \$1.9 billion including \$1.8 billion for formula grants, \$50 million for the American Dream Downpayment Initiative, and \$65 million for housing counseling.

The Network also continues to support raising the state minimum for the HOME program from \$3 million to \$5 million. We also support increasing the percentage of total HOME funds that can be use for the payment of CHDO operating expenses from 5% to 10%.

Housing for Elderly/People with Disabilities

HUD's Section 202 and 811 programs finance the development and subsidize the operations of non-profit housing that includes supportive services for low-income seniors and disabled households. Both programs have been effective and efficient, and ensure the long-term preservation of low-income housing through the requirement for non-profit ownership.

The Administration's budget proposes \$540 million for Section 202 Housing for the Elderly program, \$195 million less than last year or a 26.5% reduction. The budget proposes to cut the Section 811 Housing for Persons with Disabilities program to \$160 million, a decrease of \$77 million (32%).

The Budget proposes a very small demonstration program which would use \$15 million under the Section 202 program and \$10 million under the Section 811 program to increase production through developments financed with Low Income Housing Tax Credits.

The Network supports restoring funding to at least the FY08 levels and incorporating an expanded Section 202/811-LIHTC demonstration program.

Homelessness

McKinney Vento Homeless Assistance Programs The McKinney-Vento homeless assistance programs fund rental housing, emergency assistance, and homelessness prevention services. The proposed FY09 budget increases funding over last year for McKinney-Vento programs by \$50 million, to \$1.5 billion. This proposal is insufficient to meet the emergency needs of the many families, veterans, individuals, and youth experiencing homelessness every night, and it leaves little funding for the advancement of solution- focused programs. HUD estimates that the cost of renewals alone will be approximately \$1.5 billion.

The New England Housing Network recommends an appropriation of \$2 billion for McKinney-Vento homeless assistance programs. Such a funding level would allow for the creation of 16,500 new units of permanent supportive housing – allowing localities to get back on track in their efforts to create 150,000 such units within ten years – while simultaneously funding all expiring permanent housing renewals and providing critical resources for families and individuals who do not meet the definition of chronic homelessness.

Federal Policy to Prevent and End Homelessness Among Veterans (HUD-VASH) A joint program of HUD and Veterans Affairs (VA), the HUD-VASH program provides permanent housing and ongoing treatment services to the harder-to-serve homeless mentally ill veterans and those suffering from substance abuse disorders. The VA screens homeless veterans for program eligibility and provides outreach, clinical care and ongoing case management services to enrollees. HUD allocates rental subsidies from its Section 8 Housing Choice Voucher program to the VA, which then distributes them to enrollees. Rigorous evaluation indicates that this program and the approach of providing permanent housing with case management and other services significantly reduces days of homelessness for veterans plagued by serious mental illness and substance abuse disorders.

The New England Housing Network urges Congress to provide \$75 million for Section 8 vouchers for the HUD-VASH program in fiscal year 2009, enough to house approximately 10,000 veterans.

The Runaway and Homeless Youth Act (RHYA), the Education for Homeless Children and Youth (EHCY) program, and Grants for the Benefit of Homeless Individuals (GBHI) program. These programs support community organizations, school districts, and public agencies in their efforts to help homeless youth and the chronically homeless in rural, suburban, and urban communities around the country. In addition to the benefits that these programs offer to the individuals served, they are also cost-effective in comparison with public custodial care through the justice system.

The New England Housing Network supports FHYA programs at a funding level of \$140 million (\$27 million over the FY08 level), and EHCY programs at a funding level of \$70 million (\$6 million over the FY08 level), and the GBHI program, targeted to services in permanent supportive housing, at a funding level of \$124 million (\$70 million over the FY08 level).

Public Housing

New England has approximately 75,000 public housing units which need ongoing funding for operations, repairs, modernization, and resident services. The region's public housing stock is generally older than in other parts of the country, placing it at greater risk of deterioration without reinvestment. This resource is extremely important because it provides permanent housing for some of the region's lowest income families, elders, and people with disabilities who would not otherwise afford to rent apartments in the private market.

Operating Subsidies: The President's proposed FY09 budget includes \$4.3 billion for the public housing operating fund, which would provide just 84 cents for each dollar of operating costs. The New England Network supports fully funding the operating fund at \$5.2 billion.

Capital Grants: The President's proposed FY09 budget cuts the public housing capital fund by \$400 million. The New England Housing Network supports a funding request of \$3.5 billion.

HOPE VI: The President has once again proposed to eliminate the HOPE VI program. While this is no surprise, given the ever decreasing commitment of dollars to the program during this decade (from a high of \$575 million in FY00 to a low of \$100 million in FY07), its elimination illustrates the Administration's lack of commitment to public housing. The Network supports a FY09 funding level of \$600 million for the HOPE VI program (in addition to retention of the \$100 million appropriated to HOPE VI in FY08).

Rural Housing

The Administration's FY09 budget would decimate USDA's rural housing programs that are vital resources in rural areas of New England as well as throughout rural America. As in last year's budget, the Administration would eliminate the Section 502 direct homeownership loans, Section 515 rental housing loans, and USDA's Rural Community Development Initiative.

This year the Administration would also eliminate Section 523 self-help technical assistance, rental housing preservation, and Section 514/516 farmworker housing loans and grants as well as cancel \$20 million in rental assistance. In other words, nine out of fifteen USDA Rural Development programs are proposed for elimination. The programs that the Administration proposes to keep are largely loan guarantee programs as opposed to direct loan and grant programs. These guarantee programs are far less effective in meeting the serious housing needs faced by rural communities. The FY09 HUD budget also proposes elimination of HUD's Rural Housing & Economic Development Initiative. The Network strongly opposes the elimination of both USDA RD and HUD funding for rural housing.

USDA programs that have been utilized extensively in rural New England include the following:

The *USDA family housing program (Section 515)* is frequently the only option for providing affordable apartments in rural areas. Funds are used to create new housing units and to repair the existing portfolio. The program has a thirty-year history of success, but nevertheless is slated for elimination under the President's FY09 budget. In 1994 the program was funded at \$540

million, but last year the funding level was only \$70 million. The increase in the rental housing guarantee loans in the President's budget in no way compensates for the loss of 515 funds because the programs serve different populations. The Network strongly opposes the elimination of funding for the 515 program and supports a funding level of at least \$150 million which is necessary to cover minimal essential activities.

Rental assistance through the *Rural Rental Assistance Program (Section 521)* usually accompanies Section 515 loans and is critical for low-income affordability, building maintenance, and capital necessary for preserving existing projects as affordable rentals. In FY06, rental assistance contracts were for four years and were subsequently reduced to two and then one year contracts. The Administration is proposing one year contracts in FY09. The Network supports restoration of multi-year contracts.

The Rural Rental Assistance Program budget has a large proposed increase, from \$482 million to \$987 million, but this increase in budget authority is needed simply to re-fund existing multi-year contracts whose terms have gradually been reduced to one year. This necessary increase represents no real increase in new commitments or outlays, beyond normal inflation. Further, the administration proposes to use \$100 million of this amount to convert project-based rental assistance contracts to a "pilot voucher program". This is a major concern, because rental assistance is critical for low-income affordability, proper maintenance of the buildings, and additional capital necessary for preserving the existing projects as affordable rentals.

Funding for rental assistance has already been cut from \$653 million in FY06 to \$482 million in FY 2008, for one year rental assistance contracts. These cuts have essentially meant that there is no rental assistance available for new rental developments. In extremely low income rural areas the result is that development of new rental housing for low income households is not financially feasible. The Network supports restoration of funding to a meaningful level of \$897 million with multi-year contracts, plus \$100 million for a rental assistance pilot program.

Homeownership is the norm in most rural communities where rental units are scarce and production of new apartments is difficult due to lack of economy of scale. The *Single Family Direct Loan Program (Section 502)* is a proven vehicle for efficiently housing rural families with low incomes. With limited employment opportunities, homeownership provides the primary mechanism for wealth generation in rural areas. The Administration's FY09 budget once again proposes to eliminate this important program and replace it with more funding in the Single Family Guarantee Program, a program that is not nearly as effective in facilitating homeownership opportunities for lower income rural households. The Network strongly opposes elimination of this important program and recommends an appropriation of \$1.5 billion.

Although the *Farm Labor Housing 514/516 programs* are quite small they have been used successfully in rural New England to meet a need that is important to the economic base in some

of the region's rural areas. The Network opposes elimination of these programs and supports \$50 million in funding for 514 and another \$50 million for 516.

Preservation of existing subsidized housing stock is an important issue in both rural and urban areas in New England. More 515 rental units are being lost through prepayment than are being created. Since 2001, 1,125 units in the USDA RD portfolio in New England have been lost through prepayment and/or conversion. Nationally, nearly 11,000 units were prepaid during the same time period.

Preservation initiatives, including Section 542 Vouchers (Preservation and Prepayment), the Preservation Revolving Loan Fund, and the Preservation demonstration Program, have been eliminated in the Administration's budget, supposedly because new authorizing legislation has not yet been passed. However, the USDA has made good use of these resources within existing authority. Without preservation funding, there is only more incentive for owners to exit the program.

The Network opposes elimination of RD's Rural Preservation Demonstration Program and supports a \$50 million appropriation to be split between the demonstration program, Section 542 preservation vouchers and the Rental Preservation Revolving Loan Fund, with at least \$6 million going to the revolving loan fund which was the amount available for that fund in 2006 and 2007.

Housing Counseling

Housing counseling is a critical tool in assisting low and moderate income households to become successful homeowners. Under HUD's Housing Counseling Program, local non-profit organizations provide a variety of services to low income homebuyers, including budget and credit counseling, educational workshops, foreclosure prevention, and post-purchase counseling. In addition, national and regional intermediaries assist in administering and monitoring the program on a broad level.

The Network supports the President's proposed request of \$65 million for the Housing Counseling Program, which represents a \$15 million increase from FY08.

Lead Paint Hazard Reduction and Healthy Homes Programs

The appropriation for lead paint hazard reduction decreased since FY04 and has not increased substantially for fifteen years. In FY04 the appropriation was \$174 million. The proposed level for FY09 is \$116 million. At this funding level it will take a couple of hundred years for the country to deal with the problem of lead paint in its housing stock.

New England, with its aging housing stock, is particularly in need of resources to eliminate lead hazards. On average, 58% of the region's housing stock was built before 1970 as compared to 46% nationally. The Administration's proposal to once again reduce funding for the Office of Healthy Homes and Lead Hazard Control by one-third compared to the FY04 level will have a significant impact on the region's ability to adequately address this serious health threat.

The Network supports a return to the FY04 funding level of \$174 million. In FY 2008, Congress targeted \$48 million for competitive grants of at least \$2 million for the cities with the worst lead poisoning problems. The Administration's FY09 request proposes to eliminate these targeted grants. The Network supports maintenance of these targeted grants.

For a number of years HUD funded Healthy Homes Demonstration Grants. A couple of New England programs have received this funding for asthma interventions and it is clear that the activities had measurably positive benefits. Therefore, the Network suggests that Healthy Homes activities should become a core program at HUD with funding similar to that available for lead Hazard Control grants. We support the Reed/Hagel Healthy Housing Council Act of 2008 as a first step towards such a funding recommendation.

Community Services Block Grant (CSBG)

The Community Service Block Grant (CSBG) was funded at \$653.8 million in FY 08. The President's FY 09 budget proposal once again calls for its elimination. The Network is requesting that CSBG be funded at no less than \$700 million, which is comparable to the final FY2002 appropriation with proper adjustment for inflation.

The CSBG statute establishes the grass-roots governing structure of local Community Action Agencies (CAAs); it funds their core operations, and supports their unique local activities, which include providing access to affordable housing, health care, employment support, energy assistance and preventive or crisis intervention. They fight poverty by investing in self-sufficiency for low-income individuals, families and communities. The 1,100 CAAs are found in 99% of all counties nationwide.

The demand for CSBG services has never been greater. During this time of economic uncertainty, more families are turning to CAAs to meet their basic needs. CSBG helps strengthen communities by assisting low-income individuals and families to become self-sufficient. Community Action Agency programs serve more than 15 million individuals in 6 million low-income families yearly, including approximately four million children, 1.2 million people with disabilities, and almost 2.8 million people without health insurance. CSBG reaches as many as 22% of people in poverty and millions more with incomes at or below 125% of the Poverty Guideline (\$26,500 for a family of 4 in 2008). Nearly half these families are working while they participate in CAA programs.

CSBG leverages almost \$10 billion in other federal, state, local and private resources. Zeroing out the CSBG eliminates the funding that allows CAAs to leverage new funding, engage local partners, and create projects that address the specific causes of poverty in their communities.