

PATTERN'S ISSUE ALERT

February 16, 2011

HUD RELEASES PROPOSED FY2012 BUDGET

Spending blue print focuses on fiscal discipline, creating strong, sustainable, inclusive communities and quality affordable homes

WASHINGTON – U.S. Housing and Urban Development (HUD) Secretary Shaun Donovan today unveiled HUD's fiscal year 2012 budget proposal. Titled *Creating Strong, Sustainable, Inclusive Communities and Quality Affordable Homes* the budget seeks to help lead America out of an unprecedented economic crisis and ensure our economy is competitive – growing and working for all Americans. HUD is taking responsibility for our deficit, by investing in what makes America stronger and cutting what doesn't.

The budget provides a roadmap for HUD to work with our regional and local partners to win the future by investing in innovation, building neighborhoods that are connected to jobs and providing greater access to opportunity, so American businesses and communities are the best in the world" said Donovan. "The President has said that we need to live within our means to invest in the future. That has meant tough choices, including to programs that, absent the fiscal situation, we would not cut. But American families are tightening their belts and we need to do the same."

The President is submitting this budget in an economic environment that is significantly improved from when the he took office. An economy that was shrinking is growing again – and instead of rapid job loss, more than a million private sector jobs were created in the last year. But there's still more work to be done to ensure that America and its workers can compete and win in the 21st century. HUD's FY 2012 budget tackles these challenges head on in the following ways:

- by helping responsible families at risk of losing their homes and meeting the need for quality affordable rental housing;
- by transforming neighborhoods of poverty and ensuring that children there have access to the quality education we need to compete in the 21st century;
- by rebuilding the national resource that is our federally-assisted public housing stock and ensuring that its tenants are part of the mobile, skilled workforce our new global economy requires; and,
- by leveraging private sector investments in communities to create jobs and generate the economic growth we need to out-innovate, out-educate and out-build the rest of the world.

HUD's budget also reflects the need to ensure that America's future isn't built on a mountain of debt. As a down payment toward reducing the deficit, the President has proposed a freeze on domestic spending for the next five years, cutting the deficit by \$400 billion over 10 years and bringing non-security discretionary spending to the lowest share of the economy since President Eisenhower. Every department shares a responsibility to make tough cuts so there's room for investments to speed economic growth. HUD's fiscal year 2012 budget more than meets the President's goal:

- The Department's \$48 billion in gross budget authority is offset by \$5 billion in projected FHA and Ginnie Mae receipts credited to HUD's appropriations accounts, leaving net budget authority of \$43 billion, or 1% below the fiscal year 2010 enacted level of \$43.5 billion.
- To maintain this commitment to fiscal discipline, HUD will protect existing residents and made the difficult choice to reduce funding for new units and projects, including cuts to the Community Development Block Grant, HOME Investment Partnerships, and new construction components of the Supportive Housing Programs for the Elderly (202) and Disabled (811).

And because meeting the President's State of the Union charge to "Win the Future" also means reforming government so it's leaner, more transparent, and ready for the 21st century, HUD proposes reforming the administrative infrastructure that oversees its programs.

- Through the Section 8 Voucher Reform Act legislative proposal that is part of this budget, HUD will simplify and rationalize the rent setting provisions of our largest program, yielding—if enacted—over \$150 million in savings in the first year and over \$1 billion in savings over the next half decade.
- Finally, the Transformation Initiative—important funding and programmatic flexibility Congress provided in 2010—is enabling HUD to conduct the kinds of research and demonstrations that will ensure that we are funding what works and identifying what doesn't and what we need to do better.

"This budget reflects the Obama Administration's recognition of the critical role the housing sector must play for the nation to experience a robust, long-term economic recovery," Donovan said. "Equally important, it expresses the confidence of the President in the capacity of HUD to meet a high standard of performance. In short, while it requires hard choices to reduce the deficit, this blueprint for fiscal year 2012 is one that will deliver results for the vulnerable people and often-distressed places that HUD helps."

HUD's mission is to create strong, sustainable, inclusive communities and quality affordable homes for all. HUD is working to strengthen the housing market to bolster the economy and protect consumers; meet the need for quality affordable rental homes; utilize housing as a platform for improving quality of life; build inclusive and sustainable communities free from discrimination; and transform the way HUD does business.

Fact Sheet: HUD's FY 2012 Budget Details

HUD's fiscal year 2012 budget is structured around the five goals of HUD's Strategic Plan:

1 - Helping to Strengthen the Nation's housing market to bolster the economy and protect consumers

FHA will continue to play an important role in the nation's mortgage market in 2011. **We project that it will insure \$218 billion in mortgage borrowing in 2012.** These guarantees will support new home purchases and re-financed mortgages that significantly reduce borrower payments. FHA financing was used by 38 percent of all homebuyers, 60 percent of African American homebuyers and 61 percent of Hispanic families who purchased homes in 2009. It is a vital financing source for first-time homeowners, roughly 30 percent of who use FHA insured financing.

- The Department is equally focused on assisting consumers throughout the homeownership process, from increasing their knowledge of the mortgage products they are considering to protecting them from fraud in any phase of that process. Accordingly, **the budget also includes**

\$168 million for housing and homeowner counseling through HUD and the Neighborhood Reinvestment Corporation (NeighborWorks). Over 4 million households have benefited from housing counseling since April 2009.

- In line with the Administration's proposal to reform the nation's housing finance system and help restore a greater role for the private sector in the mortgage market, the **FHA will also raise insurance premiums**, as authorized to do so by Congress **last year**.

2 - Working to meet the need for quality affordable rental homes

As in fiscal year 2011, this budget maintains HUD's commitment to its core rental assistance programs. This critical investment will help extremely low- to low-income households to obtain or retain decent, safe and sanitary housing.

- **The budget also provides \$9.4 billion for Project-Based Rental Assistance to preserve approximately 1.3 million affordable units through increased funding for contracts with private owners of multifamily properties.** This critical investment will help extremely low- to low-income households to obtain or retain decent, safe and sanitary housing. Similarly, full funding of the Public Housing Operating and Capital Fund will help to preserve the over 1 million units within that program's portfolio.
- The preservation of critically needed rental housing in this country is among our top priorities, including, putting the Department's stock of public housing on sound, rational financial and regulatory footing for the long-term. We also remain committed to the goals of preserving public and assisted housing, regulatory reform, and choice. To this end, **the budget includes \$200 million for a demonstration and rigorous process evaluation of the conversion of up to 255,000 public housing units to long-term project-based rental assistance contracts.** Public housing authorities will then be able to leverage private capital to make repairs.
- Through similar conversions, **the demonstration will preserve 7,600 privately-owned, HUD-assisted units at risk of leaving the affordable housing stock.** This funding request will allow us, working with key stakeholders, to develop new preservation tools that will ensure that we protect our affordable rental and public housing stock.

The Department's overall preservation agenda is complemented in the Department of Treasury's budget for fiscal year 2012, which proposes two reforms to the Low Income Housing Tax Credit (LIHTC) that will:

- It's important to note that this income averaging proposal increases our ability to preserve HUD-assisted properties. 69,224 households living in public housing and 23,271 households in multifamily housing have incomes above 60% of AMI. This proposal allows these units to be counted in basis, increasing the equity flowing to these projects for preservation.
- Make the 4% credit a more viable source of funding for the preservation of the federal affordable housing stock by giving qualifying properties a 30% basis boost in the context of preserving, recapitalizing, and rehabilitating existing affordable housing, particularly public housing targeted by TRA (as well as Multifamily Housing, 236s, BMIRs, RAP, Rent Sup, 202, 811, HOME, McKinney and CDBG funded units, USDA-RD (515s)). This means that a greater amount of equity could be raised per credit even at the higher yields required by investors for 4% investments, which in turn will generate more interest in LIHTC preservation deals within the investor and developer community.

- **FHA's Multifamily mortgage insurance programs** have seen a dramatic increase in demand in the current economic climate. At this time of unprecedented stress in the financial markets, FHA Multifamily programs provide the necessary liquidity so that apartment construction and rehabilitation can continue. In Fiscal Year 2010, FHA multifamily housing commitments totaled \$11.4 billion, which was 3.4 times 2009 volume and 4.9 times 2008 volume. This activity is projected to increase further to \$13.1 billion in 2011 and \$12.8 billion in 2012. Direct jobs created by these volumes of construction spending are estimated to be 85,000 annually. One third of the nation's households are currently renters and most of these are families earning less than the median income and are in need of decent, affordable housing units. FHA financing is often paired with low-income house tax credits, rental subsidies for low- and moderate-income families, tax-exempt bond financing, and/or other state and local resources to expand the offering of affordable units in areas where they are needed most. Multifamily mortgage insurance programs also contribute significantly to local revitalization efforts and economies by providing liquidity to uniquely sustainable projects located in centers of job growth, near transportation and other community opportunities.

3- Promoting housing as a platform to improve quality of life

HUD, as well as state and local policymakers and our private sector partners recognize that stable, affordable housing provides an ideal launching pad for the delivery of healthcare and other social services focused on improving life outcomes for individuals and families. Nowhere is this clearer than in the effort to address homelessness, where a substantial body of research demonstrates that providing permanent supportive housing to chronically ill, chronically homeless individuals and families not only ends their homelessness, but also yields substantial cost saving in public health, criminal justice, and other systems.

This budget provides over \$2.5 billion to make progress toward the ambitious goals of *Opening Doors*, the Federal strategic plan to end homelessness, which was released by the Administration in June 2010, and establishes a five year timeline for ending chronic and veterans homelessness and commits to ending family homelessness over a decade. These funding increases **will enable HUD to assist approximately 78,000 additional homeless individuals and families.**

- This budget will enable our stakeholders to make substantial progress on these ambitious timelines. It includes:
- over \$2.3 billion for Homeless Assistance Grants to maintain existing units and expand prevention, rapid-re-housing, and permanent supportive housing;
- \$145 million in new housing vouchers for over 19,000 homeless veterans and homeless persons who receive education, health care and other services through the Departments of Education (DoE), Health and Human Services (HHS) and Veterans Affairs (VA).
- \$50 million to test new incentives—including additional service coordinators and special payments or insurance—to encourage housing authorities and private landlords to serve more homeless persons.
- **The budget also provides a total of \$953 million for the Housing for the Elderly (202) and Housing for Persons with Disabilities Programs (811). This not only preserves assistance in all existing units, but also includes \$499 million for new construction and incremental project rental assistance contracts.**

4 - Building inclusive and sustainable communities free from discrimination

The American people deserve a federal government that works effectively across its “silos” to deliver results. This Administration has prioritized collaborative initiatives that feature agencies streamlining and coordinating their funding processes, so they complement rather than complicate—or even conflict with—each other. This budget continues one of the most robust, groundbreaking cross-agency collaborations in recent history, the Partnership for Sustainable Communities, including HUD, the Department of Transportation (DOT), and the Environmental Protection Agency (EPA).

- **The Budget includes \$150 million to create incentives** for more communities to develop comprehensive housing and transportation plans that result in jobs, economic growth, and easier commutes.
- The budget also coordinates support for activities to connect historically isolated people and neighborhoods to local, regional, and national economies by **providing a third year of funding (\$250 million) for another signature element of the Administration’s place-based approach-- the Choice Neighborhoods initiative**. This funding will continue transformative investments in high-poverty neighborhoods where distressed HUD-assisted public and privately owned housing is located. The budget will reach 5 to 7 neighborhoods with grants that primarily fund the preservation, rehabilitation and transformation of HUD-assisted public and privately-owned multifamily housing, and will also engage local governments, nonprofits, and for-profit developers in partnerships to improve surrounding communities.
- The Administration’s place-based agenda equally acknowledges the great need among America’s rural communities. In this budget, **HUD is requesting \$790 million to fund programs that will directly support housing and economic development in rural communities, including:**
 - **\$25 million for the Rural Innovation Fund** to support innovative approaches dedicated to addressing the problems of concentrated rural housing distress and community poverty through comprehensive community development, housing and economic development activities.
 - **\$25 million for the Rural Housing Stability program** to assist homeless persons in rural communities.
 - **\$715 million** to fund programs that will support housing and development initiatives in **American Indian, Alaska Native, and Native Hawaiian communities**.
- The budget also includes **a multi-agency initiative to assist communities in using their funds more effectively to support job creation—an improved successor to the Empowerment Zones that expire this year. Coupling targeted tax benefits and grant funding, the budget supports the launch of an interagency effort led by HUD and the Department of Commerce’s Economic Development Administration (EDA) to help communities to better employ the Federal investments they already receive (such as CDBG and HOME), promote high-impact strategies, and build the local capacity needed to execute those strategies in economically distressed areas.**
- **The Department is requesting \$72 million -- \$11 million more than the fiscal year 2011 request and equal to the highest funding level ever enacted (fiscal year 2010)—to support the division of Fair Housing and Equal Opportunity’s administration of the Fair Housing Initiative Program (FHIP) and Fair Housing Assistance Program (FHAP)**. Throughout its portfolio of programs, HUD is committed to maintaining that inclusivity and providing accountability in housing and lending practices nationwide. Through inclusive development, education, enforcement of fair housing laws, and participation of historically underrepresented populations in HUD policies and planning, HUD will affirmatively further fair housing and the ideals of an open society.

5- Transforming the way HUD does business

Winning the future means reforming government so it's leaner, transparent, and ready for the 21st century.

- **The budget also allocates \$120 million to the Transformation Initiative Fund (TI Fund).** In fiscal years 2010 and 2011, thanks to the TI Fund, HUD began to fundamentally alter how we deliver our products and services to our stakeholders, so we are a full and supportive partner in their efforts, rather than an obstacle to be overcome simply in order to access financial resources.
 - *Technical Assistance:* The Transformation Initiative is enabling HUD to develop a new level of technical assistance and capacity building to Federal funding recipients.
 - In the 2012 Budget, HUD once again requests discretion to target technical assistance funding to those programs that need it most based on the capacity of current grantees, new program requirements (e.g., the continued implementation of the HEARTH Act, or implementation of new programs such as Choice Neighborhoods or Sustainable Housing and Communities), broader economic and social imperatives (e.g., a spike in homelessness, or the impact of high energy and housing costs on housing affordability), or unanticipated crises (e.g., natural disasters).
 - In particular, the Department will implement a new initiative—involving twelve other agencies including the White House-- aimed at improving the capacity of local governments in chronically distressed cities and developing partnerships to support job creation.

Rising to Meet Fiscal Challenges

- Finally, this budget reduces funding for the Community Development Block Grant (CDBG) by 7.5 percent or \$300 million and HOME Investment Partnerships by 9.5 percent, or \$175 million relative to current funding levels.
- While we know from mayors and county leaders how important this program is for their communities and are very sensitive to the challenging fiscal situations many of them face, the sacrifices needed to begin putting our fiscal house in order must be broadly shared.
- The remainder of these funds, over \$5.5 billion in total, will provide substantial, flexible resources that allow State and local grantees to improve infrastructure, build and rehab affordable housing, provide rental assistance, and create and retain jobs.