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The Department of Housing and Urban Development: FY2010 Appropriations

Maggie McCarty, Coordinator
Specialist in Housing Policy

Libby Perl
Analyst in Housing Policy

Katie Jones
Analyst in Housing Policy

Bruce E. Foote
Analyst in Housing Policy

Eugene Boyd
Analyst in Federalism and Economic Development Policy

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Summary

President Obama's first budget request includes over $45 million for the Department of Housing and Urban Development in FY2010. This is roughly $4 billion more than was provided in regular annual appropriations in FY2009 by P.L. 111-8. However, it is about $9 billion less than total FY2009 funding for HUD, if the more than $13 billion in emergency economic stimulus funding provided by P.L. 111-5 is taken into account.

This budget request reflects increased funding for most HUD programs, including the Section 8 voucher program, public housing program, housing programs for persons who are elderly or disabled, and block grant programs for states and localities. It also proposes several new initiatives focused on Administration priorities related to transformation in technology, energy efficiency, and distressed communities.

On Thursday, July 23, 2009, the House passed its version of the FY2010 HUD funding bill (H.R. 3288). It provided increases in funding over the President's requested level for many HUD programs. It did not fund all of the President's new initiatives, citing a need for authorizing legislation (H.Rept. 111-218).

This report analyzes recent trends in the HUD budget, summarizes key budget issues, and tracks legislative action on the FY2010 budget process. It will be updated.

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Recent Developments

On July 23, 2009, the House passed its version of the FY2010 HUD appropriations bill (H.R. 3288). It includes funding increases for most HUD programs. It funds some, but not all, of the President's new initiatives. The House Committee report accompanying the bill offered support for several of the initiatives, but cited a need for authorizing language (H.Rept. 111-218). The remainder of this report does not reflect the House-passed bill. It will be updated.

Introduction to the Department of Housing and Urban Development (HUD)

Most of the funding for the activities of the Department of Housing and Urban Development (HUD) comes from discretionary appropriations provided each year in the annual appropriations acts enacted by Congress. HUD's programs are primarily designed to address housing problems faced by households with very low incomes or other special housing needs. These include several programs of rental assistance for persons who are poor, elderly, and/or have disabilities. Three rental assistance programs—Public Housing, Section 8 Vouchers, and Section 8 project-based rental assistance—account for the majority of the Department's non-emergency funding (more than 70% in FY2009). Two flexible block grant programs, HOME and Community Development Block Grants (CDBG), help communities finance a variety of housing and community development activities designed to serve low-income families. Other, more specialized, block grants help communities meet the needs of homeless persons, including those with AIDS. HUD's Federal Housing Administration (FHA) insures mortgages made by lenders to lower-income home buyers, many with below-average credit records, and to developers of multifamily rental buildings containing relatively affordable units. FHA collects fees from insured borrowers, which are used to sustain the insurance fund and offset its administrative costs. Surplus FHA funds have been used to offset the cost of the HUD budget.

In recent years, the HUD budget has also received significant amounts of emergency supplemental funding. Almost $20 billion was provided through HUD's budget for recovery assistance to communities affected by Hurricane Katrina and the other 2005 hurricanes. Most recently, the economic stimulus legislation (P.L. 111-5) provided over $13 billion to HUD's programs.

Table 1 presents total enacted appropriations for HUD over the past five years, including emergency appropriations.

Table 1. Department of Housing and Urban Development Appropriations, FY2005-FY2009

(net budget authority in billions)

FY2005	FY2006	FY2007	FY2008	FY2009
31.92	50.68[a]	35.80[b]	47.66[c]	55.20[d]

Source: Figures are taken from tables produced by the House Appropriations Committee. Final appropriations levels for any fiscal year include all supplemental appropriations or rescissions. They do not reflect revised estimates of offsetting receipts.

a. Figure includes $17.1 billion ($11.9 billion in P.L. 109-148 and $5.2 billion in P.L. 109-234) in emergency supplemental appropriations enacted in response to the 2005 hurricanes. Regular FY2006 HUD appropriations totaled just under $33.6 billion.

b. Figure includes $7 million in emergency supplemental funding.

c. Figure includes $3.22 billion (P.L. 110-116 and P.L. 110-252) in emergency supplemental funding in response to the 2005 hurricanes and $6.8 billion (P.L. 110-252 and P.L. 110-329) in emergency supplemental funding for 2008 disasters. Regular FY2008 appropriations totaled $37.64 billion.

d. Figure includes $13.67 billion in emergency funding provided as fiscal stimulus by P.L. 111-5.

Overview and Recent Trends in HUD Funding

HUD's annual funding, or budget authority, is made up of several components, including regular annual appropriations, emergency appropriations, rescissions, and offsets.[1]

HUD's programs and activities are funded almost entirely through *regular annual appropriations*, also referred to as discretionary appropriations.[2] As a result, the amount provided in the annual appropriations acts each year generally determines how much funding will be obligated and eventually spent for each of HUD's programs and activities.

In some years, Congress will also provide *emergency appropriations*, generally in response to disasters, through one or more of HUD's programs. These funds are generally provided outside of the regular appropriations acts—often in emergency supplemental spending bills—and are generally provided in addition to regular program level funding.

Congressional appropriators are generally subject to limits in the amount of new, non-emergency, discretionary appropriations they can provide in a year. One way to stay within these limits is to provide less in regular annual appropriations. Another way is to find offsets for spending. A portion of the cost of HUD's regular annual appropriations acts is generally offset in two ways. The first is through *rescissions* or cancellations of unobligated or recaptured balances from previous years' funding. The second is through *offsetting receipts and collections*, generally derived from fees paid by HUD partners or clients.

The interaction between new appropriations and offsets provided through rescissions, receipts, and collections, determines HUD's total budget authority. Budget authority is also the "cost" of the HUD budget, as estimated by the Congressional Budget Office in its scorekeeping process.[3] The total amount of budget authority provided to HUD each year, while important for federal budgeting purposes, is not necessarily the best measure of the amount of funding that is being provided for HUD's programs and activities.

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[1] For more information, see CRS Report RS20095, *The Congressional Budget Process: A Brief Overview*, by James V. Saturno.

[2] According to the Congressional Quarterly's American Congressional Dictionary, discretionary appropriations are defined as appropriations not mandated by existing law and therefore made available annually in appropriation bills in such amounts as Congress chooses. The Budget Enforcement Act of 1990 defines discretionary appropriations as budget authority provided in annual appropriation acts and the outlays derived from that authority, but it excludes appropriations for entitlements.

[3] According to the Congressional Quarterly's American Congressional Dictionary, scorekeeping is defined as the process of calculating the budgetary effects of pending and enacted legislation and assessing its impact on applicable budgetary targets, as required by the Congressional Budget Act of 1974.

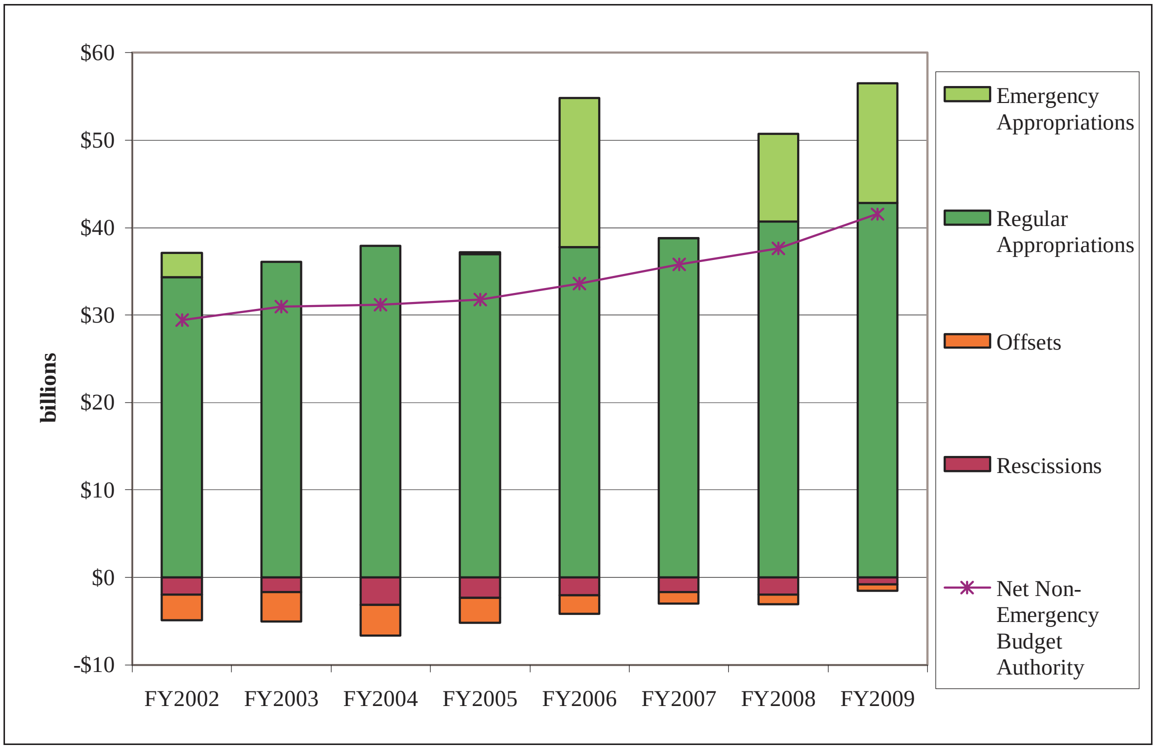
For example, if Congress has increased appropriations for HUD's programs and activities at the same time that offsetting receipts are increasing by a greater amount, then HUD's total budget authority may appear to be declining. Conversely, if Congress has reduced appropriations for HUD's programs and activities at the same time that offsetting receipts are declining by a greater amount, then HUD's budget authority may appear to be increasing. If Congress wished to maintain level budget authority for HUD programs, Congress would increase appropriations if offsets are declining (or, provide less appropriations if offsets are increasing).

As shown by the line in **Figure 1**, net non-emergency budget authority for HUD increased 41% between FY2002 and FY2009, from over $29 billion to over $40 billion. However, the increase in net new non-emergency budget authority masks several important trends.

From FY2002 to FY2009, regular annual appropriations, which is the amount available to fund HUD's programs and activities, grew by 20%. During the same period, the amount available in offsetting receipts and collections, which Congress uses to reduce the cost of providing new appropriations, declined by more than 75% (see **Figure 1**). As a result, the increase in total non-emergency budget authority for HUD from FY2002 to FY2009 is not fully attributable to increases in appropriations for HUD's programs and activities; rather, part of the increase in total budget authority is attributable to decreases in the amount available in offsetting receipts.

For example, in FY2007, Congress provided $39 billion in regular appropriations for HUD's programs and activities. As shown by the line in **Figure 1**, since $3 billion was available from offsets and rescissions, HUD's net non-emergency budget authority was only $36 billion. If less had been available in offsets, the cost to Congress of providing $39 billion in regular appropriations (net new budget authority) would have been higher.

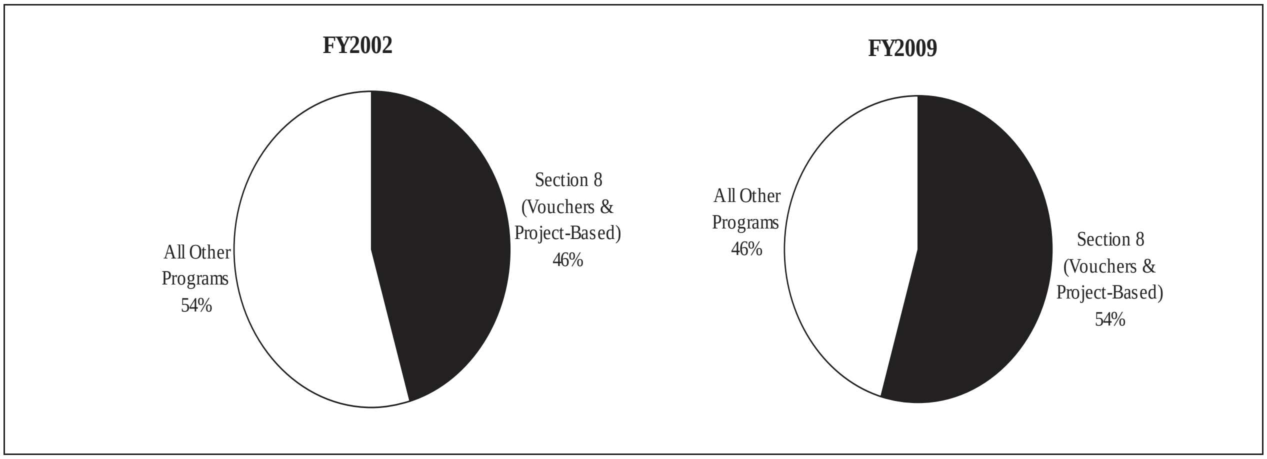
Figure 1. HUD Funding, FY2002-FY2009



Source: Prepared by CRS on the basis of annual appropriations documents.

The increase in regular (non-emergency) appropriations shown in **Figure 1** (from just over $35 billion in FY2002 to over $42 billion in FY2009) is largely attributable to the growth in appropriations for the project-based and tenant-based Section 8 programs. From FY2002 to FY2009, non-emergency appropriations for the Section 8 programs grew by 50%; non-emergency appropriations for all other programs and activities during that period grew by only about 4%. As can be seen in **Figure 2**, appropriations for the Section 8 program have grown from about 46% of HUD's regular appropriations in FY2002 to about 54% of HUD's regular appropriations in FY2009. Congress has increased funding for these programs in part because it has funded new Section 8 vouchers, in some cases to serve new families, and in some cases to provide assistance to families whose project-based rental assistance has expired or whose public housing has been demolished or sold. In other cases, it has required new appropriations to continue to serve the same families in the project-based rental assistance program, as previous funding for long-term rental assistance contracts has run out.

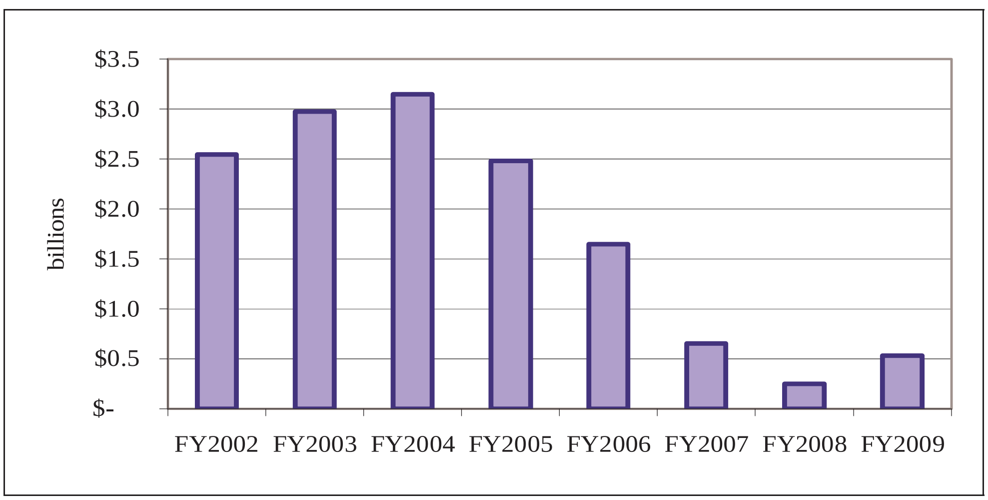
Figure 2. Funding for Section 8 as a Percentage of Total HUD Appropriations, FY2002 and FY2009



Source: Prepared by CRS on the basis of annual appropriations documents.

The decline in offsetting receipts over this period is largely attributable to declines in excess receipts in the Federal Housing Administration's (FHA) mortgage insurance programs (discussed later in this report). As shown in **Figure 3**, from the peak (in FY2004) to the lowest point (in FY2008), the amount of offsetting receipts available from the FHA mortgage insurance program declined by 92%. While the amount of FHA offsetting receipts increased in FY2009, they are expected to decline below the FY2008 level in FY2010, although, as discussed later in this report, that decline may be partially offset by an expected increase in receipts from the Government National Mortgage Association (GNMA) account.

Figure 3. FHA Offsetting Receipts, FY2002-FY2009



Source: Chart prepared by CRS on the basis of annual appropriations documents.

FY2010 Appropriations

Table 2 presents President Obama's FY2010 budget request for HUD, compared to the prior year's enacted budget authority. Four totals are given in **Table 2**: "budget authority provided" and "available budget authority," both including and excluding emergency appropriations. Total budget authority *provided* includes current year appropriations, plus advance appropriations provided in the current fiscal year for use in the next fiscal year; total *available* budget authority includes current year appropriations, plus advance appropriations provided in the prior fiscal year for use in the current fiscal year. Congress is scored by CBO for the amount of available budget authority in an appropriations bill; however, the Appropriations Committees' documents often discuss the amount of budget authority provided.

President Obama's first HUD budget requests an over 8.5% increase in regular annual appropriations for HUD programs. However, that increase would require a 9.5% increase in net new budget authority, because of a decline in the amount requested for rescission.

Table 2. HUD Appropriations, FY2009-FY2010

(dollars in billions)

Accounts	FY2009 enacted	FY2010 request
Appropriations		
Management and Administration	$1.303	$1.346
Tenant Based Rental Assistance (Sec. 8 vouchers)	16.817	17.836
(includes advance appropriation for subsequent year)		
Project Based Rental Assistance (Sec. 8)	7.500	8.100
(includes advance appropriation for subsequent year)		
Public housing capital fund	2.450	2.244
Public housing operating fund	4.455	4.600
HOPE VI/Choice Neighborhoods	0.120	0.250
Native American housing block grants	0.645	0.645
Indian housing loan guarantee	0.009	0.007
Native Hawaiian Block Grant	0.010	0.010
Native Hawaiian loan guarantee	0.001	0.001
Housing, persons with AIDS (HOPWA)	0.310	0.310
Rural Housing Economic Development	0.026	0.000
Energy Innovation Fund	0.000	0.100
Community Development Fund (Including CDBG)	3.900	4.450
Sec.108 loan guarantee; subsidy	0.006	0.000
Brownfields redevelopment	0.010	0.000
HOME Investment Partnerships	1.825	1.825
Self-Help Homeownership	0.064	0.077
Homeless Assistance Grants	1.677	1.794
Housing for the Elderly	0.765	0.765
Housing for Persons with Disabilities	0.250	0.250

Manufactured Housing Fees Trust Fund	0.016	0.016
Housing Counseling Assistance	0.065	0.100
Rental Housing Assistance	0.028	0.040
Research and technology	0.058	0.050
FHA Expenses	0.203	1.010
GNMA Expenses	0.012	0.000
Fair housing activities	0.054	0.072
Office, lead hazard control	0.140	0.140
Working capital fund	0.224	0.200
Inspector General	0.120	0.120
Legislative Proposals	0.000	0.020
Appropriations Subtotal (Including advances provided in current year for subsequent year)	**43.062**	**46.377**
Rescissions		
Rental housing assistance rescission	-0.038	-0.028
Section 8 Voucher Rescission	-0.750	0.000
Rescissions Subtotal	**-0.788**	**-0.028**
Offsetting Collections and Receipts		
Manufactured Housing Fees Trust Fund	-0.011	-0.007
Federal Housing Administration (FHA)	-0.531	-0.140
GNMA	-0.193	-0.720
Legislative Proposals	-0.005	0.000
Offsets Subtotal	**-0.740**	**-0.867**
Emergency Funding[a]		
ARRA Supplemental Public Housing Capital Grants	4.000	0.000
ARRA Indian Housing Block Grants	0.510	0.000
ARRA Community Development Block Grants (CDBG)	1.000	0.000
ARRA Homelessness Prevention	1.500	0.000
ARRA Assisted Housing Stability and Energy and Green Retrofit Investments	2.250	0.000
ARRA Neighborhood Stabilization Program	2.000	0.000
ARRA Tax Credit Assistance Program	2.250	0.000
ARRA Lead paint abatement grants	0.100	0.000
ARRA GSE Conforming Loan Limit Changes	0.038	0.000
ARRA Office of the Inspector General	0.015	0.000
Emergency Funding Subtotal	**13.663**	**0.000**

Totals		
Budget Authority Provided, excluding emergency funding	**41.535**	**45.483**
Budget Authority Available, excluding emergency funding (adjusted for advances)	**41.293**	**45.483**
Budget Authority Provided, including emergency funding	**55.198**	**45.483**
Budget Authority Available, excluding emergency funding (adjusted for advances)	**54.956**	**45.483**

Source: Prepared by CRS based on House Appropriations Committee Re-estimates of the President's FY2010 budget and HUD Congressional Budget Justifications.

a. For an expanded discussion of emergency supplemental funding provided by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5), see Appendix A of CRS Report RL34504, *The Department of Housing and Urban Development: FY2009 Appropriations*, by Maggie McCarty et al.

Key Budget Issues, FY2010

New Administration "Crosscutting" Initiatives

The FY2010 budget is the first of the Obama Administration. While it was completed on a short time-frame, it contains several initiatives that are new and reflect the Obama Administration's priorities. Specifically, as stated in the budget documents, the budget reflects five goals:

1. address the nation's housing and economic crisis;
2. restore federal leadership on promoting affordable rental housing;
3. invest strategically in rural and metropolitan communities;
4. drive energy efficient housing and inclusive, sustainable growth; and
5. transform the way that HUD does business.

While these goals are reflected throughout the budget, several new initiatives are proposed, and are summarized below.

Transformation Initiative

HUD has been criticized for many years for its information technology systems, as well as for the amount of research it has produced.[4] According to HUD's Congressional Budget Justifications, the Department's operations face serious challenges arising from internal resource and structural constraints, while the scope of housing and urban development problems facing the nation is great.

[4] National Research Council. (2008). *Rebuilding the Research Capacity at HUD*. Committee to Evaluate the Research Plan of the Department of Housing and Urban Development. Center for Economic, Governance, and International Studies, Division of Behavioral and Social Sciences and Education. Washington, DC: The National Academies Press.

President Obama's Transformation Initiative requests the authority to transfer up to 1% of funding provided for most HUD accounts to fund activities related to the development of

- Research, Evaluation and Performance Metrics;
- Program Demonstrations;
- Technical Assistance and Capacity Building; and
- Next-Generation Information Technology.

HUD estimates that, at the requested funding level, the transfer authority would make $433.5 million available to the Transformation Initiative in FY2010. In addition, the budget requests $20 million in new appropriations to fund specific activities designed to address fraud, including fraud in the FHA mortgage insurance programs.

Energy Innovation Fund

The Energy Innovation Fund is an Obama Administration proposal to "catalyze private sector investment in the energy efficiency of the Nation's housing stock." According to HUD's Congressional Budget Justifications, the $100 million fund would provide up to $50 million for a "Local Initiatives Fund," which would provide funding to provide "a mix of incentive grants, demand-side subsidies, and supply-side leveraging to support the expansion or start-up" of 10 or more local energy retrofit funds. Another $25 million would be available to develop a new pilot energy efficient mortgage program in FHA's single family mortgage insurance program. The final $25 million would be available to develop a Multifamily Energy Pilot to fund energy efficiency improvements in certain HUD-insured multifamily rehabilitation projects.

Choice Neighborhoods

The Choice Neighborhood Initiative would fund competitive grants to revitalize severely distressed neighborhoods. The initiative is modeled after the HOPE VI program, which provides competitive grants to public housing authorities to revitalize severely distressed public housing. The President's FY2010 budget proposes no new funding for HOPE VI, but requests $250 million for the new Choice Neighborhoods initiatives. In addition to PHAs, local governments, nonprofits, and for-profit developers would be eligible to compete for funds primarily aimed at the transformation, rehabilitation, and replacement of HUD public and assisted housing that cannot be funded through current annual formula or contract payments. According to HUD's Congressional Budget Justifications, in addition to addressing the HUD assisted housing, the program is aimed at "supporting affordable housing and community development activities in surrounding communities and improving the lives of area residents by creating job opportunities, improving schools and providing work and rent incentives that promote family self-sufficiency."

Combating Abusive and Fraudulent Mortgage Practices Initiative

The Combating Abusive and Fraudulent Mortgage Practices Initiative would be an agency-wide initiative to help detect and prevent mortgage fraud on the part of borrowers, lenders, or any other actors playing a role in mortgage transactions. In particular, the initiative is designed to help combat mortgage fraud in the Federal Housing Administration's (FHA) single-family programs. FHA's share of the mortgage market has increased from less than 2% in 2006 to 22% at the end of 2008. HUD's Congressional Budget Justifications point to this increase in FHA's market share, the larger number of lenders participating in FHA, and a recent increase in FHA's single-family loan limit as increasing the opportunities for fraud in FHA's single family programs.

The initiative would provide increased funding and resources for a number of programs and offices within HUD to help identify and prevent mortgage fraud. Specifically, the initiative would include $20 million under the Transformation Initiative to provide technology to help detect fraud; a combined $13 million funding increase for two fair housing programs, the Fair Housing Initiatives Program and the Fair Housing Assistance Program; and $4 million to hire more staff in the Office of Fair Housing and Equal Opportunity, the Office of Housing, and the Office of the General Counsel.

Housing Trust Fund

The Housing and Economic Recovery Act of 2008 (P.L. 110-289) established a Housing Trust Fund that would provide a permanent, dedicated source of funding for affordable housing activities outside of the annual appropriations process. P.L. 110-289 identified contributions from Fannie Mae and Freddie Mac as the dedicated funding source. However, Fannie Mae's and Freddie Mac's contributions to the Housing Trust Fund were indefinitely suspended in November 2008 by their conservator, the Federal Housing Finance Agency, due to Fannie's and Freddie's financial difficulties. The suspension of Fannie's and Freddie's contributions left the Housing Trust Fund without a source of funding. While P.L. 110-289 authorized funding other than the contributions from Fannie Mae and Freddie Mac to be appropriated or transferred to the Housing Trust Fund, no funding has yet been directed to the Housing Trust Fund.

The President's budget proposes $1 billion in mandatory funding for the Housing Trust Fund, but a funding source has not been identified for this sum.

FHA and Ginnie Mae Subsidy Rates

FHA

The Federal Housing Administration (FHA) insures mortgage loans made by private lenders to eligible borrowers. The provisions of the Federal Credit Reform Act of 1990 (FCRA)[5] became effective for the FY1992 Budget. These provisions provide that the cost of federal loan insurance in a given fiscal year is the net present value of all expected cash flows from loans insured in that year. For FHA, the cash inflows are mainly the insurance premiums paid by borrowers, and the cash outflows are mainly the payments to lenders for the cost of loan defaults.

The net value of these cash flows is expressed as a percentage of the volume of insured loans and is referred to as the subsidy rate. If the cash inflows exceed the cash outflows, the subsidy rate is expressed as a negative number because net income from business type activities is shown in the budget as negative outlays. If the cash outflows exceed the cash inflows, the subsidy rate is expressed as a positive number. When the subsidy rate is applied to the expected loan volume, the result is the amount of credit subsidy that a federal credit program needs over the life of the loans. The budget rules require an appropriation of this credit subsidy in the budget year that the loans

[5] Title V of P.L. 101-508

are disbursed. But actual cash flows over the life of the loans are likely to differ from those projected in the first year. So, agencies are required to periodically revise the initial subsidy estimates to include actual experience on the loans.

If the original subsidy estimates are unbiased, it would be expected that the adjustments in the subsidy rates would be up in some years and down in some years, and over time the changes in both directions would be about equal. In the FHA program, however, re-estimates have generally resulted in higher subsidy costs. It suggests that FHA has been overestimating program income, underestimating program costs, or both.

The FHA home loan insurance programs are administered through two program accounts: the Mutual Mortgage Insurance/Cooperative Management Housing Insurance fund account (MMI/CMHI) and the General Insurance/Special Risk Insurance fund account (GI/SRI). The MMI/CMHI fund provides insurance for home mortgages. The GI/SRI fund provides insurance for more risky home mortgages, for multifamily rental housing, and for an assortment of special-purpose loans such as hospitals and nursing homes. (For more information, see CRS Report RS20530, *FHA-Insured Home Loans: An Overview*, by Bruce E. Foote and Katie Jones).

Historically, the MMI fund has had a negative subsidy rate, which means that it generated negative credit subsidy that could be used to offset the credit subsidy needs of other programs.

In recent years FHA has experienced adverse loan performance due to a number of reasons. As a result of this loan performance, the FY2009 HUD budget submission noted that the MMI fund has a positive credit subsidy rate and would require appropriations of credit subsidy budget authority to continue operation. The Budget did not request a credit subsidy appropriation and assumed that it would use its existing authorities to increase the insurance premiums to borrowers and thereby avoid the need for credit subsidy appropriations.

The collapse of the subprime mortgage market has resulted in an increase in applications for FHA-insured loans. For the FY2010 Budget, HUD estimates that the MMI fund has returned to a negative subsidy rate of 0.57%, which would produce $1.7 billion in negative credit subsidy. The Housing and Economic Recovery Act of 2008, P.L. 110-289, moved the Home Equity Conversion Mortgage (HECM) program into the MMI fund, and it is separately accounted. In prior years, the HECM program has been estimated to produce a negative credit subsidy. When HUD re-estimated the subsidy rates for FY2010, the subsidy rate for the HECM program was estimated as positive because the present housing market has resulted in lower than expected appreciation rates for homes. For FY2010, the HECM program is expected to have a subsidy rate of 2.66% and would need appropriations of $798 million in credit subsidy. Under these assumptions the net credit subsidy for the MMI fund would be -$902 million, meaning that the MMI fund would provide income to the government.

The Congressional Budget Office, however, assumes in its re-estimate of the President's budget that the MMI would not produce any negative credit subsidy. This means that, due to large negative credit subsidy needed for the HECM program, the MMI fund will need a net positive credit subsidy appropriation.

Ginnie Mae

The Government National Mortgage Association (Ginnie Mae) is the agency of HUD that guarantees the timely payment of principal and interest on securities backing mortgages insured by FHA and other government agencies. Increases in FHA activity results in an increase in Ginnie Mae activity, since Ginnie Mae backs nearly 97% of FHA-insured mortgages. The FY2010 President's Budget is requesting a $500 billion limit on mortgage backed securities by Ginnie Mae, a significant increase when compared to the $300 billion requested for FY2009. The budget assumes that Ginnie Mae will carry over uncommitted loan guarantee limitation from prior years, so only $300 billion of the new commitment limit will be used in FY2010, the same as for FY2009. The subsidy rate for FY2009 was estimated at -0.21% and produced a negative subsidy of $630 million. For FY2010 the subsidy rate has been estimated at -0.24%, which results in a negative credit subsidy of $720 million.

Section 8 Tenant-Based Rental Assistance (Housing Choice Vouchers)

The Section 8 tenant-based rental assistance account funds the Section 8 voucher program and is the largest account in the HUD budget. The Section 8 voucher program provides portable rental subsidies that low-income families use to reduce their housing costs in the private market. HUD currently funds more than two million Section 8 vouchers, which are administered at the local level by quasi-governmental Public Housing Authorities (PHAs). This account—the largest in HUD's budget—funds the cost of those vouchers and the cost of administering the program.

Table 3. Section 8 Tenant-Based Rental Assistance Funding

(in billions of dollars)

Section 8 Tenant-Based Rental Assistance	FY2009	FY2010 Request
Total, Section 8 Tenant-Based Rental Assistance (budget authority provided)	16.817	17.836
Total, Section 8 Tenant-Based Rental Assistance (budget authority available, pre-rescission)	16.975	17.836
Total, Section 8 Tenant-Based Rental Assistance (budget authority available, post-rescission)	16.225	17.836
Current Year Budget Authority	12.817	13.836
Advance Appropriation provided for next FY	4.000	4.000
Advance Appropriation available for current FY	4.158	4.000
Advance Appropriation available for current FY, less rescission (see below)	3.408	4.000
Voucher Renewal Funding		
Gross Budget Authority for Voucher Renewals	15.200	16.189
Rescission from advance appropriation	-.750	0.000
Net Budget Authority for Voucher Renewals	14.450	16.189
Rental subsidy reserve	*.100*	*.150*
Other Set-Asides		
Administrative fees	1.500	1.494
Additional Fees	*.050*	*.050*
Family Self Sufficiency (FSS) Coordinators	[a]	.050

Section 8 Tenant-Based Rental Assistance	FY2009	FY2010 Request
Tenant Protection Vouchers	.150	.103
New Incremental Vouchers	.125	0.000
Working Capital Fund	.008	0.000

Source: Prepared by CRS on the basis of tables provided by the Appropriations Committee, the FY2010 Omnibus Appropriations Act (P.L. 111-8), HUD Congressional Budget Justifications, and the President's FY2010 Budget.

a. $50 million was included in administrative fee funding for FSS coordinators.

Current Appropriations, Advance Appropriations, and Rescissions

The budget authority for the tenant-based rental assistance account is made up of two components: current year appropriations and advance appropriations. Current year appropriations are provided in a fiscal year for use in that fiscal year. Advance appropriations are provided in a fiscal year for use in the subsequent fiscal year. For budget scoring purposes, the Appropriations Committee is charged for an advance appropriation in the year it becomes available for use. Since FY2001, funding for the Section 8 program has included an advance appropriation, and for most years, the advance appropriation was the same amount every year. As a result, the amount of funding that was *provided* in a given year (the current year appropriation, plus the advance for the next year) was equal to the amount of budget authority *available* to the program for that fiscal year (the current year appropriation, plus the advance from the previous year).

In FY2009, the advance appropriation provided by Congress to become available in FY2010 was less than the amount of the advance appropriation that became available in FY2009 (which had been provided in FY2008). As a result, the amount of budget authority *provided* in FY2009 ($16.817 billion) was less than the amount of budget authority *available* to the program in FY2009 ($16.975 billion). Congress was "scored" by CBO for the amount of budget authority *available* in the fiscal year, rather than the amount *provided* by the bill. In FY2010, the President has requested that the same amount be provided in advance appropriations as was provided in the previous year, so the amount *available* and the amount *provided* would be the same.

However, it is the amount *provided* by the bill that determines the relevant program level. The public housing authorities (PHAs) that administer the voucher program are funded, and therefore manage their programs, on a calendar year basis rather than a fiscal year basis. Since the current year appropriation plus the advance for the subsequent year are used by the program in the calendar year, it is the amount *provided* in a fiscal year that is actually used by the program for the calendar year (which is, effectively, the program year). **Figure 4** illustrates this concept.

Figure 4. Example of Funding Availability

FY2009 Regular Appropriations Available									FY10 Advance Available		
Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
2009 Calendar Year											

FY2010 Regular Appropriations Available									FY11 Advance Available		
Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
2010 Calendar Year											

Source: Prepared by CRS

Renewal Funding

These complicated distinctions between funding types and periods of availability are directly relevant to the amount of funding available to PHAs in a given year to fund the renewal of the vouchers they are administering. The advance appropriation is used for renewals, and renewals account for the majority of funding in the account. As noted earlier, since the program is administered on a calendar year basis, the calendar year is the relevant period in which to measure funding for voucher renewals. **Table 4** provides a comparison of renewal funding for the calendar year, based on the amount of appropriations enacted in FY2009 and the amount requested for FY2010.

Table 4. Section 8 Voucher Renewal Funding

in billions of dollars

Renewal Funding	FY2009	FY2010 Request
Amount provided in FY for use in CY	11.034	12.189
Advance appropriation available for use in CY	4.000	4.000
Rescission	-.750	0.000
Total for renewals in CY	**14.284**	**16.189**

Source: Prepared by CRS on the basis of tables provided by the Appropriations Committee, the FY2010 Omnibus Appropriations Act (P.L. 111-8), HUD Congressional Budget Justifications, and the President's FY2010 Budget.

The FY2009 appropriations law provided just over $11 billion in new appropriations for renewals, as well as an advance of $4 billion. However, the bill also enacted a rescission of $750 million. Altogether, it resulted in $14.284 billion available for renewals in CY2009. All but $100 million of the renewal funds were allocated to PHAs using a formula established in the law. Specifically, a PHA's initial allocation was based on the number of vouchers it had leased, and the cost of those vouchers in FY2008, adjusted for inflation and a few other factors. Then, each PHA's allocation was prorated, or reduced, by an amount that corresponded with HUD's estimate of a portion of their outstanding unspent funds, referred to as Net Restricted Assets (NRA). The aggregate NRA offset equaled the amount rescinded ($750 million). PHAs were expected to then supplement their allocations with their unused NRA, making at least $15 billion available to PHAs for renewals ($14.284 billion in new funding plus $750 million in NRA). The remaining $100 million was set aside as a reserve that HUD could use to adjust the allocations of agencies that (1) faced an increase in renewal costs due to portability or unforeseen circumstances, (2) faced an increase in leasing between the end of the fiscal year and the start of the calendar year, and (3) had unused project-based vouchers and special vouchers for veterans.

As directed by Congress, HUD based the CY2009 allocations on the utilization and cost data submitted by PHAs for FY2008. HUD used this same data to estimate PHAs' NRA. In some cases, HUD's estimates of costs (plus inflation), utilization, and NRA did not accurately represent PHAs CY2009 costs, utilization, and NRA balances. In some cases, the inaccurate estimates resulted from inaccurately reported data; in some cases, the difference resulted from significant changes in the cost and leasing conditions of agencies between FY2008 and the start of CY2009.

Regardless of the reason, some PHAs have found that their CY2009 funding is insufficient to cover the costs of all the vouchers they are currently using to serve families. HUD is working with agencies to determine who is facing this "shortfall," determine who can be assisted with the FY2009 $100 million set-aside, and advising agencies as to how they can cut costs to stay within their budgets.[6] If a PHA does not have sufficient funding to renew all of its vouchers, the PHA may have to stop issuing vouchers, and, at the extreme, some families may lose assistance.

For FY2010, the President has requested $16.189 billion for voucher renewals, with no proposed rescissions. The President's budget request includes an allocation formula similar to the FY2009 formula, but based on CY2009 data. It includes language seeking permission to make adjustments to the data submitted by PHAs. It also seeks authority for the Secretary to offset agency budgets for NRA balances, and the authority to reallocate those offsets to "high performing" PHAs, based on need. It would set aside $150 million for an adjustment reserve. HUD's Congressional Budget Justifications indicate that the amount requested would be sufficient to fund all vouchers currently in use. At an average cost of $7,455, the amount requested would be sufficient to fund 2.17 million vouchers.

Public Housing Funding, HOPE VI, and Choice Neighborhoods

The public housing program provides publicly owned and subsidized rental units for very low-income families. Although no new public housing developments have been built for many years, Congress continues to provide funds to the more than 3,100 public housing authorities (PHAs) that own and maintain the existing stock of more than 1.2 million units. Through the Operating Fund, HUD provides funds to PHAs to help fill the gap between tenants' contributions toward rent and the cost of ongoing maintenance, utilities, and administration of public housing. Through the Capital Fund, HUD provides funding to PHAs for large capital projects and modernization needs. HOPE VI is a competitive grant program that provides funds to help demolish and/or redevelop severely distressed public housing developments, with a focus on building mixed-income communities.

[6] For more information, see the HUD presentation titled "Financial Management 2009," available at http://www.hud.gov/offices/pih/programs/hcv/webcasts/finman2009jun30.pdf

Table 5. Public Housing, FY2009-FY2010
in billions of dollars

Account	FY2009	FY2010 Request
Public Housing Capital Fund	2.450	2.244
Public Housing Operating Fund	4.455	4.600
HOPE VI	0.120	0.000
Choice Neighborhoods	0.000	0.250

Source: Prepared by CRS on the basis of tables provided by the Appropriations Committee, the FY2010 Omnibus Appropriations Act (P.L. 111-8), HUD Congressional Budget Justifications, and the President's FY2010 Budget.

Note: Table does not reflect $2 billion in emergency capital funding provided by the FY2009 economic stimulus act.

Operating Fund

PHAs receive operating funding on the basis of a formula that is meant to make up the difference between what it costs to maintain public housing and what PHAs receive in tenant rents. Each year, HUD estimates PHA budgets on the basis of this formula. HUD then compares the amount of funding PHAs are eligible to receive in aggregate to the amount of funding provided by Congress. If the amount provided by Congress is less than PHAs' aggregate budget eligibility, HUD applies an across-the-board reduction to PHAs' allocations. The percentage of eligible funding provided to PHAs after applying the across-the-board reduction is referred to as the proration level.

In FY2009, Congress provided $4.455 billion for the Public Housing Operating Fund, which was sufficient to fund an estimated 90% of PHA budget eligibility.[7] In FY2010, President Obama requested just under $4.600 billion, which HUD's Congressional Budget Justifications estimate would result in a proration level of 100%. Several of the PHA industry groups have contended that HUD's estimates are incorrect and that to reach 100% proration, the operating fund would need $5.050 billion in FY2010. [8]

Capital Fund

President Obama's FY2010 budget requests $2.244 billion for the Capital Fund. Of that amount, $2.199 billion would be available for formula grants. The amount requested is roughly equal to the estimated $2 billion in new capital needs that accrue every year in public housing. In addition to new needs, there is an estimated backlog of roughly $20 billion in unmet capital needs.[9] These estimates of need, however, are more than 10 years old, and the public housing stock has changed significantly during that time due to demolition and disposition of many units. HUD's Congressional Budget Justifications note that HUD began a Capital Needs Assessment in order to

[7] See HUD FY2010 Congressional Budget Justifications, p. H-6.

[8] See "Industry Groups Send Letter to Secretary Donovan on HUD's 2010 Operating Fund Budget Shortfall," PHADA Advocate, July 1, 2009 (Vol. 24, No. 11).

[9] Abt Associates, "Capital Needs of the Public Housing Stock in 1998 Formula Capital Study," January 2000.

estimate the current capital needs of public housing, but suspended the study at the request of Congress. The Department is currently re-evaluating the study's methodology.

President Obama's FY2010 request is about $142 million (6%) less than was provided through the regular annual appropriations in FY2009. However, another $4 billion in emergency supplemental capital grants were also provided in FY2009 through the economic stimulus bill. HUD's Congressional Budget Justifications note that because the President is requesting full funding for the Operating Fund, PHAs will have less need to use their capital funding to supplement their operating funding. As a result, the up to 10% of capital funding that PHAs are permitted to use for operating needs will be available for capital needs in FY2010. Also, the Justifications note that PHAs will already have a significant amount of capital funding to spend in FY2010 as a result of the $4 billion in emergency supplemental funding provided by P.L. 110-5.

HOPE VI/Choice Neighborhoods

In each of his budget requests from FY2003-FY2009, President Bush requested no new funding for the HOPE VI public housing revitalization program. In response, each year, Congress continued to fund the program. Up until FY2003, the program was generally funded at just under $600 million; in recent years its funding level has generally been around $100 million. The Bush Administration criticized the program for a slow expenditure of grant funds. They also noted that PHAs are able to use their capital fund grants to leverage resources in much the same way HOPE VI grants are used to leverage additional resources, making HOPE VI less necessary. Some low-income housing advocates were also critical of the HOPE VI program, arguing it tore down more public housing than it replaced, and frequently permanently displaced needy public housing residents.

Proponents of HOPE VI frequently cited the program's transformative effects on severely distressed communities and PHA groups have argued that HOPE VI is a necessary supplement to regular capital funding.

President Obama's FY2010 budget requests no new funding for HOPE VI. Instead, the budget requests $250 million for a new "Choice Neighborhoods" initiative, modeled after the HOPE VI program. As noted earlier in this report, the Choice Neighborhood Initiative would fund competitive grants to revitalize severely distressed neighborhoods. In addition to PHAs, local governments, nonprofits, and for-profit developers would be eligible to compete for funds primarily aimed at the transformation, rehabilitation, and replacement of HUD public and assisted housing that cannot be funded through current annual formula or contract payments. According to HUD's Congressional Budget Justifications, in addition to addressing the HUD assisted housing, the program is aimed at "supporting affordable housing and community development activities in surrounding communities and improve the lives of area residents by creating job opportunities, improving schools and providing work and rent incentives that promote family self-sufficiency."

Project-Based Renewal Funding

The project-based rental assistance account provides funding to administer and renew existing project-based Section 8 rental assistance contracts between HUD and private landlords. Under those contracts, HUD provides subsidies for units owned by private landlords that allow eligible low-income families to live in the units but pay only 30% of their incomes toward rent. No new contracts have been entered into under this program since the early 1980s. When the program was active, Congress funded the contracts for 20-40 year periods, so the monthly payments for landlords came from old appropriations. However, once those contracts expire, if they are renewed, they require new annual appropriations.

In July 2007, HUD stopped making monthly payments to project-based Section 8 property owners and suspended renewals of expiring contracts. At the time, HUD stated that they lacked sufficient funding to meet the needs of their existing contracts. Department officials stated that the problem arose because HUD's legal counsel had determined that HUD could no longer obligate partial funding when it entered into a 12-month contract renewal with a property owner, which had been the Department's past practice.

The FY2007 funding level had not been sufficient to fund all contract renewals for their full 12 month terms. The Office of Management and Budget (OMB) and HUD worked together to identify sufficient funding to resume payments to landlords for the remainder of FY2007 (including retroactive payments) and HUD modified its contracts with property owners to indicate that funding might not be set aside for the full length of the contract. This practice of short-funding contracts was the subject of much concern, particularly that property owners would lose confidence in the program, making them potentially less likely to continue to participate.[10]

The FY2008 funding level was not sufficient to fund all project-based contracts at their full 12-month term. At the time it was passed, it was estimated that an additional $2 billion would be needed, on top of the regular appropriation, to make up for the shortfall. In FY2009, the economic stimulus act provided the $2 billion necessary to make up for the shortfall, and the regular FY2009 appropriations act included sufficient funding ($7 billion in regular FY2009 appropriations; $400 million in an advance for FY2010) to fund all contracts for a full 12 months.

President Obama's FY2010 budget requests $7.1 billion in regular FY2010 funding for project-based contract renewals, and asks that Congress provide an addition $400 million in advance appropriations for FY2011. HUD's Congressional Budget Justifications contend that the amount requested will be sufficient to fully fund all contract renewals for 12 months.

Housing Programs for the Elderly and Persons with Disabilities

Formerly known together as Housing for Special Populations, the Section 202 Supportive Housing for the Elderly program (12 U.S.C. §1701q) and the Section 811 Supportive Housing for Persons with Disabilities program (42 U.S.C. §8013) provide capital grants and ongoing project rental assistance contracts (PRAC) to developers of new subsidized housing for these populations. In addition, the Section 811 program provides vouchers for tenants with disabilities to use in the private housing market, referred to as "mainstream vouchers." The Housing for the Elderly appropriation includes funds for the Service Coordinator program and the Assisted Living Conversion program. (For more information about Section 202, see CRS Report RL33508, *Section 202 and Other HUD Rental Housing Programs for Low-Income Elderly Residents*, by Libby Perl, and for more information about Section 811, see CRS Report RL34728, *Section 811 and Other HUD Housing Programs for Persons with Disabilities*, by Libby Perl).

[10] See transcript from "The Impact of Late Housing Assistance Payments on Tenants and Owners in the Project-Based Rental Assistance Program," hearing before the House Financial Services Committee, October 17, 2007.

Table 6. Housing for the Elderly and Persons with Disabilities, FY2009-FY2010
(in millions of dollars)

	FY2009 Omnibus	FY2010 Request
Total Housing for the Elderly	**765**[a]	**765**
Housing for the Elderly	**NA**[a]	**522**
New Section 202 Capital Grants and PRAC	[b]	522
Pre-development Grants	20	0
Working Capital Fund	2	[c]
Technical Assistance to Improve Grant Applications	2	0
Housing for the Elderly Contract Renewals and Amendments	**NA**[a]	**243**
PRAC Renewals and Amendments	[b]	128
Service Coordinators	90	90
Grants for Conversion to Assisted Living	25	25
Total Housing for Persons with Disabilities	**250**	**250**
Housing for Persons with Disabilities	**NA**[d]	**114**
New Capital Grants and PRAC	[b]	114
New Mainstream Vouchers	0	0
Working Capital Fund	2	[c]
Housing for Persons with Disabilities Contract Renewals and Amendments	**NA**[d]	**136**
PRAC Renewal and Amendments	[b]	49
Mainstream Voucher Renewal	87	87

Source: Prepared by CRS on the basis of tables provided by the Appropriations Committee, the FY2010 Omnibus Appropriations Act (P.L. 111-8), HUD Congressional Budget Justifications, and the President's FY2010 Budget.

a. In FY2009, there was only one Housing for the Elderly account, and not a separate account for contract renewals and supportive services as proposed in the President's FY2010 budget.

b. Amounts not specified.

c. According to HUD Budget Justifications, the Department is planning to consolidate funds for the Working Capital Fund into one HUD account as part of its "Transformation Initiative." For more information, see the section of this report entitled "Transformation Initiative."

d. In FY2009, there was only one Housing for Persons with Disabilities account, and not a separate account for contract renewals as proposed in the President's FY2010 budget.

For FY2010, the President has proposed to fund Section 202 and its associated programs and Section 811 at the same levels as FY2009—$765 million and $250 million, respectively. Although funding levels for Section 202 and Section 811 would not change in FY2010 under the President's proposal, the account structure for the programs would be different. (See **Table 6**.) The budget proposal would divide both Housing for the Elderly and Housing for Persons with Disabilities into two separate accounts apiece. In each case, the first account would fund new capital grants and project rental assistance contracts while the second account would fund renewals of existing rental assistance payments—in the case of Section 811, this second account would also include renewals of mainstream vouchers. The Housing for the Elderly Contract Renewals account would also fund Service Coordinators and the Assisted Living Conversion Program. The President's budget for FY2010 proposes to fund these programs at their FY2009 levels—$90 million for Service Coordinators and $25 million for the Assisted Living Conversion Program.

Author Contact Information

Maggie McCarty, Coordinator
Specialist in Housing Policy
mmccarty@crs.loc.gov, 7-2163

Bruce E. Foote
Analyst in Housing Policy
bfoote@crs.loc.gov, 7-7805

Libby Perl
Analyst in Housing Policy
eperl@crs.loc.gov, 7-7806

Eugene Boyd
Analyst in Federalism and Economic Development Policy
eboyd@crs.loc.gov, 7-8689

Katie Jones
Analyst in Housing Policy
kmjones@crs.loc.gov, 7-4162