



February 12, 2018

MEMORANDUM

TO: NCSHA Members

FR: NCSHA's Policy and Government Affairs Team

RE: NCSHA's Preliminary Analysis of the Administration's FY 2019 Budget Request and Infrastructure Plan

Executive Summary

The Administration sent Congress today its formal Fiscal Year (FY) 2019 Budget request, the "Efficient, Effective, Accountable: An American Budget," alongside its long-awaited \$1.5 trillion infrastructure plan.

The Budget proposes a total of \$1.2 trillion in discretionary spending for FY 2019, abiding by the overall discretionary caps imposed by the Budget Control Act (BCA) of 2011. Because the Budget documents were written before Congress last week passed the budget deal that raises the BCA caps for FY 2018 and FY 2019, the Administration includes with its Budget an addendum that proposes allocating the additional funding for a limited set of Administration priorities. The Administration requests, as part of this addendum, \$2 billion for HUD, including \$1 billion to hold harmless elderly and disabled households from proposed rent reforms (see more below); \$700 million for Housing Choice Vouchers to restore funding for an estimated 200,000 vouchers; and \$300 million for the public housing operating fund to assist Public Housing Authorities (PHAs) that could potentially face insolvency.

The Budget calls for a total reduction of \$3.6 trillion in non-defense discretionary spending from FY 2017 levels over ten years, including cuts to HUD and the U.S. Department of Agriculture's (USDA) rural housing programs, citing the country's fiscal challenges. The Budget recommends devolving many affordable housing activities to State and local governments, saying they are "better positioned to comprehensively address the array of unique market challenges, local policies, and impediments that lead to housing affordability problems."

Similar to the Administration's FY 2018 Budget, the FY 2019 Budget includes significant cuts to HUD and USDA program funding, including eliminating funding for the HOME Investment Partnerships (HOME) program and the Housing Trust Fund, among others. It also seeks cuts in many other HUD and USDA funding programs.

The Budget also highlights, for the first time, the Administration's plans for decreasing federal government staff and operating expenses. The "workforce reduction" plans are the result of nearly a year of discussions between the Office of Management and Budget (OMB) and federal agencies about federal staffing needs.

NCSHA's preliminary analysis of the Budget's housing proposals follows. Please note that as Congress has not yet finalized FY 2018 appropriations, our comparisons are to FY 2017 enacted program funding. NCSHA has also provided a brief analysis of the Trump Administration's infrastructure plan although it is unclear how the provisions amending the use of private activity bonds (PABs) would impact Housing Bonds.

HUD Program Funding Highlights

The Administration proposes \$39.2 billion in HUD gross discretionary budget authority, a nearly \$9 billion, or 18 percent, reduction from FY 2017 budget authority, and \$1.5 billion less than its FY 2018 budget request.

The FY 2019 Budget reduces the overall "federal footprint of housing assistance" by eliminating several key programs, including HOME, the Community Development Block Grant (CDBG), the Public Housing Capital Fund, the Choice Neighborhoods Initiative, the Self-Help and Assisted Homeownership Opportunity Program (SHOP), and Section 4 Capacity Building for Community Development and Affordable Housing. The Administration proposed the elimination of these programs in its FY 2018 Budget as well. Similar to the FY 2018 Budget, the FY 2019 Budget states that it is not requesting funding for these programs as it seeks to "recognize a greater role for State and local governments and the private sector in addressing community development and affordable housing needs."

The Budget also proposes a set of rent reforms for HUD-assisted housing, including increased tenant rent contributions (from 30 percent to 35 percent); reduced frequency of income recertifications; and additional flexibilities for PHAs and property owners to develop alternative rent structures. These policy changes would apply to both the Housing Choice Voucher program and project-based rental assistance. The Administration assumes savings will result from the enactment of these proposals, which it factors into its requested funding levels for rental assistance as detailed below.

HOME: The Budget proposes to eliminate all funding for the HOME program in FY 2019. In FY 2017, HOME was funded at \$950 million.

Housing Trust Fund: Though the Housing Trust Fund (HTF) does not receive annual appropriations from Congress, the Budget again proposes to eliminate funding for it by ending all future transfers of funding from Government-Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac to the fund, beginning in 2018. The Budget also assumes no funds will be provided to HTF in 2018, “in accordance with the Federal Housing Finance Agency’s 2014 stated policy that funds will not be transferred if the transfer would cause the GSEs to draw on the Treasury funding commitment under the Preferred Stock Purchase Agreements (PSPAs)” and in anticipation that such a draw will occur in 2018 as a result of the enactment of tax reform legislation.

Housing Choice Vouchers: The Budget proposes \$19.3 billion for the voucher program, 5 percent less than its FY 2017 appropriation. This includes \$17.5 billion for voucher renewals, \$841 million less than the FY 2017 appropriation. The voucher program funding also includes \$1.55 billion for public housing agencies’ (PHA) administrative costs, 6 percent, or \$100 million, less than the FY 2017 appropriation.

Like its FY 2018 request, the Administration proposes \$7 million for the Tribal HUD-Veterans Affairs Supportive Housing (VASH) voucher program in FY 2019. The Budget does not propose separate funding for the traditional VASH program, which was funded at \$40 million in FY 2017.

Section 8 Project-Based Rental Assistance (PBRA): The Budget proposes \$10.9 billion for Project-Based Rental Assistance (PBRA). The Budget continues to support the program’s calendar-year funding cycle and provides 12 months of funding for all contracts.

The Budget proposes \$10.6 billion to renew expiring Section 8 project-based contracts, equal to FY 2017 spending levels, but \$641 million below 2018 Senate bill level. The PBRA program also includes \$245 million for performance-based contract administrators’ (PBCA) administrative fees, \$10 million more than appropriated in FY 2017. The Budget also requests the flexibility to repurpose up to \$40 million in other PBRA funds, to “ensure uninterrupted services in the event of delays in the procurement process.”

Like its FY 2018 request, the Administration proposes \$3 million in new funding for a Technical Resource Network that would provide technical assistance to tenant groups, nonprofits, and public entities to support tenants of troubled properties and improve tenant access to community services.

Homeless Assistance Grants: The Budget proposes \$2.38 billion for Homeless Assistance Grants, equal to its FY 2017 funding level.

The Budget proposes allowing Continuum of Care (CoC) grantees to receive one-year transitional grants to better allow projects to maintain service to program participants as they

transition from one CoC program component to another; allowing CoC grant recipients to count program income toward meeting matching requirements; allowing greater flexibility when estimating costs for rental assistance projects; and expanding eligible costs to better serve rural communities.

Housing Counseling: The Budget proposes \$45 million for HUD's housing counseling program. This request represents a substantial decrease from the \$55 million the program received in FY 2017, but only a slight decrease from FY 2016 and prior years. Of the requested \$45 million, the Administration intends to distribute \$38.5 million directly to housing counseling agencies, HFAs, and housing counseling intermediaries. An additional \$2 million would be used for counselor training.

Section 202 Housing for the Elderly: The Budget provides \$563 million for Section 202 housing, \$61 million more than FY 2017 enacted levels. This includes \$470 million to renew contracts, \$90 million to support service, and \$3 million for property inspections and related expenses.

Section 811 Housing for Persons with Disabilities: The Budget requests \$132 million for Section 811 housing, \$14 million less than FY 2017 enacted levels.

Housing Opportunities for Persons with AIDS (HOPWA): The Budget proposes \$330 million for HOPWA, \$26 million less than its FY 2017 appropriation and the same as its FY 2018 request.

Rental Assistance Demonstration: The Budget requests \$100 million for HUD's Rental Assistance Demonstration (RAD) to cover the incremental subsidy necessary for properties that could not convert absent these funds. The Budget also proposes removing the statutory limit on the number of public housing units that can participate in the program, eliminating the current deadline for RAD application submissions, standardizing ownership and control requirements for converted public housing properties in situations where the Low Income Housing Tax Credit (Housing Credit) is used; and protecting tenants' rights to continue occupancy under second component conversions.

Federal Housing Administration (FHA) Single-Family Insurance Program: The Budget requests \$400 billion in loan authority for FHA's Mutual Mortgage Insurance Fund (MMIF), which supports FHA's single-family and home equity conversion mortgage (HECM) programs. The Administration estimates that FHA will insure \$230 billion in home purchase loans in FY 2019, a 7 percent increase from its FY 2018 estimate, and insure \$12 billion in reverse mortgages, down 19 percent from its FY 2018 estimate.

The Budget requests \$150 million for costs associated with administering MMIF programs, a \$20 million increase over FY 2017. It also proposes that Congress pass legislation allowing FHA to temporarily charge lenders a fee for each loan FHA insures. The fee will be used to raise \$20 million to improve FHA's contract support and information technology so as to improve FHA's risk management. The Trump Administration included a similar proposal in its

FY 2018 Budget, as did the Obama Administration in its proposed Budgets for its last three fiscal years.

FHA Multifamily/ Title I Manufactured Housing Programs: The Budget proposes \$30 billion in new loan authority for FHA's General Insurance and Special Risk Insurance (GI/SRI) fund, which finances FHA's affordable multifamily, manufactured housing loans originated through FHA's Title I program, and health care facility loan insurance programs. This is the same level of authority the fund received in FY 2017. The Budget estimates that the GI/SRI fund will insure \$16 billion in loans for affordable multifamily housing in FY 2019, a 12 percent increase from its FY 2018 estimate, supporting the development and rehabilitation of 43,000 affordable homes. The GI/SRI fund is also projected to insure \$100 million in manufactured housing loans, down a quarter from FY 2018 estimates.

Ginnie Mae: The Budget requests \$550 billion in guarantee authority for FY 2019 for Ginnie Mae, an increase of \$50 million over the guarantee authority provided in FY 2017. The agency justifies the requested increase in authority by noting that it insured \$505 billion in MBSs in FY 2017, requiring it to use extra authority from the previous fiscal year. The Administration also requests that Ginnie Mae receive \$24.4 million for administrative and salary expenses, up from \$23 million in FY 2017 but below the \$25.8 million the agency projects it has received on an annualized basis for FY 2018. The funding would be used to hire additional staff and improve Ginnie Mae's oversight and quality control operations.

EnVision Centers: The Budget requests funding to evaluate EnVision Centers, recently launched to help HUD-assisted households achieve self-sufficiency.

USDA Rural Housing Program Funding Highlights

The Budget proposes to eliminate several USDA rural housing programs, including Section 502 Single-Family Housing Direct Loans, Section 515 Multifamily Housing Direct Loans, the Section 514 Farm Labor Housing program, the Section 504 Home Repair program, and the Multifamily Housing preservation and revitalization programs. The Administration's FY 2018 Budget proposed to eliminate the same programs.

The Budget also proposes:

- Combining appropriations for the Section 521 Rural Rental Assistance and Section 542 Rural Development Voucher Program, "to facilitate funding flexibilities with like programs," requesting a combined \$1.35 billion for both programs in FY 2019.
- Providing \$1.33 billion of the \$1.35 billion for the Section 521 Rental Assistance program, a \$74 million decrease from enacted FY 2017 funding levels.

- Providing \$20 million of the \$1.35 billion for the Section 542 rural housing voucher program, a \$600,000 increase from FY 2017.
- Requiring residents receiving rental assistance payments to pay a minimum rent of \$50 per month, unless USDA qualifies the tenant for a hardship exemption.
- Funding the Section 502 unsubsidized guaranteed loan program at \$24 billion, equal to its FY 2017 funding level.
- Providing \$250 million for the Section 538 multifamily loan guarantee program, a \$20 million increase from its FY 2017 funding level.

Other Budget Proposals Relevant to Housing

Tax Proposals: The Administration did not release a General Explanations of the Administration’s Revenue Proposals—also known as the “Greenbook”—detailing new Administration tax proposals, citing the implementation of the new tax law. Typically, the Greenbook accompanies the publication of the Administration’s Budget, but we do not expect the Trump Administration to release one for FY 2019.

Consumer Financial Protection Bureau (CFPB): Similar to last year, the Budget asks Congress to pass legislation that would “restructure” CFPB by subjecting its funding to congressional appropriations beginning in FY 2020 and restricting the agency’s enforcement powers. CFPB currently receives its funding annually from the Federal Reserve. The Budget also proposes to cap CFPB’s budget for FY 2019 at \$485 million, down from a projected \$630 million for FY 2018 and its lowest level of funding since FY 2015.

Government Sponsored Enterprises (GSEs): The Administration proposes to increase and extend congressionally mandated fees (g-fees) that Fannie Mae and Freddie Mac currently charge on all single-family loans they guarantee. The Temporary Payroll Tax Cut Continuation Act of 2011 (Public Law 112–78) required that Fannie Mae and Freddie Mac increase their credit guarantee fees on single-family mortgage acquisitions between 2012 and 2021 by an average of at least 0.10 percentage points to help offset the cost of extending a payroll tax cut. The Budget recommends Congress increase the fee to 20 basis points and extend it through 2023. The additional funding would be used to compensate the federal government for its support of the GSEs.

The Budget expresses the Administration’s desire to work with Congress on reforming the housing finance system but does not include any specific proposals or principles. Nor does it reference any of the legislation currently being developed in Congress.

National Flood Insurance Program (NFIP): The Administration calls on Congress to pass legislation that would amend NFIP by eliminating the various subsidies and premium discounts certain policyholders receive based on where their property is located, the building's age, and whether any loss mitigation activities have been undertaken. The Administration argues that such benefits have allowed policyholders to pay premiums that do not accurately reflect the risk their property poses to NFIP. It recommends Congress instead create a targeted means-tested affordability program to offer premium assistance to policyholders based on their ability to pay.

The Budget also proposes that funding for NFIP's Flood Hazard Mapping Program, which utilizes data to track flood risks and help set NFIP premiums, be substantially reduced from \$178 million in FY 2017 to \$100 million in FY 2019. The Administration argues that it needs the additional funding to allow the Department of Homeland Security, which oversees NFIP, to focus on its core activities, and pledged to improve the program's efficiency.

Trump Administration Infrastructure Plan

The Administration also released today the framework of the President's long-awaited infrastructure plan. One of the key planks of the proposal would strengthen and allow for the increased use of private activity bonds (PABs), though it is unclear how many of the provisions would impact Housing Bonds.

The plan calls on Congress to eliminate state caps on PAB issuances. However, it is unclear from the publicly available descriptions of the plan whether this would apply to Housing Bonds. The legislative outline specifically calls on Congress to eliminate the state-based volume cap for, "PABs for public purpose infrastructure projects of the types covered by this proposal" but provides no further details on what types of projects this would entail.

The Administration also recommends that additional activities be made eligible for PAB financing. The newly eligible activities would include flood control facilities, rural broadband, hydroelectric power, and the cleanup of Brownfield and Superfund sites.

In addition, the plan proposes to exempt interest earned on all PABs from the Alternative Minimum Tax (AMT). While all newly issued Housing Bonds have been AMT-exempt since 2008, expanding the exemption could lower the costs of refunding Housing Bonds that were originally issued before July 2008, which NCSHA has sought for several years. Further, the Administration also suggests changes to the federal tax code to adjust the "change-of-use" provisions in the tax code to allow more PABs to preserve their tax-exemption and to, "[R]equire public attributes for core public infrastructure projects."

The plan also includes several grant and lending programs to help state and local governments finance infrastructure investments, but does not appear to include housing as an eligible activity for any of them. The Infrastructure Incentives Program would provide grants to

states and municipalities to encourage investments in critical infrastructure. The Rural Infrastructure Program would support investment in infrastructure that serves rural areas. Finally, the Transformative Projects Program would be focused on providing financing for innovative yet risky projects that have the potential to drastically advance the nation's infrastructure. All three programs would require that all projects receive a majority of funding state, local, or private sources.

The plan also includes provisions designed to speed up the permitting process for infrastructure projects and to promote workforce development.