



March 12, 2014

MEMORANDUM

TO: NCSHA Members

FR: NCSHA's Policy and Government Affairs Team

RE: Analysis of the Administration's Proposed FY 2015 Budget

Summary

On March 4, the Administration sent Congress its FY 2015 Budget, proposing funding for all federal programs, including HUD and the Department of Agriculture's (USDA) housing programs. NCSHA provided a preliminary analysis of the Budget's proposals for the major programs affecting HFAs on March 4. Since the Administration released its Budget, federal agencies have released additional details about their FY 2015 Budget requests. This memo updates and expands NCSHA's preliminary analysis.

In addition to funding proposals, the Budget also contains the Administration's tax proposals, including a slightly modified version of last year's proposal to allow states to convert private activity bond (PAB) volume cap authority into Housing Credit authority. The FY 2015 proposal differs from last year's by increasing the maximum amount of PAB volume cap that can be converted by each state from 7 percent to 8 percent and by providing an alternative method of qualifying for 4 percent Housing Credits without tax-exempt bond financing.

The Budget repeats last year's proposals to repeal the Mortgage Revenue Bond (MRB) program purchase price limit and refinancing restriction; to create a new permanent America Fast Forward (AFF) Bond program, which would be an optional alternative to traditional tax-exempt bonds; and to cap the value of itemized deductions and other tax preferences, including the income-exclusion of interest on tax-exempt bonds, to 28 percent.

NCSHA's analysis of the Budget's housing proposals follows.

HUD and USDA Highlights

The Administration proposes \$32.6 billion in HUD budget authority, a \$166 million, or less than 1 percent, decrease from the \$32.8 billion HUD appropriation provided under the FY

2014 spending bill the President signed January 17, 2014. After accounting for offsetting receipts from the FHA mortgage insurance program and other accounts, the Budget proposes to spend \$46.7 billion on HUD programs, a \$1.2 billion, or 2.6 percent, increase over HUD's FY 2014 funding level.

The Budget proposes to increase funding for Housing Choice Vouchers by 5 percent, homeless assistance by 14 percent, Section 811 Housing for Persons with Disabilities by 27 percent, Section 202 Housing for the Elderly by 15 percent, and HUD's Housing Counseling program by 33 percent. It would cut funding for project-based rental assistance by 2 percent, the HOME Investment Partnerships (HOME) program by 5 percent, and the Community Development Block Grant (CDBG) program by 8 percent.

The Budget again proposes \$1 billion in new mandatory spending to launch the Housing Trust Fund.

HOME: The Budget proposes \$950 million for HOME, \$50 million, or 5 percent, less than its FY 2014 funding level.

The Budget again proposes a statutory change to establish a single qualification threshold of \$500,000 regardless of the fiscal year's appropriation amount. It would also revise the current grandfathering provision so that participating jurisdictions (PJs) that fall below the threshold three years out of a five-year period are ineligible for direct formula funds.

The Budget also again proposes statutory changes to permit state PJs to designate as Community Housing Development Organizations (CHDOs) nonprofit organizations that operate statewide and to allow recaptured CHDO funds to be reallocated by formula. It again proposes language to facilitate eviction of HOME rental unit tenants who pose an imminent threat.

The Budget again proposes to eliminate separate funding for the Self-Help and Assisted Homeownership Opportunity Program (SHOP). The Budget would set aside up to \$10 million in HOME funding for SHOP.

Housing Choice Vouchers: The Budget proposes \$20 billion for Housing Choice Vouchers (vouchers), 5 percent more than the FY 2014 appropriation of \$19.2 billion. The Administration proposes \$18 billion for expiring voucher renewals, \$641 million more than the FY 2014 appropriation. The Budget proposes that up to \$75 million may be used for adjusting Public Housing Authority (PHA) renewal allocations to account for unforeseen circumstances, including portability-associated cost increases, the same as in FY 2014.

The voucher program funding includes \$1.7 billion for PHAs' administrative costs, \$205 million more than the FY 2014 appropriation. The proposed administrative fee total includes

\$10 million for HUD to allocate as it deems necessary to PHAs requiring additional administrative funds and for fees associated with tenant protection vouchers.

In addition to funding all existing vouchers, the voucher program funding level includes \$108 million for Section 811 Mainstream Vouchers. It also includes \$75 million for an estimated 10,000 new vouchers for homeless veterans through the HUD-Veterans Affairs Supportive Housing (HUD-VASH) program.

The Budget proposes \$75 million for the Family Self-Sufficiency (FSS) program in a unified account for voucher holders, project-based rental assistance recipients, and public housing residents. The FY 2014 appropriation also includes \$75 million for FSS and consolidates the formerly separate voucher and public housing FSS programs into one separate account instead of funding them within the voucher and public housing programs, as had been done before FY 2014.

The Budget proposes legislative reforms to HUD's core rental assistance programs, including expanding the Moving-to-Work (MTW) program for high-capacity PHAs, allowing fixed-income families to recertify their incomes every three years, and increasing the threshold used to determine deductions for unreimbursed medical expenses from 3 to 10 percent of family income.

The Budget also proposes several reforms specific to the voucher program, including improving the Project-Based Voucher program, addressing homelessness through expansion of the sponsor-based assistance model, and streamlining the process for establishing annual Fair Market Rents (FMRs). The Budget also indicates that HUD continues to improve the management of the voucher program by developing the Next General Management System, which will overhaul HUD information technology systems to better manage and administer the program.

Section 8 Project-Based Rental Assistance (PBRA): The Budget proposes \$9.7 billion to renew expiring Section 8 project-based contracts, a \$171 million, or 2 percent, decrease from the FY 2014 appropriation of \$9.9 billion. The amount includes \$210 million for performance-based contract administrators' administrative fees, \$55 million less than appropriated in FY 2014.

The PBRA request proposes to change the program funding cycle from a fiscal-year basis to a calendar-year basis. HUD predicts that this new funding cycle will minimize end-of-year budget disruptions and should result in more predictable funding cycles in future years. The Budget indicates that improvements to HUD's information technology platform and business processes have enabled this change.

The Budget again proposes several legislative changes in the PBRA program, including collecting excess reserves (residual receipts) from owners and using them to cover a portion of assistance payments, establishing a demonstration allowing HUD to enter into multi-year

agreements to repay private investors who provide upfront funding for energy efficiency retrofits of HUD-assisted housing, and amending the Low-Income Housing Preservation and Resident Homeownership Act (LIHPRHA) to align owner distribution policies with other PBRA-assisted properties to facilitate preservation transactions. The Budget also proposes to expand eligibility for the Family Self-Sufficiency (FSS) program to PBRA properties and to allow certain assisted housing properties to convert to PBRA via the Rental Assistance Demonstration (RAD).

The Budget specifies that funding for PBCAs shall be available for grants or cooperative agreements under terms and procedures determined by HUD. This language appears to reject the possibility of using procurement procedures to hire PBCAs.

The Budget also states that HUD may use these funds for PBCAs to administer Section 236 Interest Reduction Payments (IRP) and assistance payments for Rent Supplement, Section 236, Section 202, and Section 811 programs. Finally, the Budget indicates that amounts recaptured from PBRA or the Housing Certificate Fund may be used for renewals of or amendments to PBRA contracts or for PBCAs.

Housing Trust Fund: The Budget requests \$1 billion in mandatory spending to capitalize the Housing Trust Fund. The Administration has proposed \$1 billion in mandatory spending for the Housing Trust Fund in each of the past five years.

Federal Housing Administration (FHA) Single-Family Insurance Program: The Budget estimates that FHA's Mutual Mortgage Insurance Fund (MMIF), which supports FHA's single-family and home equity conversion mortgage (HECM) programs, will generate a surplus by the end of FY 2014 and will not require funding from the Treasury to cover losses. At the end of FY 2013, due largely to losses from its HECM programs, FHA had to draw down \$1.7 billion from Treasury, the first time in the agency's history that it required an infusion of federal funding.

The Administration's Budget does not project how much of a surplus it expects FHA to tally, but HUD's separate budget materials estimate it will be \$7.8 billion. The Budget states that it is still possible that FHA will require federal funds should the agency realize more losses than the Administration projects. FHA has until September 30 to determine whether it needs to request federal funds to cover its losses. The agency has "permanent and indefinite" budget authority, which allows it to access needed funds directly from Treasury without congressional approval.

The Budget also indicates that the Administration will pursue legislation to give HUD additional authorities to minimize FHA's future losses. One legislative change would authorize FHA to charge lenders a \$25 fee on each new loan guaranteed by FHA. The fees would be used to improve FHA's quality assurance program.

The Budget requests a \$400 billion cap on loan guarantees for MMIF programs. The Administration projects that, in FY 2015, FHA will insure \$135 billion in single-family loans, \$7.5 billion in FHA short refinances, and \$15.9 billion in HECMs. This is a reduction from FHA's projected single-family activity in FY 2014, which signals that FHA's market presence may be declining.

The Budget does not indicate that premiums for FHA-insured guaranteed programs will be adjusted this year. However, it does indicate that FHA may lower premiums for borrowers who agree to participate in its Homeowners Armed with Knowledge pilot program (described below) beginning in FY 2015.

FHA Multifamily Premiums: The Budget proposes that premiums for newly insured market-rate multifamily housing and healthcare facility loans remain at 2014 levels.

Ginnie Mae Securitization of FHA-HFA Risk-Sharing Program Loans: The Budget again includes NCSHA's legislative proposal to allow Ginnie Mae to securitize FHA-HFA Risk-Sharing program loans, authorized under Section 542(c). HUD's Budgets for FY 2013 and FY 2014 also included this proposal.

Small Multifamily Properties: The Budget also re-proposes to allow Ginnie Mae to securitize Section 542(b) Risk-Sharing loans for small multifamily properties with five to 49 units. This proposal is intended to support the development of underserved small properties, which tend to be concentrated in lower income neighborhoods and often offer rents affordable to households below median income.

Rental Assistance Demonstration (RAD): The Budget indicates that in FY 2015, HUD will continue efforts to preserve and improve public and assisted housing through RAD, as authorized by the FY 2012 Appropriations Act. Under RAD, HUD offers PHAs and other owners of rental properties assisted under the Public Housing, Moderate Rehabilitation (Mod Rehab), Rent Supplement (Rent Supp), and Rental Assistance Payment (RAP) programs the option to convert their subsidies to long-term project-based Section 8 contracts that can leverage private financing for capital improvements.

HUD says it will continue to process no-cost conversions in 2015. The Budget also requests \$10 million for a targeted expansion of RAD to public housing properties that cannot feasibly convert at existing funding levels and are located in high-poverty neighborhoods, including designated Promise Zones, where the Administration is supporting comprehensive revitalization efforts. HUD expects this request to cover the incremental subsidy cost of converting approximately 5,000 public housing units, thereby increasing private investment in targeted developments and surrounding neighborhoods.

The Budget also contains several proposals to facilitate additional no-cost conversions of HUD-assisted properties, including eliminating the 60,000 unit cap on Public Housing and

Section 8 Mod Rehab conversions and extending the application deadline for such conversions to September 30, 2018; making Section 8 Mod Rehab Single Room Occupancy properties eligible for RAD; extending the sunset date on conversions of Rent Supp, RAP, and Mod Rehab properties under the second component of RAD to September 30, 2016; and authorizing the conversion of Rent Supp and RAP properties to PBRA contracts.

Housing Counseling: The Budget proposes \$60 million for housing counseling, a \$15 million, or 33 percent, increase from its FY 2014 appropriation. The Budget also proposes \$50 million for the Neighborhood Reinvestment Corporation's National Foreclosure Mitigation Counseling program, an \$18 million, or 26 percent, decrease from its FY 2014 funding level.

In addition, the Budget requests \$10 million for a pilot program called the Homeowners Armed with Knowledge program (HAWK). This initiative would test the effectiveness of providing borrowers with pre- and post-purchase housing counseling in connection with FHA-insured loans. Consumers who agree to participate in the HAWK pilot program would pay lower upfront and annual mortgage insurance premiums. FHA estimates that this pilot could help 100,000 homebuyers and struggling homeowners annually for four years.

Community Development Fund: The Budget proposes to fund the Community Development Fund at \$2.9 billion, a \$230 million, or 7 percent, decrease from its FY 2014 appropriation. It proposes to fund CDBG at \$2.8 billion, a \$230 million, or 8 percent, decrease from its FY 2014 appropriation.

The Budget refers to an effort HUD started last year called "Moving CDBG Forward" and states that HUD will release a package of legislative proposals for CDBG this spring. The Budget states that the reforms will strengthen the program, help grantees target funding to areas of greatest need, enhance program accountability, synchronize critical program cycles with the Consolidated Plan cycle, reduce the number of small grantees, and provide more options for regional coordination.

Homeless Assistance: The Budget proposes \$2.4 billion for homeless assistance, \$301 million, or 14 percent, more than its FY 2014 appropriation. Of this amount, the Budget proposes using almost \$2.2 billion for continuum of care and rural housing stability assistance programs and \$215 million for Emergency Solutions Grants (ESG). The Budget states that HUD will continue to implement the HEARTH Act in 2015.

Housing for the Elderly and for Persons with Disabilities: The Budget proposes \$440 million for the Section 202 Housing for the Elderly program, \$57 million more than appropriated in FY 2014. The Budget proposes \$160 million for the Section 811 Housing for Persons with Disabilities program, \$34 million more than appropriated in FY 2014.

For Section 202, the Budget provides \$350 million to renew and amend operating subsidy contracts for existing Section 202 housing, \$70 million to support service coordinators, and \$20 million for Elderly Project Rental Assistance (PRA).

The Budget states that HUD will provide assistance to states to fund housing developments in coordination with state housing and health care priorities. Funded developments must be leveraged with other capital resources, such as Housing Credits, HOME funds, and other federal, state, and local programs. In those developments, Section 202 funding could only be used for operating assistance.

For Section 811, the Budget provides \$135 million to renew and amend operating subsidy contracts for existing Section 811 housing and \$25 million for new Project Rental Assistance (PRA) awards to state housing agencies.

Public Housing: The Budget proposes \$1.9 billion for the Public Housing Capital Fund, \$50 million, or 3 percent, more than its FY 2014 funding level. The Budget proposes \$4.6 billion for the Public Housing Operating Fund, \$200 million, or 5 percent, more than its FY 2014 funding level.

The Budget includes proposals to provide all PHAs with full flexibility to use their operating and capital funds for any eligible expense under both programs and establish a utilities conservation pilot. The Capital Fund proposed funding amount includes \$25 million for the Jobs-Plus Pilot initiative, which is focused on increasing the employment and earnings of public housing residents.

Choice Neighborhoods Initiative: The Budget proposes \$120 million for the Choice Neighborhoods Initiative, \$30 million more than the FY 2014 appropriation. According to the Budget, this would fund three to four implementation grants and up to 20 planning grants.

AIDS Housing: The Budget proposes \$332 million for the Housing Opportunities for Persons with AIDS (HOPWA) program, a \$2 million increase from its FY 2014 funding level.

Lead-Based Paint Hazard Reduction: The Budget proposes \$120 million for the Lead Hazard Reduction program, \$10 million more than the FY 2014 funding level.

Capacity Building: The Budget proposes \$20 million for the Capacity Building, or Section 4, program. The program provides grants to national intermediaries to develop, enhance, and strengthen the technical and administrative capabilities of community development corporations to carry out community development and affordable housing activities. This program was previously funded as a part of SHOP.

Transformation Initiative: The Budget does not propose any new funding for HUD's Transformation Initiative. Instead, it proposes to transfer up to 0.5 percent of each program's

funding amount to this fund to use for: research, evaluation, and program metrics; program demonstrations; and technical assistance and capacity building.

USDA Rural Housing Programs: The Budget proposes \$360 million for the Section 502 single-family subsidized direct loan program, a \$540 million, or 60 percent, decrease from its FY 2014 appropriation. The Budget recommends funding the Section 502 unsubsidized guaranteed loan program at \$24 billion, equal to its FY 2014 funding level. The Budget proposes to make USDA's guaranteed home loan program a direct endorsement program, consistent with VA and FHA's guaranteed home loan programs, and to require a \$50 per loan guaranteed underwriting fee for lenders.

The Budget proposes \$28.4 million in funding for the Section 515 rural rental housing loan program, equal to its FY 2014 funding level.

The Budget proposes \$20 million for the Multifamily Preservation and Revitalization (MPR) demonstration program, equal to its FY 2014 appropriation. The Budget includes a legislative proposal to make this demonstration a permanent program.

The Budget proposes \$150 million for the Section 538 multifamily loan guarantee program, equal to its FY 2014 funding level.

The Budget proposes \$8 million for the Section 542 rural housing voucher program, a decrease of \$5 million from the FY 2014 appropriated amount. The program provides vouchers for families living in Section 515-assisted properties whose owners prepay their mortgages.

The Budget proposes \$1.1 billion for the Section 521 Rental Assistance program, \$21.5 million less than its FY 2014 funding level. The Budget proposes a number of changes for the rental assistance program. It proposes to require a minimum rent of \$50 per month. It also proposes that USDA will no longer automatically renew contracts within the same 12-month period. Instead, contracts will be renewed at the discretion of the USDA Secretary depending upon the needs of the development, and contracts will be issued for a fixed time and a fixed sum.

The Budget also requests the ability to verify income through IRS and Health and Human Services (HHS) databases. Budget materials state that these new authorities will be proposed in a separate multifamily housing reinvention legislative package.

Other Budget Proposals Relevant to Housing

America Fast Forward (AFF) Bonds: The Administration proposes again to create a new permanent America Fast Forward (AFF) Bond program, which would be an optional alternative to traditional tax-exempt bonds. The AFF program would expand on the expired Build America Bonds (BAB) program, under which Treasury made direct subsidy payments (called

“refundable tax credits”) to state and local governmental issuers of taxable bonds in a subsidy amount equal to 35 percent of the coupon interest on the bonds. Housing was not an eligible activity under the BAB program.

AFF Bonds would be conventional taxable bonds issued by state and local governments. The federal government would make direct payments to state and local governmental issuers of these bonds at a 28 percent subsidy rate. The Budget says this rate would make the proposal revenue-neutral in comparison to the federal tax losses from traditional tax-exempt bonds. The proposal would be effective for bonds issued on or after January 1, 2015.

Allowable eligible uses would include all PAB-eligible activities, including housing, subject to applicable state bond volume cap authority for PABs. The Administration argues that the AFF program will provide a more efficient means of supporting state and local governments than tax-free municipal bonds.

The Administration’s proposal would prevent payments to state and local governments through the AFF program from being reduced through sequestration. Such payments under the BAB program are not protected from sequestration, which has reduced the amount of federal refunds state and local governments have received. This proposal was initially included in the FY 2014 Budget but was not enacted.

Government-Sponsored Enterprises (GSEs): The Budget does not include specific provisions on housing finance reform, but states that the Administration and Congress will continue to work together to develop GSE reform. The Administration is currently working with leaders of the Senate Banking Committee to develop comprehensive GSE reform legislation.

The Budget projects that Fannie Mae and Freddie Mac will remain profitable well into the future, estimating that, if the GSEs’ business models were to remain the same over the next ten years, they would send an additional \$179.2 billion to the federal Treasury. The two firms have already sent \$202.9 billion in revenue to Treasury, compared to the \$187.5 billion the firms received in federal assistance following the financial crisis.

Housing Bonds: The Budget proposes to limit the tax rate at which upper-income taxpayers can use itemized deductions and other tax preferences, including interest on tax-exempt bonds, to reduce their tax liability to a maximum of 28 percent. This limitation would reduce the value of the specified exclusions and deductions that would otherwise reduce taxable income in the top three individual income tax rate brackets of 33, 35, and 39.6 percent to 28 percent. This proposal was included in the President’s previous two budgets but was not enacted.

The Budget proposes to repeal the Mortgage Revenue Bond (MRB) purchase price and refinancing limitations. It would retain other targeting requirements, including the MRB income limits and targeted areas requirement. These proposals were included in the last three Budgets proposed by the Administration but were not enacted.

Housing Credit: To help states finance more developments than they currently can within existing Housing Credit authority caps, the Budget again proposes allowing states to convert annual PAB volume cap into Credit authority. For every \$1,000 of PAB volume cap converted, a state would receive 9 percent Credit authority equal to \$1,000 times the 30 percent present value (4 percent) Credit percentage for the previous December times two. This proposal was included in the FY 2014 Budget but was not enacted.

The FY 2015 proposal differs from last year's by increasing the maximum amount of PAB volume cap that can be converted by each state from 7 percent to 8 percent. It also repeats prior year proposals to provide an alternative method of qualifying for 4 percent Housing Credits without financing at least 50 percent of a building with tax-exempt private activity bonds by reducing a state's PAB volume cap as if the tax-exempt bonds had been issued.

To help enforce provisions of the Violence Against Women Reauthorization Act of 2013, the Budget contains a new proposal requiring protection for victims of domestic violence in Housing Credit extended use agreements. The proposal also clarifies that occupancy restrictions or preferences that favor persons who have experienced domestic abuse would qualify for the special needs exception to the general public use requirement.

The Budget again proposes changing the formula for calculating the rates for the 9 percent Credit and the 4 percent Credit on the grounds that the current discounting formula does not function well when rates are particularly low or high. Under the proposal, the expired flat 9 percent rate would not be renewed. It would be replaced by a discount rate based on the average of the mid-term and long-term applicable Federal rates for the relevant month, plus 200 basis points. Bond-financed Credits would continue to be calculated under the current formula. This proposal was included in the FY 2014 Budget but was not enacted.

To encourage the preservation of federally assisted affordable housing, the Budget re-proposes adding to the ten qualified allocation plan selection criteria currently required under the Internal Revenue Code an eleventh criteria for preservation of federally assisted affordable housing. This proposal was included in the FY 2014 Budget but was not enacted.

The Budget also re-proposes modifying the program's income limits to allow development owners to serve families with incomes above 60 percent of area median income (AMI), as long as at least 40 percent of the units in a development average not greater than 60 percent of AMI. None of these units could be occupied by an individual with income greater than 80 percent of AMI, and any units with income limits less than 20 percent of AMI would be treated as being at 20 percent of AMI. The proposal would allow existing tenants in HUD- and USDA-assisted developments, whose incomes have increased above 60 percent of AMI but are less than 80 percent of AMI, to remain in the development without jeopardizing the development's eligibility for Credit financing. Under current law, units occupied by tenants

with incomes above 60 percent of AMI do not qualify for Credit assistance. This proposal was included in the last three Budgets proposed by the Administration but was not enacted.

To increase demand for the Housing Credit, the Budget again proposes to make Credit investments more attractive to Real Estate Investment Trusts (REITs). The proposal would permit a REIT that receives Housing Credits to designate as tax-exempt some of the dividends that it distributes to its shareholders. These dividends would be excluded from the gross income of the shareholders that receive them. If the REIT did not have sufficient earnings and profits to support a dividend for the entire amount, it could carry forward indefinitely the ability to make the designation. This proposal was included in the FY 2013 and FY 2014 Budgets but was not enacted.

New Markets Tax Credits (NMTC): The Budget proposes to permanently reauthorize the NMTC program and requests \$5 billion of allocation authority per year, plus authority to offset Alternative Minimum Tax (AMT) liability.

Weatherization: The Budget proposes \$227 million for the Department of Energy's home weatherization assistance program, \$43 million more than the enacted FY 2014 level of \$184 million.

Project Rebuild: The Budget again proposes \$15 billion in mandatory spending for Project Rebuild. The program would build on the Neighborhood Stabilization Program (NSP) and was first proposed by the President in September 2011. The proposal has been included in his past three Budgets, but has not been enacted. This initiative would help address blight and rehabilitate homes in hard hit communities. The funding would support new and existing community land banks, incentivize private investments in hardest hit communities, and fund job training programs.

Opportunity, Growth, and Security Initiative: The Budget includes a package of additional proposed program spending in its \$56 billion Opportunity, Growth, and Security Initiative. The Budget splits evenly the proposed spending between defense and non-defense programs and pays for it through proposed changes to the tax code and spending reforms. The initiative includes additional funds for three HUD programs; it includes an additional \$280 million for the Choice Neighborhoods Initiative, \$75 million for integrated planning and investment grants, and an additional \$125 million for the Public Housing Jobs-Plus program.