

# Department of Housing and Urban Development: FY2015 Appropriations

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## Summary

In FY2015, the Department of Housing and Urban Development was funded as part of the FY2015 Consolidated and Further Continuing Appropriations Act (P.L. 113-235), enacted on December 16, 2014, following funding through three short-term continuing resolutions. The bill provides \$45.4 billion in gross discretionary appropriations, not accounting for savings from offsets and other sources, about \$90 million less than in FY2014 (\$45.5 billion). However, *net* budget authority is higher than in FY2014, approximately \$35.6 billion in FY2015 compared to \$32.8 billion in FY2014. Net budget authority takes into account rescissions and offsets from receipts and collections. The primary difference between FY2015 and FY2014 is that estimated receipts from the Federal Housing Administration (FHA) loan insurance program dropped by about \$3 billion.

For the most part, P.L. 113-235 funds HUD programs at approximately the same levels as FY2014. Exceptions include increased funding for Research and Technology (by nearly 57%), Housing for the Elderly and Housing for Persons with Disabilities (by 9% and 7%, respectively), Housing Counseling (by 4%), and the Homeless Assistance Grants (by not quite 1%). However, in most cases any increases would largely support renewals of existing assistance. Decreased funding includes Choice Neighborhoods (by 11%), HOME Investment Partnerships (by 10%), Project-Based Section 8 Rental Assistance (by 2%), and the Community Development Fund and Fair Housing activities (by 1% each).

Prior to enactment of P.L. 113-235, the President requested \$46.7 billion in gross discretionary appropriations for HUD, about \$1.2 billion more than the amount provided in FY2014. Net budget authority requested was \$36.9 billion. While the President requested increased funding for some programs (for example, the Homeless Assistance Grants, Housing for the Elderly, and Housing for Persons with Disabilities), in most cases, funding for these programs would largely have supported renewals of existing rental assistance contracts. Programs proposed for decreased funding included the Community Development Block Grant program (more than 7%), and the HOME Investment Partnerships Program (5%).

The House Appropriations Committee approved H.R. 4745, its version of the Departments of Transportation, Housing and Urban Development, and Related Agencies (THUD) appropriations bill, on May 27, 2014. Two weeks later, on June 10, 2014, the full House approved the bill, with amendments, though none changed the total amount of funding the bill would have provided for HUD. The bill would have provided approximately \$44.7 billion in gross appropriations, a decrease of about \$800 million compared to FY2014 and about \$2 billion compared to the President's budget request. After accounting for offsetting collections and receipts, H.R. 4745 would have provided \$35.0 billion in net budget authority.

The Senate Appropriations Committee reported its version of the THUD appropriations bill, S. 2438, on June 5, 2014. The bill would have provided about \$1 billion more than the House-passed bill for both gross and net budget authority—\$45.8 billion and \$36.0 billion, respectively.

For FY2014 and FY2015 funding levels, see **Table 2**.

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## Introduction to 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.

Three rental assistance programs—Public Housing, Section 8 tenant-based rental assistance (which funds Section 8 Vouchers), and Section 8 project-based rental assistance—account for the majority of the department's funding (more than three-quarters of total HUD appropriations in FY2014). Two flexible block grant programs—HOME and the Community Development Block Grant (CDBG) program—help communities finance a variety of housing and community development activities designed to serve low- and moderate-income families. In addition, in some years Congress appropriates funds to CDBG to assist in disaster recovery. Other more specialized grant programs help communities meet the needs of homeless persons, including those living with HIV/AIDS. HUD's Federal Housing Administration (FHA) insures mortgages made by lenders to home buyers with low down payments 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. Surplus FHA funds have been used to offset the cost of the HUD budget.

**Table 1** presents total net enacted appropriations for HUD over the past five years, including emergency appropriations, rescissions, offsetting collections, and receipts. (For more information, see CRS Report R42542, *Department of Housing and Urban Development (HUD): Funding Trends Since FY2002*, by (name redacted).)

**Table 1. Department of Housing and Urban Development Appropriations, FY2011-FY2015**

(Net budget authority in billions of dollars)

FY2011	FY2012	FY2013	FY2014	FY2015
41.11	37.43 <sup>a</sup>	46.63 <sup>bc</sup>	32.81	35.62

**Source:** Figures for FY2011-FY2012 and FY2014-FY2015 are taken from tables produced by the House Appropriations Committee. FY2013 enacted funding is from *FY2012 enacted*, *FY2013*, and *FY2014 President's Budget funding table*, prepared by HUD.

**Notes:** Final appropriations levels for any fiscal year include all supplemental appropriations and rescissions. They do not reflect revised estimates of offsetting receipts. Each year includes advance appropriations for the subsequent fiscal year, not advance appropriations from the previous fiscal year.

- a. FY2012 budget authority includes \$100 million in disaster spending provided in the regular appropriations act.
- b. FY2013 budget authority includes \$15.2 billion in disaster spending provided through P.L. 113-2. The amount appropriated was \$16 billion, which was then reduced by sequestration.
- c. FY2013 budget authority reflects reductions due to sequestration and a rescission based on Section 3004 of P.L. 113-6. Section 3004 addressed the possibility that the new budget authority provided by the FY2013 appropriations law might exceed the discretionary spending limits in Section 251(c)(2) of the Balanced Budget and Emergency Deficit Control Act. In such an event, Section 3004 called for an across-the-board rescission, resulting in a reduction of 0.2% for HUD programs.

## FY2014 Enacted Funding Levels

The Consolidated Appropriations Act of 2014 (P.L. 113-76) was signed into law on January 17, 2014. The final appropriations law provided year-long appropriations for all federal agencies, including HUD. Congress did not enact any final FY2014 appropriations prior to the start of the fiscal year on October 1, 2013, resulting in a funding lapse and partial government shutdown that lasted until a short-term continuing resolution (CR) was enacted on October 17, 2013. Under the terms of that CR (P.L. 113-46), federal departments and agencies, including those typically funded by the Departments of Transportation, Housing and Urban Development, and Related Agencies appropriations bill, were funded at their FY2013 levels, post-rescission and post-sequestration, back-dated from October 1, 2013, through January 15, 2014. Following enactment of another short-term CR (P.L. 113-73), final FY2014 appropriations were enacted for all federal agencies.

The final appropriation provided \$32.8 billion in *net* budget authority for HUD, which is about 4% more than was provided post-sequestration in FY2013 (not including \$15.2 billion in disaster funding in FY2013). Net budget authority is calculated by subtracting rescissions and offsetting collections and receipts from gross budget authority (appropriations) provided for HUD programs. The reductions in FY2014 primarily consisted of FHA receipts. In FY2014, gross funding for HUD programs was \$45.5 billion, an increase of nearly 7% compared to FY2013 (not including FY2013 disaster funding).

Unlike FY2013 HUD funding, FY2014 discretionary appropriations were not subject to sequestration. For more information about sequestration, see the **Appendix**.

## FY2015 Appropriations

### Final FY2015 Appropriations

On December 16, 2014, the President signed the FY2015 Consolidated and Further Continuing Appropriations Act (P.L. 113-235), funding most federal agencies, including HUD, for the fiscal year. The House passed the bill on December 11, 2014, and the Senate passed it on December 13, 2014. Prior to enactment of P.L. 113-235, the government had been funded with three continuing resolutions. The first, P.L. 113-164, the FY2015 Continuing Appropriations Resolution provided funding from October 1, 2014, through December 11, 2014, at FY2014 levels, less an across-the-board (ATB) rescission of 0.0554% (unless otherwise specified). Congress enacted two additional CRs, P.L. 113-202 through December 15, 2014, and P.L. 113-203 through December 17, 2014, before enactment of P.L. 113-235.

P.L. 113-235 provides \$45.4 billion in gross discretionary appropriations for HUD programs, not accounting for savings from offsets and other sources, about \$90 million less than in FY2014 (\$45.5 billion). However, *net* budget authority is higher than in FY2014, approximately \$35.6 billion in FY2015 compared to \$32.8 billion in FY2014. The primary difference between FY2015 and FY2014 is that estimated receipts from the Federal Housing Administration (FHA) loan insurance program dropped by about \$3 billion in FY2015 so that there were fewer offsets.

## House Action

The House Appropriations Committee approved its version of the FY2015 Departments of Transportation, Housing and Urban Development, and Related Agencies (THUD) Appropriations Act (H.R. 4745) on May 27, 2014. Two weeks later, on June 10, 2014, the full House approved the bill after voting on a number of amendments. None of the adopted amendments changed overall funding for HUD programs. H.R. 4745 would have provided \$44.7 billion in gross budget authority, and \$35.0 billion in net budget authority.

## Senate Action

The Senate Appropriations Committee approved the FY2015 THUD appropriations bill (S. 2438) on June 5, 2014. Senate appropriators had planned to consider the THUD bill as part of a “minibus” with two other appropriations bills (those for the Department of Commerce, Department of Justice, Science and Related Agencies; and the Department of Agriculture) the week of June 16, 2014, but parties were unable to reach agreement on the amendment process, and the measure did not proceed to the floor. The Senate Committee-passed bill would have provided \$45.8 billion in gross budget authority, and \$36.0 billion in net budget authority.

## President’s Budget

On March 4, 2014, the Obama Administration submitted its FY2015 budget request. It included \$46.7 billion in gross discretionary budget authority for HUD, which did not account for savings from rescissions and offsets from receipts and collections. The President’s gross funding request was about \$1.2 billion more than the amount provided in FY2014 (\$45.5 billion).

The amount of net budget authority requested in the President’s budget was also higher than the amount provided in FY2014. This was largely attributable to reduced savings estimated to be available from the Federal Housing Administration (FHA) mortgage insurance fund. While HUD estimated that FHA offsets would increase by about \$1.3 billion compared to FY2014, Congress uses the Congressional Budget Office’s (CBO’s) estimates of FHA

receipts. CBO’s estimate for the amount of offsetting receipts that will be generated by the loans insured under FHA’s Mutual Mortgage Insurance Fund (MMI Fund) in FY2015 was \$4.2 billion lower than the estimate included in the President’s budget. After the President’s request was reduced to account for CBO’s estimates of offsetting collections and receipts, *net* budget authority would have been \$36.9 billion (compared to \$32.8 billion in FY2014).

### **The Opportunity, Growth, and Security Initiative**

The President’s FY2015 budget proposed additional discretionary funding for defense and nondefense programs, paid for through changes to the tax code and reductions in mandatory spending. This proposal, called the Opportunity, Growth, and Security Initiative, would have provided funds in addition to discretionary appropriations for a number of programs, including several HUD programs:

- \$280 million for Choice Neighborhoods;
- \$125 million for the Jobs Plus Initiative (part of the Public Housing Capital Fund);
- \$75 million for Integrated Planning and Investment grants, formerly a component of the Sustainable Communities Initiative.

The funding levels discussed in the remainder of this report do not include additional funds proposed through the Opportunity, Growth, and Security Initiative.

**Table 2** presents account-level funding information for HUD, with column (a) showing FY2014 enacted funding levels, column (b) the President's FY2015 proposal, column (c) the funding levels in the House-passed FY2015 THUD appropriations bill (H.R. 4745), column (d) the funding levels in the Senate Committee-passed FY2015 THUD appropriations bill (S. 2438), and column (e) FY2015-enacted funding levels in P.L. 113-235.

**Table 2. HUD FY2015 Detailed Budget Table**

(In billions of dollars)

Accounts	FY2014 Enacted (P.L. 113-76) (a)	FY2015 Request (b)	FY2015 House- Passed (H.R. 4745) (c)	FY2015 Senate Committee -Reported (S. 2438) (d)	FY2015 Enacted (P.L. 113- 235) (e)
<b>Appropriations</b>					
Management and Administration	1.307	1.366	1.279	1.329	1.314
Tenant-Based Rental Assistance (Sec. 8 vouchers) <sup>a</sup>	19.177	20.045	19.357	19.562	19.304
Rental Assistance Demonstration	0.000	0.010	0.000	0.010	0.000 <sup>b</sup>
Public housing capital fund	1.875	1.925	1.775	1.900	1.875
Public housing operating fund	4.400	4.600	4.400	4.475	4.440
Choice Neighborhoods	0.090	0.120	0.025	0.090	0.080
Family Self Sufficiency	0.075	0.075	0.075	0.075	0.075
Native American housing block grants	0.650	0.650	0.650	0.650	0.650
Indian housing loan guarantee	0.006	0.008	0.008	0.006	0.007
Native Hawaiian block grant	0.010	0.013	0.000	0.010	0.009
Native Hawaiian loan guarantee	0.000 <sup>c</sup>	0.000 <sup>d</sup>	0.000 <sup>d</sup>	0.000 <sup>c</sup>	0.000 <sup>c</sup>
Housing, persons with AIDS (HOPWA)	0.330	0.332	0.306	0.330	0.330
Community Development Fund (Including CDBG)	3.100	2.870	3.060	3.090	3.066
Sec. 108 loan guarantee; subsidy	0.003	0.000 <sup>e</sup>	0.000 <sup>e</sup>	0.000 <sup>e</sup>	0.000 <sup>e</sup>
Capacity Building	0.000 <sup>f</sup>	0.020	0.040	0.000 <sup>f</sup>	0.000 <sup>f</sup>
HOME Investment Partnerships	1.000	0.950 <sup>g</sup>	0.700 <sup>g</sup>	0.950	0.900
Self-Help Homeownership	0.050 <sup>f</sup>	0.000 <sup>g</sup>	0.000 <sup>g</sup>	0.050 <sup>f</sup>	0.050 <sup>f</sup>
Homeless Assistance Grants	2.105	2.406	2.105	2.145	2.135
Project-Based Rental Assistance (Sec. 8) <sup>h</sup>	9.917	9.746	9.746	9.746	9.730

Accounts	FY2014 Enacted (P.L. 113-76) (a)	FY2015 Request (b)	FY2015 House- Passed (H.R. 4745) (c)	FY2015 Senate Committee -Reported (S. 2438) (d)	FY2015 Enacted (P.L. 113- 235) (e)
Housing for the Elderly	0.384	0.440	0.420	0.420	0.420
Housing for Persons with Disabilities	0.126	0.160	0.135	0.135	0.135
Housing Counseling Assistance <sup>i</sup>	0.045	0.060	0.047	0.049	0.047
Manufactured Housing Fees Trust Fund <sup>i</sup>	0.008	0.010	0.010	0.010	0.010
Rental Housing Assistance <sup>j,k</sup>	0.021	0.028	0.028	0.028	0.018
FHA Expenses	0.127	0.170 <sup>l</sup>	0.130 <sup>l</sup>	0.145 <sup>l</sup>	0.130 <sup>l</sup>
FHA-HAWK Pilot <sup>m</sup>	N/A	0.010	0.000	0.000	0.000
GNMA Expenses	0.021	0.029	0.022	0.025	0.024
Research and technology	0.046	0.050	0.040	0.046	0.072
Fair housing activities	0.066	0.071	0.056 <sup>n</sup>	0.066	0.065
Office, lead hazard control	0.110	0.120	0.070	0.110	0.110
Information Technology Fund <sup>o</sup>	0.250	0.272	0.087 <sup>n,p</sup>	0.250	0.250
Inspector General	0.125	0.129	0.125	0.129	0.126
Transformation Initiative	0.040	0.000 <sup>q</sup>	0.000	0.000 <sup>q</sup>	0.000
<i>Appropriations Subtotal (Including advances provided in current year for subsequent year)</i>	<i>45.462</i>	<i>46.685</i>	<i>44.695</i>	<i>45.831</i>	<i>45.373</i>
<b>Rescissions</b>					
Drug elimination grants rescission	0.000	0.000	0.000	-0.001	-0.001
Rural housing and economic development rescission	0.000	0.000	0.000	-0.002	0.000
Youth Build rescission	0.000	0.000	0.000	0.000 <sup>r</sup>	0.000 <sup>r</sup>
Rental housing assistance rescission	-0.004	0.000	0.000	0.000	0.000
Section 108 rescission	0.000	0.000	-0.003	0.000	0.000
Brownfields rescission	0.000	0.000	-0.003	-0.003	-0.003
FHA GI/SRI credit subsidy rescission	0.000	0.000	0.000	-0.010	-0.010
<i>Rescissions Subtotal</i>	<i>-0.004</i>	<i>0.000</i>	<i>-0.006</i>	<i>-0.017</i>	<i>-0.014</i>
<b>Offsetting Collections and Receipts</b>					
Manufactured Housing Fees Trust Fund <sup>s</sup>	-0.007	-0.010	-0.010	-0.010	-0.010
Federal Housing Administration (FHA) <sup>t</sup>	-11.824	-8.895 <sup>l</sup>	-8.863 <sup>l</sup>	-8.895 <sup>l</sup>	-8.863 <sup>l</sup>

Accounts	FY2014 Enacted (P.L. 113-76) (a)	FY2015 Request (b)	FY2015 House- Passed (H.R. 4745) (c)	FY2015 Senate Committee -Reported (S. 2438) (d)	FY2015 Enacted (P.L. 113- 235) (e)
GNMA	-0.819	-0.864	-0.864	-0.864	-0.864
Offsets Subtotal	-12.650	-9.769	-9.737	-9.769	-9.737
<b>Total Budget Authority Provided</b>	<b>32.809</b>	<b>36.916</b>	<b>34.952</b>	<b>36.046</b>	<b>35.621</b>

**Sources:** Table prepared by CRS based on P.L. 113-76 and the Joint Explanatory Statement accompanying P.L. 113-76 (FY2014 enacted); the President's FY2015 budget documents, including HUD Congressional Budget Justifications (FY2015-requested levels); H.R. 4745 as amended on the House floor and H.Rept. 113-464 (House-passed levels); S.Rept. 113-182 (Senate Committee-passed levels); and the FY2015 Consolidated and Continuing Appropriations Act (P.L. 113-235) and the Explanatory Statement, *Congressional Record*, vol. 160, part 151—Book II (December 11, 2014), pp. H9981-H9984 (FY2015 enacted levels).

- a. The Section 8 tenant-based rental assistance account includes both current-year and advance appropriations. Typically, Congress appropriates about \$4 billion for tenant-based rental assistance for the subsequent fiscal year in addition to funds for the current year.
- b. While no funding was provided for the Rental Assistance Demonstration, the law did raise the cap on the number of units that can participate in the demonstration from 60,000 to 185,000 and made several other changes. See Section 234 of HUD General Provisions in P.L. 113-235.
- c. Provides \$100,000 for the Native Hawaiian loan guarantee (rounding to less than \$1 million).
- d. The President's budget request included no new funding for the Native Hawaiian loan guarantee in FY2015, noting that carryover balances provide sufficient funds to administer this program in FY2015. The House-passed bill also included no new funding for the program.
- e. In FY2014, Congress enacted a fee structure for the Section 108 program. No credit subsidy was requested in FY2015.
- f. \$40 million for Capacity Building is included in the SHOP account.
- g. The President's budget request and the House-passed version of H.R. 4745 both included up to \$10 million in funding for the Self-Help Homeownership Opportunity Program (SHOP) as a set-aside in the HOME account rather than continuing to fund SHOP in its own account.
- h. The Section 8 project-based rental assistance account includes both current-year and advance appropriations. Typically, Congress appropriates about \$400 million for project-based rental assistance for the subsequent fiscal year in addition to funds for the current year.
- i. In addition to HUD's housing counseling assistance program, Congress in recent years has provided funding specifically for foreclosure mitigation counseling to the National Foreclosure Mitigation Counseling Program (NFMCP), administered by the Neighborhood Reinvestment Corporation (also known as NeighborWorks America). NeighborWorks is not part of HUD, but is usually funded as a related agency in the annual HUD appropriations laws.
- j. Some or all of the cost of funding these accounts is offset by the collection of fees or other receipts, shown later in this table.
- k. The Rental Housing Assistance account is used to provide supplemental funding to some older HUD rent-assisted properties and, when funding is provided, it is typically offset by recaptures. Funding is not requested in this account every year.
- l. The President's budget requested authority to charge a new administrative support fee to lenders. The budget request anticipated that the fee would generate about \$30 million, which would have offset part of the cost of FHA's administrative expenses. The House-passed bill did not provide authority for FHA to charge the administrative support fee and did not reflect the additional \$30 million in offsets, while the

- Senate Appropriations Committee-reported bill did provide the requested authority and included the additional amount of offsets. The FY2015-enacted bill did not include the authority to charge fees.
- m. The President's budget included \$10 million for a new Homeowners Armed with Knowledge (HAWK) pilot program, which would encourage housing counseling for borrowers with FHA-insured mortgages. The House-passed bill prohibited any funds from being used to implement HAWK. The Senate Committee report was supportive of FHA-HAWK, but did not provide any separate funding for the initiative. The FY2015 enacted bill prohibited funds from being used for the HAWK program (see Section 235 of HUD General Provisions in P.L. 113-235).
  - n. An amendment on the House floor increased the amount for the Fair Housing Initiatives Program by \$10 million, with an offset from the Information Technology Fund.
  - o. The Information Technology Fund was formerly called the Working Capital Fund.
  - p. The House Appropriations Committee Report (H.Rept. 113-464) proposed that HUD make up the difference for needed information technology funds by establishing a working capital fund, with each HUD office being charged for its support.
  - q. The President's budget request and Senate Appropriations Committee-passed bill proposed that the Transformation Initiative be funded by transfers from other HUD accounts.
  - r. Includes a rescission of \$460,000 from the Youth Build program (rounding to less than \$1 million) which was formerly funded in HUD's budget, but is now funded in the Department of Labor's budget.
  - s. Appropriations language specifies that the overall amount appropriated to the Manufactured Housing Fees Trust Fund is to be made available to HUD to incur obligations under this program pending the receipt of fee income. As fee income is received, the appropriation amount is reduced, so that the final appropriation coming from the general fund is less than the overall appropriated amount. HUD is directed to make changes to the fees it charges as necessary to ensure that the final fiscal year appropriation is no more than what is specified in the appropriations language. For FY2015, HUD expects a fee increase to result in offsetting fee collections that will be high enough to cover the entire \$10 million cost of the program.
  - t. Amounts shown here reflect the Congressional Budget Office's re-estimate of the President's budget request; therefore, the figure for the FY2015 budget request differs from what is shown in the President's budget documents. CBO's estimate of the offsetting receipts that would be generated by FHA's single-family mortgage insurance programs in FY2015 was \$4 billion lower than the amount estimated in the President's budget.

## **Selected FY2015 Funding Issues**

### **Funding for Assisted Housing Programs**

More than 75% of discretionary funding for HUD supports three programs: Section 8 tenant-based rental assistance (which funds Section 8 Housing Choice Vouchers), Section 8 project-based rental assistance, and the Public Housing program. Together, these three programs serve more than 4 million low-income households. The following subsections discuss appropriations for these three programs, along with smaller associated programs, Choice Neighborhoods and the Rental Assistance Demonstration.

#### **Section 8 Tenant-Based Rental Assistance**

The tenant-based rental assistance (TBRA) account funds the Section 8 Housing Choice Voucher program; it is the largest account in HUD's budget. Most of the funding provided to the account each year is for the annual renewal of more than 2 million vouchers that are currently authorized and being used by families to subsidize their housing costs. The account also provides funding for the administrative costs incurred by the Public Housing Authorities (PHAs) that administer the

program. The account is funded using both current-year appropriations and advance appropriations provided for use in the following fiscal year. (For more information about the program, see CRS Report RL34002, *Section 8 Housing Choice Voucher Program: Issues and Reform Proposals*, by (name redacted).)

As shown in **Table 3**, the President's FY2015 budget proposed that total funding for the Section 8 tenant-based rental assistance account increase from \$19.2 billion in FY2014 to \$20.0 billion in FY2015, an increase of 4.5%. The President's budget documents indicated that the requested funding level would be sufficient to renew the roughly 2.2 million vouchers currently funded, and to provide new HUD-VASH vouchers for homeless veterans as well as tenant-protection vouchers for residents in properties that no longer provide subsidized housing. The President's budget request proposed to increase the amount of administrative fees paid to the local PHAs that administer the program. In FY2014, the amount provided for administrative fees within the TBRA account was sufficient to fund only about 75% of eligible fees; HUD estimated that the requested funding level in FY2015 would increase the "proration level" to 83%.

Both the House- and Senate Committee-passed THUD appropriations bills would have reduced TBRA funding relative to the President's budget request, but increased funding compared to FY2014 levels. The House-passed bill (H.R. 4745) would have provided a total of \$19.4 billion for TBRA, and the Senate Committee-passed bill (S. 2438) would have provided \$19.6 billion. The administrative fees funding level in H.R. 4745 would have been \$1.350 billion, \$150 million less than in FY2014, while the amount proposed in S. 2438 would have been slightly more than was appropriated in FY2014, at \$1.555 billion. Both bills would have provided less than was requested in the President's budget.

The final FY2015 appropriations law provides \$19.3 billion for the TBRA account, slightly more than was provided in FY2014 (+0.7%), but less than was requested by the President (-3.7%) or proposed by H.R. 4745 (-0.3%) or S. 2438 (-1.3%). The law provides less for voucher renewals than was requested or included in H.R. 4745 or S. 2438, but the explanatory statement accompanying the law notes that the funding reduction reflects revised estimates from HUD of the amount needed to renew existing vouchers. While the law increases the funding level for administrative fees, they were not increased to the level that was requested by the President (a \$30 million increase relative to a proposed \$205 million increase).

The House-passed bill would have prevented HUD from approving Section 8 payment standards above 120% of fair market rent. PHAs may ask HUD for permission to use higher payment standards, the basis for rents paid to landlords, when certain circumstances are met.<sup>1</sup> Higher payment standards are used where they are needed either to help families find housing outside of high-poverty areas or because families are unable to find housing within the voucher term. This restriction was not included in the final law.

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<sup>1</sup> 24 C.F.R. §982.503(c).

**Table 3. Tenant-Based Rental Assistance (Housing Choice Vouchers), FY2014-FY2015**  
(In billions of dollars)

Section 8 Tenant-Based Rental Assistance	FY2014 Enacted	FY2015 Request	FY2015 House-Passed H.R. 4745	FY2015 Senate Committee -Passed S. 2438	FY2015 Enacted (P.L. 113-235)
<b>Total provided in bill</b>	<b>19.177</b>	<b>20.045</b>	<b>19.357</b>	<b>19.562</b>	<b>19.304</b>
<b>Total available in fiscal year</b>	<b>19.177</b>	<b>20.045</b>	<b>19.357</b>	<b>19.562</b>	<b>19.304</b>
Current-year budget authority	15.177	16.045	15.357	15.562	15.304
Advance appropriation provided for next fiscal year	4.000	4.000	4.000	4.000	4.000
Advance appropriation available for current fiscal year	4.000	4.000	4.000	4.000	4.000
<b>Details</b>					
Budget authority for voucher renewals	17.366	18.007	17.693	17.719	17.486
<i>Rental subsidy reserve</i>	<i>0.075</i>	<i>0.075</i>	<i>0.075</i>	<i>0.075</i>	<i>0.120</i>
Administrative fees	1.500	1.705	1.350	1.555	1.530
<i>Additional fees</i>	<i>0.015</i>	<i>0.010</i>	<i>0.010</i>	<i>0.010</i>	<i>0.010</i>
Tenant Protection Vouchers	0.130	0.150	0.130	0.130	0.130
Veterans Affairs Supported Housing	0.075	0.075	0.075	0.075	0.075
Section 811 Voucher renewals	0.107	0.108	0.108	0.083	0.083

**Source:** Table prepared by CRS based on P.L. 113-76 and the Joint Explanatory Statement accompanying P.L. 113-76 (FY2014 enacted); the President's FY2015 budget documents, including HUD Congressional Budget Justifications (FY2015-requested levels); H.R. 4745 as amended on the House floor and H.Rept. 113-464 (House-passed levels); S. 2438 and S.Rept. 113-182 (Senate Committee-passed levels); and the FY2015 Consolidated and Continuing Appropriations Act (P.L. 113-235) and the Explanatory Statement, *Congressional Record*, vol. 160, part 151—Book II (December 11, 2014), pp. H9981-H9984 (FY2015 enacted levels).

## Section 8 Project-Based Rental Assistance

The Section 8 project-based rental assistance (PBRA) account provides funding to administer and renew existing project-based Section 8 rental assistance contracts between HUD and private multifamily property owners. Under those contracts, HUD provides subsidies to the owners to make up the difference between what eligible low-income families pay to live in subsidized units (30% of their incomes) and a previously agreed-upon rent for the unit. No contracts for newly subsidized units have been entered into under this program since the early 1980s.<sup>2</sup> When the program was active, Congress funded the contracts for 20- to 40-year periods, so the monthly payments for owners came from old appropriations. However, once those contracts expire, they require new annual appropriations if they are renewed. Further, some old contracts do not have sufficient funding to finish their existing terms, so new funding is needed to complete the contract

<sup>2</sup> Under the Rental Assistance Demonstration (RAD), units funded through other HUD-assisted housing programs may convert to Section 8 project-based assistance. These include the Rent Supplement program, Rental Assistance Payments, Public Housing, and Section 8 Moderate Rehabilitation program.

(referred to as amendment funding). As more contracts have shifted from long-term appropriations to new appropriations, this account has grown and become the second-largest account in HUD's budget.

The President's FY2015 budget proposed a decrease of not-quite \$200 million in PBRA compared to FY2014 (\$9.7 billion compared to \$9.9 billion). The budget also proposed that all PBRA contracts be funded on a calendar year (CY) schedule, from January through December. Currently, PBRA funding is based on the month in which contracts were entered into. HUD has sometimes "short-funded" contracts in recent years, providing owners with less than one year of funding due to funding levels for the program. The President's budget proposed that FY2015 funding be used to fund all contracts through CY2015 (in some cases, this would mean less than one year of funding would be needed). Then, FY2016 funding would be used to fund all contracts for the full 2016 calendar year at an estimated cost of \$10.8 billion. A change to calendar year funding would not only provide a one-time appropriations savings for the account, but it would also bring PBRA in line with Section 8 tenant-based rental assistance and Public Housing, where units are already funded on a calendar year basis.

Both the House-passed bill (H.R. 4745) and Senate Appropriations Committee-passed bill (S. 2438) followed the President's proposal for calendar year funding and proposed \$9.7 billion for PBRA. The Senate Appropriations Committee "reluctantly" agreed with the proposal to shift to calendar year funding, and stated that "due to the budget constraints for fiscal year 2015, the Committee accepts this approach as the best option for preserving HUD's housing assistance programs." (See S.Rept. 113-182.) The House Appropriations Committee reported that it expected HUD to "plan for the sustainability of the new payment cycle beyond calendar year 2015, and ... to accurately reflect the twelve months of funding required to support the new approach in its annual budget request for fiscal year 2016." (See H.Rept. 113-464.)

The final FY2015 funding law appropriates \$9.73 billion for PBRA, \$16 million (0.2%) less than the amount requested by the President and proposed by H.R. 4745 and S. 2438. The law permits the Secretary of HUD to supplement the appropriations provided with recaptured and unobligated funds, including funds from certain property owners' residual receipts accounts. While the explanatory statement accompanying the law is silent on the calendar year funding proposal, the funding level provided would not be sufficient to fully fund all PBRA contracts for 12 months and thus is consistent with the President's proposal to convert to calendar year funding.

## **Public Housing and Choice Neighborhoods**

The Public Housing program provides publicly owned and subsidized rental units for very low-income families. Created in 1937, it is the federal government's oldest housing assistance program for poor families, and it is arguably HUD's most well-known assistance program. (For more information, see CRS Report R41654, *Introduction to Public Housing*, by [name redacted].)

Although no new Public Housing developments have been built for many years, Congress continues to provide funds to the more than 3,100 PHAs that own and maintain the existing stock of more than 1 million units. Public Housing receives federal funding under two primary accounts, which, when combined, result in Public Housing being the third-highest funded program in HUD's budget (following the two Section 8 programs). Through the operating fund, HUD provides funding to PHAs to help fill the gap between tenants' rent contributions and the cost of ongoing maintenance, utilities, and administration of public housing properties. Through

the capital fund, HUD provides funding to PHAs for capital projects and modernization of their public housing properties.

In terms of total funding for the Public Housing program—both the operating fund and capital fund—the President’s FY2015 budget requested a 4% increase compared to FY2014, up from approximately \$6.3 billion to \$6.5 billion. As shown in **Table 4**, the operating fund request included a 4.5% increase (from \$4.400 billion to \$4.600 billion) and the capital fund request a 2.7% increase (from \$1.875 billion to \$1.925 billion) over FY2014. The budget proposed to eliminate funding for the Resident Opportunities and Self Sufficiency (ROSS) program and requested \$25 million for the Jobs Plus Pilot Initiative. The Jobs Plus Initiative is based on the original Jobs Plus demonstration, which identified several place-based work support strategies that appeared to increase employment and earnings for residents of public housing. It was funded for the first time at \$15 million in FY2014.

The House-passed THUD appropriations bill (H.R. 4745) would have reduced funding for the capital fund relative to both FY2014 and the President’s request, proposing about \$1.8 billion, and would have maintained the FY2014 funding level for the operating fund at \$4.4 billion. The Senate Committee-passed bill (S. 2438) included \$1.9 billion for the capital fund, splitting the difference between FY2014 (\$1.875 billion) and the President’s request (\$1.925 billion), and proposed to increase funding for the operating fund compared to FY2014, providing about \$4.5 billion. Both H.R. 4745 and S. 2438 would have maintain funding at FY2014 levels for both ROSS (\$45 million) and the Jobs Plus Initiative (\$15 million).

The final FY2015 appropriations law funds the operating fund and the capital fund at FY2014 levels.

### *Choice Neighborhoods*

The FY2015 budget requested \$120 million for Choice Neighborhoods, an increase from FY2014 when the program received \$90 million. The Choice Neighborhoods program is an Obama Administration initiative that provides competitive grants to local communities to redevelop distressed assisted housing. Choice Neighborhoods was designed to replace HOPE VI, which provided competitive grants to PHAs to redevelop distressed public housing. While PHAs are eligible to receive Choice Neighborhood grants, other entities may also apply. FY2012 was the first year that Choice Neighborhoods was funded while HOPE VI was not. The House-passed THUD appropriations bill included \$25 million for Choice Neighborhoods, and the Senate Committee-passed bill would have maintained funding at the FY2014 level of \$90 million.

The final FY2015 appropriations law funds the account at \$80 million, which is \$10 million less than was provided in FY2014 and proposed in S. 2438 and \$40 million less than was requested in the President’s budget; however, it is \$55 million more than was proposed in H.R. 4745.

**Table 4. Public Housing, FY2014-FY2015**

(In billions of dollars)

Account	FY2014 Enacted	FY2015 Request	FY2015 House- Passed H.R. 4745	FY2015 Senate Committee- Passed S. 2438	FY2015 Enacted (P.L. 113- 235)
Public Housing Capital Fund	1.875	1.925	1.775	1.900	1.875
<i>Amount available for formula grants, after set-asides</i>	<i>1.787</i>	<i>1.867</i>	<i>1.682</i>	<i>1.809</i>	<i>1.784</i>
<i>Resident Opportunities and Self Sufficiency (ROSS)</i>	<i>0.045</i>	<i>0.000</i>	<i>0.045</i>	<i>0.045</i>	<i>0.045</i>
<i>Jobs Plus Initiative</i>	<i>0.015</i>	<i>0.025</i>	<i>0.015</i>	<i>0.015</i>	<i>0.015</i>
<i>Other set-asides</i>	<i>0.028</i>	<i>0.033</i>	<i>0.033</i>	<i>0.031</i>	<i>0.031</i>
Public Housing Operating Fund	4.400	4.600	4.400	4.475	4.440
Choice Neighborhoods	0.090	0.120	0.025	0.090	0.080

**Source:** Table prepared by CRS based on P.L. 113-76 and the Joint Explanatory Statement accompanying P.L. 113-76 (FY2014 enacted); the President's FY2015 budget documents, including HUD Congressional Budget Justifications (FY2015-requested levels); H.R. 4745 as amended on the House floor and H.Rept. 113-464 (House-passed levels); S. 2438 and S.Rept. 113-182 (Senate Committee-passed levels); and the FY2015 Consolidated and Continuing Appropriations Act (P.L. 113-235) and the Explanatory Statement, *Congressional Record*, vol. 160, part 151—Book II (December 11, 2014), pp. H9981-H9984 (FY2015 enacted levels).

## The Rental Assistance Demonstration Program

The FY2012 Consolidated Appropriations Act (P.L. 112-55) established the Rental Assistance Demonstration (RAD). RAD allows existing housing subsidy programs to convert to Section 8 project-based rental assistance (PBRA) or Section 8 project-based vouchers (PBV). RAD has two components: (1) Public Housing units and Section 8 Moderate Rehabilitation (Mod. Rehab.) units can convert to PBRA or PBV, and (2) two legacy rental assistance programs, Rent Supplement and the Rental Assistance Program, can convert to PBV assistance. The law limited the number of conversions under the first RAD component to 60,000 units; there is no limit on the number of units that can convert under the second component. RAD was not funded, so conversions from one form of assistance to PBRA or PBV must be cost neutral. The first component of RAD was initially authorized through FY2015 and the second component through December 31, 2014.

For FY2015, the President's budget included several proposals regarding RAD:

- eliminate the cap on units that can convert under the first RAD component;
- provide \$10 million to fund Public Housing conversions where additional rental assistance is needed;
- allow Mod. Rehab. Single Room Occupancy units for homeless individuals to convert (they are not currently included); and
- allow units eligible to convert under the second RAD component to convert to PBRA in addition to PBV.

The House-passed THUD bill (H.R. 4745) included neither funding for RAD nor changes to the way it operates. The Senate Committee-passed bill (S. 2438) included \$10 million for the conversion of Public Housing units and proposed to raise the cap on units that can convert under the first RAD component to 185,000; extend the authorization dates for both RAD components (through FY2018 and December 31, 2016, respectively); allow Mod. Rehab. Single Room Occupancy units for homeless individuals to convert under the first RAD component; and allow units eligible to convert under the second RAD component to convert to PBRA in addition to PBV.

The final FY2015 HUD appropriations law includes the RAD provisions from S. 2438, with two exceptions: (1) no funding is provided for RAD; and (2) the deadline for conversion under the second component of RAD is eliminated.

## **Community Development Funding: The CDF, CDBG, and Section 108**

The Community Development Fund (CDF) funds several community development-related activities, including the Community Development Block Grant (CDBG) program. CDBG is the federal government's largest and most widely available source of financial assistance supporting state and local government-directed neighborhood revitalization, housing rehabilitation, and economic development activities. These formula-based grants are allocated to approximately 1,196 entitlement communities (metropolitan cities with populations of 50,000, principal cities of metropolitan areas, and urban counties), the 50 states, Puerto Rico, and the insular areas of American Samoa, Guam, the Virgin Islands, and the Northern Mariana Islands. Grants are used to implement plans intended to address housing, community development, and economic development needs, as determined by local officials. (For a detailed review of recent CDF funding issues and a detailed description of CDBG, see CRS Report R43208, *Community Development Block Grants: Funding Issues in the 113<sup>th</sup> Congress*, by (name redacted). And for related programs see CRS Report R43520, *Community Development Block Grants and Related Programs: A Primer*, by (name redacted).)

### ***Administration Request***

The Obama Administration's budget request for FY2015 included \$2.870 billion for activities funded under the CDF account. The requested amount represented 6.1% of the total budget authority requested by the agency for FY2015.

As shown in **Table 5**, the Administration's FY2015 budget proposed to decrease total funding for CDF account activities by 7.4%, or \$230 million. The budget proposal also requested funding, under separate HUD accounts, for several activities that were previously funded under the CDF account: Section 4 capacity building (\$20 million in its own discretionary account, see **Table 2**), Integrated Planning and Investment Grants, a component of the Administration's previously funded Sustainable Communities Initiative (\$75 million through the Opportunity, Growth, and Security Initiative; see "The Opportunity, Growth, and Security Initiative"), and Neighborhood Stabilization Initiative activities under its Project Rebuild proposal (\$15 billion in mandatory funding).

**Table 5. CDBG and Related Appropriations, FY2014 and FY2015**

(In billions of dollars)

Program	FY2014 Enacted	FY2015 Request	FY2015 House- Passed H.R. 4745	FY2015 Senate Committee- Passed S. 2438	FY2015 Enacted (P.L. 113-235)
<b>CDF, total non-disaster</b>	<b>\$3.100</b>	<b>\$2.870</b>	<b>\$3.060</b>	<b>\$3.090</b>	<b>3.066</b>
CDBG-formula	3.030	2.800	3.000	3.020	3.000
<i>Entitlement communities</i>	<i>2.116</i>	<i>1.955</i>	<i>2.095</i>	<i>2.109</i>	<i>2.095</i>
<i>States</i>	<i>0.907</i>	<i>0.838</i>	<i>0.898</i>	<i>0.904</i>	<i>0.898</i>
<i>CDBG insular areas</i>	<i>0.007</i>	<i>0.007</i>	<i>0.007</i>	<i>0.007</i>	<i>0.007</i>
CDBG Indian tribes	0.070	0.070	0.060	0.070	0.066
<b>CDBG subtotal</b>	<b>3.100</b>	<b>2.870</b>	<b>\$3.060</b>	<b>\$3.090</b>	<b>\$3.066</b>

**Source:** Table prepared by CRS based on P.L. 113-76 and the Joint Explanatory Statement accompanying P.L. 113-76 (FY2014 enacted); the President's FY2015 budget documents, including HUD Congressional Budget Justifications (FY2015-requested levels); H.R. 4745 as amended on the House floor and H.Rept. 113-464 (House-passed levels); S. 2438 and S.Rept. 113-182 (Senate Committee-passed levels); and the FY2015 Consolidated and Continuing Appropriations Act (P.L. 113-235) and the Explanatory Statement, *Congressional Record*, vol. 160, part 151—Book II (December 11, 2014), pp. H9981-H9984 (FY2015 enacted levels). CDBG formula grant allocations are estimates based on the statutory requirement that 70% of funds be distributed to entitlement communities and 30% to states.

Under the Administration's FY2015 budget proposal for the CDBG program, formula grants would have declined by \$230 million from the amounts appropriated for FY2014. For FY2015, the Administration requested \$2.800 billion for the CDBG formula component of the CDF account, including

- \$1.955 billion for CDBG entitlement communities;
- \$838 million for CDBG state administered programs; and
- \$7 million for insular areas.

This was approximately 7.4% less than the amount appropriated for FY2014. The Administration also requested \$70 million for Indian tribes. This was the same amount that was appropriated for FY2014.

The Administration, when releasing its FY2015 budget request, noted that it planned to propose revisions and reforms to the CDBG program. According to the Administration's budget documents, the proposed reforms would focus on the CDBG formula, promoting regional planning and coordination, reducing the number of small grantees, and targeting resources to areas of greatest need. The Administration also identified proposed reforms to the program when submitting its FY2014 budget request, but it did not submit a formal proposal. Again during the FY2015 budget cycle the Administration announced, but did not submit, a formal proposal for consideration by Congress.

The CDBG Section 108 Loan Guarantee program (Section 108) allows states and entitlement communities to collateralize their annual CDBG allocation in an effort to attract private capital to support economic development activities, housing, public facilities, and infrastructure projects.

Communities may borrow up to five times their annual allocation for a term of 20 years through the public issuance of bonds. The proceeds from the bonds must be used to finance activities that support job creation and that meet one of the national goals of the CDBG program.

The Administration's budget proposed a loan commitment ceiling of \$500 million in FY2015. FY2015 marks the first year the program will charge a fee to access the program rather than provide a credit subsidy.<sup>3</sup> The fee-based proposal, which was first floated by the Administration in its FY2010 budget request, was not approved by Congress until the FY2014 appropriations act. HUD announced that it would issue regulations sometime in 2014. In the interim, grantees were directed to continue to apply for the credit subsidy until it is depleted.

### ***House-Passed Bill (H.R. 4745)***

The House-passed bill (H.R. 4745) recommended \$3.060 billion for activities funded under the CDF account, including \$3.0 billion for CDBG formula grants awarded to states, entitlement communities, and insular areas. This was \$30 million (1%) less than the \$3.030 billion appropriated in FY2014 for formula grants, \$200 million (7%) more than requested by the Administration and \$20 million (0.7%) less than recommended by the Senate bill, S. 2438. The bill would have appropriated \$10 million less than the \$70 million recommended by the Senate bill and requested by the Administration for Indian tribes.

During floor consideration of the bill, the House approved an amendment (H.Amdt. 828) that would have prohibited HUD from terminating the CDBG entitlement status of any community. The provision was an effort to protect the entitlement status of communities that no longer meet statutory requirements for direct formula-based allocations since it was anticipated that the Administration would seek statutory changes in the program eligibility requirements that would have had the net effect of reducing the number of entitlement communities.

H.R. 4745 did not include funds to support a new round of funding for Integrated Planning Grant activities. The House bill did include language supporting the conversion of Section 108 loan guarantees to a fee-based structure and recommended a loan guarantee ceiling of \$500 million. The bill would have funded Section 4 (Capacity Building for Community Development and Affordable Housing) under a separate, stand-alone account and not as a component of the CDF account, or its current account, the Self-Help Homeownership Opportunity Program account.

### ***Senate Appropriations Committee-Passed Bill (S. 2438)***

The Senate Committee-passed bill (S. 2438) recommended \$3.090 billion for activities funded under the CDF account, including \$3.020 billion for CDBG formula grants awarded to states, entitlement communities, and insular areas. This was \$10 million less than the \$3.030 billion appropriated in FY2014 for formula grants and \$220 million more than requested by the Administration. S. 2438 supported the Administration's \$70 million funding request for Indian

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<sup>3</sup> The Credit Reform Act of 1990 requires federal agencies administering credit programs to estimate a program's subsidy rate and to request an appropriation to cover that cost. A credit subsidy is intended to cover the estimated long-term cost to the federal government of a direct loan or loan guarantee. For loan guarantees, the subsidy cost is the net present value of estimated payments by the government to cover defaults and delinquencies, interest subsidies, or other payments, offset by any payments to the government, including origination and other fees, penalties, and recoveries.

tribes, including a set-aside of \$10 million in grant funds for mold remediation and prevention in Indian housing.

The bill also supported a loan commitment ceiling of \$500 million for the Section 108 loan guarantee program and recommended continued funding of Section 4 (Capacity Building for Community Development and Affordable Housing) activities at the \$35 million appropriation level. The bill did not support the Administration's request to transfer the Section 4 program from its current account, the Self-Help Homeownership Opportunity Program account, to a new stand-alone account; nor did the bill recommend funding the Administration's Neighborhood Stabilization Initiative proposal.

The bill included a provision that would have prohibited a community from exchanging or transferring its CDBG allocation to another community in exchange for non-CDBG funds. The provision was intended to stop the practice, most prevalent in Los Angeles County, of affluent communities, such as Beverly Hills, not participating in the county's CDBG program. In addition, the report that accompanied the bill (S.Rept. 113-182) included language that would have directed HUD to establish a demonstration program using \$2 million in CDBG funds to develop best practices that would aid communities in expediting their post-disaster recovery efforts.

### ***Consolidated and Further Continuing Appropriations Act, 2015, P.L. 113-235***

P.L. 113-235 includes a total appropriation of \$3.066 billion exclusively for CDBG activities, including \$3 billion for CDBG formula grants to states (\$898 million), entitlement communities (\$2.095 billion), and insular areas (\$7 million). The act also sets aside \$66 million for the Indian CDBG (ICDBG) program. The \$3 billion CDBG formula grants appropriation represents a 7% increase above the Administration's request and a 1% decline below the \$3.030 billion appropriated for FY2014.

The \$3 billion appropriated for CDBG formula grants is the same amount recommended by the House bill, \$20 million less than recommended by the Senate Committee-passed bill, \$30 million less than appropriated for the previous year's activities, but \$200 million more than requested by the Administration. The act appropriates \$4 million less for the ICDBG program than appropriated in FY2014. Of the amount set aside for ICDBG projects, \$6 million is to be made available to undertake mold remediation and prevention in Indian housing.

P.L. 113-235 also supports a fee-based loan commitment ceiling of \$500 million for the CDBG Section 108 loan guarantee program. In addition, the act continues funding of capacity building activities, but under a separate account, including \$35 million for Section 4 activities (Capacity Building for Community Development and Affordable Housing) to be carried out by the following national organizations: Local Initiative Support Corporation, Enterprise Foundation, and Habitat for Humanity; and an additional \$5 million for capacity building by national rural housing organizations. P.L. 113-235 does not support the Administration's request to transfer the Section 4 program from its current account, the Self-Help Homeownership Opportunity Program account, to a new stand-alone account; nor does the act appropriate funding for the Administration's Neighborhood Stabilization Initiative proposal.

The act also includes CDBG-related provisions included in House or Senate bills, including a provision prohibiting a community from exchanging or transferring its CDBG allocation to another community in exchange for non-CDBG funds, and provisions prohibiting the use of CDF funds for Economic Development Initiative and Neighborhood Initiative projects. Last funded in

FY2010, these are two programs that had been used exclusively for congressional earmarks. In addition, FY2015 CDF appropriations are not to be used to fund projects under the Rural Innovation Fund, or discretionary activities authorized under 42 U.S.C. §5307 of the CDBG program's authorizing statute (for special purpose grants as defined in that section).

## **HOME Investment Partnerships Program**

The HOME Investment Partnerships Program is a flexible block grant that provides formula funding to states and certain local jurisdictions (referred to as “participating jurisdictions”) to use for a wide range of affordable housing activities that benefit low-income households. Along with states, about 600 local jurisdictions received formula funding through HOME in FY2013.

The President's budget requested \$950 million for the HOME program, a 5% decrease from the FY2014 enacted level of \$1 billion. The request included up to \$10 million as a set-aside for the Self-Help Homeownership Opportunity Program (SHOP), which is currently funded in its own account. The House-passed bill would have provided \$700 million for HOME, which was \$250 million less than the President's budget request and \$300 million less than was provided in FY2014. Like the President's budget request, it would have provided up to \$10 million for SHOP within the HOME account, rather than funding SHOP within its own account. The Senate Committee-passed bill would have provided \$950 million for HOME, and would have provided \$10 million for SHOP in its own account.

The President's budget also included several legislative proposals related to HOME, including a proposal that would affect the number of local jurisdictions that would be eligible to become participating jurisdictions. To become a participating jurisdiction, a locality must be a metropolitan city or an urban county, and must meet certain funding thresholds. The statute provides that a locality can become a participating jurisdiction if it is eligible for a formula allocation of at least \$500,000, or at least \$335,000 in years when less than \$1.5 billion is appropriated for the program. The President's budget proposed eliminating the lower \$335,000 threshold, so that local jurisdictions would only become eligible if they would receive a formula allocation of at least \$500,000 regardless of the total amount of appropriations for the program in a given year.<sup>4</sup>

The budget also proposed revising provisions regarding “grandfathering” of participating jurisdictions. Currently, a locality that has been participating in the program can continue to participate in future years, even if its formula allocation falls below the threshold. The proposal in the budget would have eliminated this continuous grandfathering, and instead would have allowed a locality to continue to qualify as a participating jurisdiction for a five-year period.<sup>5</sup> The budget noted that, due to a higher number of participating jurisdictions and decreasing appropriations in recent years, many jurisdictions are receiving allocations that may be too small to effectively administer affordable housing programs. Removing the lower threshold and ending continuous grandfathering would result in fewer participating localities, but higher grant amounts for localities that continue to participate.

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<sup>4</sup> HUD FY2015 Budget Justifications, p. S-15.

<sup>5</sup> Ibid.

Both the House-passed bill and the Senate Appropriations Committee-passed bill contained language that has been included in recent appropriations laws that would disregard the lower threshold for localities to become participating jurisdictions during the fiscal year, meaning that localities would have to reach the higher \$500,000 threshold in order to become new participating jurisdictions even with a total program appropriation of less than \$1.5 billion. Neither bill included the permanent changes that were included in the President's budget, such as permanently changing the threshold requirement or making changes to the grandfathering provision.

The FY2015-enacted appropriations law provides \$900 million for the HOME program, which is \$100 million below the FY2014 funding level. It also continues to provide \$10 million for SHOP within its own account. The final law continues the language from recent years that disregards the lower threshold for localities to become participating jurisdictions during the fiscal year, but does not include any of the permanent changes that were proposed in the President's budget request.

## **The Federal Housing Administration (FHA)**

The Federal Housing Administration (FHA) insures private mortgage lenders against losses on certain home mortgages made to eligible borrowers, such as households with low down payments. If the borrower defaults on the mortgages, FHA repays the lender the remaining amount that the borrower owes on the mortgage. The provision of FHA insurance helps to make mortgage credit more widely available, and at a lower cost, than it might be in the absence of the insurance. (For more information on the features of FHA-insured mortgages, see CRS Report RS20530, *FHA-Insured Home Loans: An Overview*, by (name redacted).)

The FHA insurance programs are administered primarily through two program accounts in the HUD budget: the Mutual Mortgage Insurance Fund (MMI Fund) account and the General Insurance/Special Risk Insurance Fund account (GI/SRI Fund). The MMI Fund includes mortgages for single-family home loans and FHA-insured reverse mortgages (known as Home Equity Conversion Mortgages, or HECMs), while the GI/SRI Fund includes mortgages on multifamily buildings and healthcare facilities such as hospitals and nursing homes.

The MMI Fund is the largest of the FHA insurance funds, and when there is public discussion of "FHA insurance" or "FHA loans," it is usually related to the MMI Fund and the single-family home loans insured under that fund. The discussion in the remainder of this section focuses on the MMI Fund, unless otherwise noted.

## **Credit Subsidy and Offsetting Receipts**

The Federal Credit Reform Act of 1990 (FCRA) specifies the way in which the costs of federal loan guarantees, including FHA-insured loans, are recorded in the federal budget. The FCRA requires the cost of loans insured in a given fiscal year to be recorded in the budget as the net present value of all of the expected future cash flows from the loans that will be insured in that year. This is referred to as *credit subsidy* (and the net value of the cash flows expressed as a percentage of the volume of loans expected to be insured in that year is the *credit subsidy rate*).<sup>6</sup>

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<sup>6</sup> Credit subsidy rates exclude administrative expenses.

If the estimated cash inflows exceed the estimated cash outflows, the net present value of these cash flows is reflected in the budget as a negative number because it represents negative outlays (referred to as negative credit subsidy). Negative credit subsidy results in *offsetting receipts*, which, in the case of the MMI Fund, can offset other costs of the HUD budget. If the estimated cash outflows exceed the cash inflows, the program has positive credit subsidy, and that program requires an appropriation of credit subsidy in the budget year that the loans are originated.

Historically, the MMI Fund has had a negative subsidy rate and therefore has been estimated to generate negative credit subsidy. For FY2015, the President's budget estimated that the MMI Fund would generate \$12.2 billion in negative credit subsidy.<sup>7</sup> Combined with an additional \$876 million in negative credit subsidy from the GI/SRI Fund, the President's budget estimated that FHA would generate about \$13.1 billion in negative credit subsidy in FY2015 that could be used as offsetting receipts.<sup>8</sup>

The Congressional Budget Office (CBO) does its own estimates of FHA's credit subsidy rate and offsetting receipts, and the CBO estimates are the ones that are used by congressional appropriators to determine budget authority. CBO's estimates for loans insured under the MMI Fund in FY2015 were lower than those included in the President's budget. CBO estimated that the credit subsidy rate for loans insured under the MMI Fund would be lower (-5.3%, compared to -9.03% in the President's budget), resulting in about \$8 billion in negative credit subsidy rather than \$12.2 billion.<sup>9</sup> The lower estimates from CBO result in a smaller amount of offsets available to appropriators to offset the cost of the HUD budget. Lower amounts of offsets mean that appropriators have to provide less in gross new appropriations in order to remain within specified limits on net new budget authority.

## **Appropriations and Commitment Authority**

Because the loans insured under the MMI Fund have historically been estimated to have negative credit subsidy, the MMI Fund has never needed an appropriation to cover the costs of loans guaranteed in a given fiscal year. However, FHA does receive appropriations every year for salaries (included in the salaries and expenses account for the overall HUD budget) and administrative contract expenses.

For FY2015, the President's budget requested an appropriation of \$170 million for administrative contract expenses. The budget also proposed charging an administrative support fee to lenders, which HUD estimated would generate up to \$30 million in fees that would offset some of the funding provided for administrative contract expenses.<sup>10</sup> The House-passed bill would have provided \$130 million for administrative contract expenses, and would not have provided the authority for FHA to charge a new administrative support fee to lenders. The Senate Committee-

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<sup>7</sup> HUD FY2015 Budget Justifications, p. Z-9.

<sup>8</sup> Ibid., p. Z-34.

<sup>9</sup> Congressional Budget Office, *Budgetary Impact of Major Federal Programs that Guarantee Mortgages – CBO's April 2014 Baseline*, [http://www.cbo.gov/sites/default/files/cbofiles/attachments/43882-2014-04-Mortgage\\_Programs.pdf](http://www.cbo.gov/sites/default/files/cbofiles/attachments/43882-2014-04-Mortgage_Programs.pdf).

<sup>10</sup> U.S. Department of Housing and Urban Development, FY2015 Congressional Justifications: Mortgage and Loan Insurance Program (FHA Fund), pp. Z-3 and Z-18, [http://portal.hud.gov/hudportal/documents/huddoc?id=FY15CJ\\_FHAFND.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=FY15CJ_FHAFND.pdf).

passed bill would have provided \$145 million for administrative contract expenses, and would have authorized FHA to charge a fee to lenders to offset some of the cost.

The final FY2015 appropriations law provides \$130 million for administrative contract expenses for FHA. It does not provide FHA with the authority to charge an administrative support fee to lenders.

Annual appropriations acts also authorize FHA to enter into commitments to insure up to a certain aggregate dollar volume of loans during the fiscal year. This is referred to as FHA's "commitment authority." The FY2015 President's budget requested authority, to remain available for a two-year period, to insure up to \$400 billion in new single-family mortgages under the MMI Fund and up to \$30 billion in mortgages under the GI/SRI Fund. Both the House-passed bill and the Senate Committee-passed bill would have provided the same amount of commitment authority, and this is the amount of commitment authority that the final FY2015 appropriations law provides.

### **Permanent and Indefinite Budget Authority**

The credit subsidy rates for loans insured in a given year are re-estimated each subsequent year, taking into account updated assumptions and actual loan performance. Given that estimates of the future performance of insured or guaranteed loans are inherently uncertain, the FCRA provides permanent and indefinite budget authority to government loan guarantee programs to cover future increases in the costs of loan guarantees based on these re-estimates. This includes the FHA programs administered through the MMIF. Therefore, if the MMIF ever does not have enough money to cover projected future claims on defaulted loans, it can draw on its permanent and indefinite budget authority with the U.S. Treasury to cover any shortfalls without congressional action.

FHA needed to draw on its permanent and indefinite authority with Treasury to receive \$1.7 billion in mandatory funding at the end of FY2013.<sup>11</sup> This mandatory appropriation was needed to ensure that FHA held enough funds to cover all of its expected future costs on the loans that it currently insures. This represented the first time that FHA has needed to draw on its permanent and indefinite budget authority for its single-family program. FHA did not need any additional funds from Treasury during FY2014.<sup>12</sup>

### **Selected General Provisions**

Each year, in addition to proposing funding levels for HUD programs, the President's budget request and congressional appropriations bills include provisions that may affect the operation of HUD programs, implement new initiatives, or keep HUD from using funds for particular purposes. These proposals are often included in the General Provisions sections of HUD's budget justifications and appropriations bills. While some provisions are included in appropriations bills every year, there may be new changes proposed as well.

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<sup>11</sup> The President's FY2014 budget anticipated that FHA would need funds from Treasury to make the required transfer of funds in FY2013, although the amount that the MMIF ultimately needed was higher than the amount anticipated in the President's budget.

<sup>12</sup> For more information on the financial status of the MMI Fund, see CRS Report R42875, *FHA Single-Family Mortgage Insurance: Financial Status of the Mutual Mortgage Insurance Fund (MMI Fund)*, by (name redacted).

Following are several selected provisions for FY2015 that were included in P.L. 113-235. (Note that other proposals in the General Provisions section may be discussed elsewhere in this report in conjunction with the programs they would affect.) These provisions restrict HUD from using funding in the bill to implement certain programs or activities.

- The House-passed bill included a provision to prevent any funds appropriated in the bill from being used to implement FHA's Homeowners Armed with Knowledge (FHA-HAWK) program, which would provide incentives for certain FHA-insured mortgage borrowers to obtain housing counseling. The final FY2015 appropriations law includes this provision.
- The House-passed bill included a provision to prevent HUD (including FHA and Ginnie Mae) from using any funds appropriated in the bill to insure, securitize, or guarantee any mortgage or mortgage-backed security that replaces a mortgage that had been seized through eminent domain. Some cities have considered using eminent domain to seize certain mortgages where the borrower owes more than the home is currently worth, providing some compensation to the mortgage investor, and restructuring the mortgage for the borrower.<sup>13</sup> The final FY2015 appropriations law includes this provision.
- The House-passed bill included a provision to prevent HUD from using any funds provided in the bill to relocate its staff who work on multifamily asset management. The final FY2015 appropriations law includes this provision. As part of its Multifamily Transformation initiative, HUD plans to consolidate its multifamily operations in the field into a smaller number of field offices. This change would mean that some multifamily staff, including asset management staff, would relocate to different field offices. While HUD is currently moving forward with most of its multifamily transformation plan, Congress has directed HUD not to require multifamily asset management staff to move at this time.<sup>14</sup>

There were numerous other proposals in the President's budget request, House-passed appropriations bill (H.R. 4745), and Senate Appropriations Committee-passed bill (S. 2438) that were not included in P.L. 113-235. Some of these proposals would have promoted savings in assisted housing programs and others would have restricted HUD from using funding in the bill to implement certain programs or activities.

- The President's budget proposed to revise allowable medical and related deductions in calculating adjusted income (on which most rents are calculated) in the Section 8 tenant-based rental assistance and Public Housing programs. Neither the House- nor Senate Appropriations Committee-passed bills included this provision.
- The President's budget requested authority to use funds provided under the Section 8 tenant-based rental assistance and Public Housing programs to test different rent-setting models designed to promote family self-sufficiency and

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<sup>13</sup> For more information on these proposals, see CRS Report WSLG620, *Constitutional Challenges of Cities' Plans to Acquire Underwater Mortgage by Eminent Domain*, by (name redacted); and CRS Report WSLG187, *Legal Questions About Proposals to Use Eminent Domain to Acquire Underwater Mortgages*, by (name redacted).

<sup>14</sup> HUD, "Multifamily for Tomorrow Questions and Answers," p. 2, [http://portal.hud.gov/hudportal/documents/huddoc?id=052813TrnsfrmMF\\_FAQs.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=052813TrnsfrmMF_FAQs.pdf).

income growth. Neither the House- nor Senate Appropriations Committee-passed bills included this proposal.

- The President's budget proposed to permit PHAs to have full fungibility between their capital and operating funds. Currently, only PHAs with fewer than 250 units are allowed to use capital and operating funds interchangeably, and all PHAs have the authority to use up to 20% of capital funds for operating fund expenses. While neither the House nor the Senate Appropriations Committee adopted this proposal, the Senate Appropriations Committee-passed bill would have allowed PHAs to use up to 20% of operating funds for capital fund expenses.
- The President's budget proposed a demonstration to conserve energy and water in multifamily housing. Under the proposal, HUD would use funds from the project-based rental assistance account to support energy and water conservation in up to 20,000 units. The Senate Committee-passed bill included a similar conservation proposal for Section 8, Section 202, and Section 811 properties. Entities undertaking energy and water conservation improvements were to be paid for utility and water savings, with funding coming from contract renewal funds for each program.
- The President's budget proposed withholding some Native American Housing Block Grant (NAHBG) funds from tribes that have undisbursed funds from previous years total more than three times their expected grant amount. The proposal would not have applied to tribes whose formula grant amount is less than \$5 million. The House-passed bill included this proposal.
- The House-passed bill would have prevented HUD from using any funds appropriated in the bill to enforce the proposed Affirmatively Furthering Fair Housing rule published by HUD in July 2013.<sup>15</sup> Under the Fair Housing Act, HUD is required to administer its programs in a way that actively, or affirmatively, promotes fair housing practices.<sup>16</sup> The proposed rule makes changes to the way in which entities that receive HUD funds must show that they are meeting this requirement.
- The House-passed bill would have prevented HUD from using any funds appropriated in the bill for the Housing Trust Fund. The Housing Trust Fund was established by the Housing and Economic Recovery Act of 2008 (P.L. 110-289) and is administered by HUD, but is intended to be funded by contributions from Fannie Mae and Freddie Mac rather than through appropriations. However, those contributions were suspended before they had begun when Fannie Mae and Freddie Mac were placed in conservatorship, and the Housing Trust Fund has not been funded to date.<sup>17</sup>

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<sup>15</sup> Department of Housing and Urban Development, "Affirmatively Furthering Fair Housing," 78 *Federal Register* 43710-43743, July 19, 2013, <http://www.gpo.gov/fdsys/pkg/FR-2013-07-19/pdf/2013-16751.pdf>.

<sup>16</sup> See 42 U.S.C. §3608(e)(5).

<sup>17</sup> In December 2014, the Director of the Federal Housing Finance Agency (FHFA), the regulator and conservator for Fannie Mae and Freddie Mac, sent letters to each enterprise directing them to begin setting aside contributions for the Housing Trust Fund during 2015. The first funds would be scheduled to be transferred to the Housing Trust Fund in early 2016. For more information, see <http://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Statement-on-the-Housing-Trust-Fund-and-Capital-Magnet-Fund.aspx>.

- The Senate Committee-passed bill would have allowed Public Housing Authorities (PHAs) to establish replacement reserve accounts to be used for capital needs as outlined in a PHA's Capital Fund five-year plan. PHAs could transfer capital funds to the replacement reserve account, or other funds as permitted by the HUD Secretary. Funds in the account would not be subject to the statutory requirement that capital funds be obligated within 24 months.

## Appendix. The Budget Control Act and Discretionary Appropriations

### The Budget Control Act

In 2011, Congress passed the Budget Control Act (BCA, P.L. 112-25) which both increased the debt limit and contained provisions intended to reduce the budget deficit through spending limits and reductions. In part, the BCA accomplishes deficit reduction by imposing spending caps for discretionary programs, in effect from FY2012 through FY2021; caps differ for defense and nondefense funding. HUD discretionary programs are subject to the nondefense discretionary caps.

In addition to the caps set in the BCA, the law tasked a Joint Select Committee on Deficit Reduction to develop a federal deficit reduction plan for Congress and the President to enact by January 15, 2012. When a plan was not enacted, the BCA required that sequestration of nonexempt discretionary funding occur in FY2013. (Sequestration is a process of automatic, largely across-the-board spending reductions.) In addition, the BCA required that the discretionary spending caps be lowered further through 2021. In each year, if Congress appropriates discretionary funding that exceeds the caps, then sequestration will be imposed to reduce spending. (In terms of mandatory funding, the BCA provided for sequestration of nonexempt programs to occur in each year through FY2021, subsequently amended to occur through FY2023.<sup>18</sup>)

For more information about the BCA and its implementation, see CRS Report R43411, *The Budget Control Act of 2011: Legislative Changes to the Law and Their Budgetary Effects*, by (name redacted).

### FY2013 Sequestration

In FY2013, amounts appropriated for nonexempt, nondefense discretionary accounts, including HUD accounts, were reduced by 5.0% due to sequestration required by Congress's failure to enter into a deficit reduction agreement.<sup>19</sup> In addition, the FY2013 Consolidated and Further Continuing Appropriations Act (P.L. 113-6) included an across-the-board rescission that insured programs would stay within the discretionary caps; the rescission amount was 0.2%. For HUD, sequestration and the rescission reduced the gross budget authority from nearly \$45 billion to approximately \$42 billion (not including funds for disaster assistance).

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<sup>18</sup> A very small amount of HUD funding (\$3 million) is considered non-exempt mandatory funding subject to sequestration in FY2014. See Office of Management and Budget, *OMB Sequestration Preview Report to the President and Congress for Fiscal Year 2014 and OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2014*, April 10, 2013, p. 25, [http://www.whitehouse.gov/sites/default/files/omb/assets/legislative\\_reports/fy14\\_preview\\_and\\_joint\\_committee\\_reductions\\_reports\\_04102013.pdf](http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/fy14_preview_and_joint_committee_reductions_reports_04102013.pdf).

<sup>19</sup> The imposition of lower discretionary caps and sequestration were scheduled to begin on January 2, 2013, but were delayed until March 1, 2013. Prior to January 2, 2013, Congress enacted the American Taxpayer Relief Act of 2012 (ATRA, P.L. 112-240), which made several substantive changes to the BCA, including a delay of the scheduled BCA sequester until March 1, 2013, and a reduction of the total amount scheduled to be sequestered.

## **Discretionary Budget Caps for FY2014 and FY2015**

Moving forward, sequestration for nonexempt discretionary programs will occur only if appropriations exceed budget caps. FY2014 and FY2015 budget caps were adjusted as a result of the Bipartisan Budget Act, part of the FY2014 Continuing Appropriations Resolution (P.L. 113-67). The law raised discretionary budget caps for FY2014 and FY2015 relative to where they had been set pursuant to the BCA after adjustment for automatic spending reductions. The nondefense discretionary spending cap for both FY2014 and FY2015 is \$492 billion.

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