



## Summary of President Obama's Fiscal Year 2011 Budget for Housing and Community Development Programs

The Obama Administration released the details of its FY 2011 budget request on February 1, 2010. The budget provides HUD **\$48.5 billion** in gross discretionary budget funding, \$1.5 billion more than the FY 2010 spending level.<sup>1</sup> While overall funding increased modestly, several programs received steep cuts, reflecting the Administration's plan to freeze non-security discretionary spending levels.

### National Housing Trust Fund

The Administration continues to propose an initial capitalization of **\$1 billion** for the *National Housing Trust Fund* (NHTF), originally authorized in 2008 as a mandatory spending program to be funded with a percentage of GSE receipts. However, this funding is no longer available, necessitating additional legislation to identify a funding source.<sup>2</sup> While the House has passed legislation providing funding through TARP revenues, the Senate has yet to act.

### Choice Neighborhoods Initiative

As in FY 2010, the budget proposes to replace HOPE VI with the **Choice Neighborhoods Initiative (CNI)**, which aims to transform neighborhoods of extreme poverty into functioning, sustainable mixed-income neighborhoods by linking housing investments with appropriate services, schools, public assets, transportation, and access to jobs. Last year, Congress chose to fund HOPE VI, but provided a \$65 million set aside for a CNI demonstration. The FY 2011 budget provides \$250 million for CNI, while encouraging coordination with the Department of Education's Promise Neighborhoods program.

### New Presidential Initiatives

The budget also includes two completely new initiatives:

- ❖ **\$350 million** for Phase I of the *Transforming Rental Assistance*, a program designed to preserve approximately 300,000 units of public and assisted housing, enhance administrative efficiency, leverage private capital and promote tenant housing choice. Under this voluntary program, PHAs and private owners can choose to convert their properties to "long-term property-based rental assistance contracts that include a resident mobility feature" which will likely be largely based on the project-based voucher model.
- ❖ **\$150 million** for *Catalytic Investment Competition Grants* as a set-aside within the Community Development Fund. This program will provide economic development and gap financing for targeted neighborhoods in need of revitalization.

### Core Rental Assistance Programs

**Tenant-Based Section 8.** The budget provides **\$19.6 billion** for the Housing Choice Voucher program, (\$1.4 billion or eight percent more than in FY 2010) which should be enough funding to renew all vouchers in use at the end of 2010.

---

<sup>1</sup> While HUD's FY 2011 net discretionary budget request to Congress has been reduced nearly \$2 billion, the overall program funding level (as reflected above) has increased for FY 2011 as a result of additional revenue from a projected increase in FHA receipts.

<sup>2</sup> The National Housing Trust Fund is a mandatory spending program not subject to the appropriations process. Funding would be subject to PAYGO rules.



**Project-based Section 8.** The budget includes **\$9.3 billion** for Section 8 project-based rental assistance, \$728 million or nine percent more than in FY 2010. Again, this funding should be sufficient to provide for full annual renewal of contracts expiring during FY 2011.

### **Other major HUD programs**

**Community Development Block Grants (CDBG).** Funding for the Community Development Fund (which includes the CDBG program) is \$4.4 billion, a two percent reduction from FY 2010 levels. However, the FY 2011 budget fully funds **CDBG formula grants at \$3.99 billion**, a \$7 million increase from FY 2010.

Also under the Community Development Fund program account, the budget provides **\$150 million** for the **Sustainable Communities Initiative**, providing a second round of funding for the program. As included in the FY 2010 enacted budget, the Sustainable Communities Initiative has four main components:

- ❖ Planning grants, issued in conjunction with the U.S. Department of Transportation (DOT) and the U.S. Environment Protection Agency (EPA), to incentivize integrated metropolitan transportation, housing, land use, and energy planning;
- ❖ Challenge grants to implement the Sustainable Communities Plans;
- ❖ Capacity building funding to support both Sustainable Communities grantees and other communities interested in becoming more sustainable; and
- ❖ Research funding for a joint HUD-DOT-EPA effort designed to advance integrated transportation and housing policies

**HOME and Housing Counseling.** The budget provides **\$1.65 billion** for the HOME program, a 10 percent reduction from FY 2010 levels. The budget includes \$88 million for Housing Counseling Assistance, an increase of \$500,000, less than one percent.

**Homeless Assistance.** The budget includes an increase of \$190 million (or 10 percent) for Homeless Assistance Grants, for a total of more than **\$2 billion**. The Administration proposes to use the increased funding to implement the HEARTH Act, which would consolidate and streamline the McKinney-Vento Homeless Assistance programs.

The budget request also provides:

- ❖ **\$2 billion** in *public housing capital funds* (18 percent decrease) and **\$4.9 billion** in *public housing operation funds* (one percent increase).
- ❖ **\$580 million** for *Native American Housing Block Grants* (17 percent reduction)
- ❖ **\$274 million** for *Housing for the Elderly (Section 202)* (67 percent reduction)
- ❖ **\$90 million** for *Housing for People with Disabilities (Section 811)* (70 percent reduction)

### **Housing and community development-related tax proposals**

**LIHTC.** The budget proposes to extend the Section 1602 (9 percent) Low Income Housing Tax Credit (LIHTC) Exchange program for 2010, as the House included in the Tax Extenders Act of 2009 and the Senate has under consideration. If extended, states would be allowed to exchange:



- ❖ Up to 100 percent of their unused 2009 LIHTC and any credits returned in 2010, and
- ❖ Up to 40 percent of their 2010 per capita authority and their share of the 2010 national pool allocation, if any.

The proposal would not allow states to exchange 4 percent or Disaster Credits. States would be required to use their Credit Exchange funds by December 31, 2012. No other national consensus LIHTC (ACTION) proposals were included in the budget request.

**NMTC.** The budget proposes to extend the New Markets Tax Credit (NMTC) program for two years (through the end of 2011) at an annual credit volume of \$5 billion. Also, it proposes to allow for the first time for the NMTC to be taken against alternative minimum tax (AMT) liability, which should increase investor interest in the program and provide parity with the LIHTC and historic rehabilitation tax credit programs.

**Government-Sponsored Enterprise (GSE) Reform:** Despite repeated statements over the past year that the Administration would be releasing its proposal to reform Fannie Mae and Freddie Mac in the FY 2011 Budget, the budget request only contained the following statement: “The Administration continues to monitor the situation of the GSEs closely and will continue to provide updates on considerations for longer term reform of Fannie Mae and Freddie Mac as appropriate.”

In his public FY 2011 budget briefing on February 1, HUD Secretary Shaun Donovan said that the Administration will release its GSE reform proposal soon but did not provide any timeline or provide any information on the broad outlines of the proposal.

### **Capacity Building Program**

The budget proposes **\$60 million** for a new capacity building program (previously known as Section 4). This represents a \$10 million increase over the FY 2010 Section 4 appropriation. The Administration’s proposal expands eligible grantees to include **any** national and regional intermediary or partnership “skilled in the development of community development and affordable housing capacity.” Additionally, the proposal expands capacity building recipient eligibility to include state and local governments. The Section 4 statutory matching requirement of \$3 of private funds for every \$1 of government funds is retained.

### **Housing and Community Development Programs: Treasury, USDA and Dept. of Energy**

The Administration’s budget requests **\$250 million** for programs administered by the **Treasury’s Community Development Financial Institutions Fund**, an increase of one percent. This request includes \$155 million in funding (an increase of over \$47 million) for the CDFI Program to boost investments and other financial services in underserved communities. The budget does **not** provide any new funding for the **Capital Magnet Fund**, which was first funded (\$80 million) in FY 2010. Program regulations for this initial funding are expected soon.

The budget requests funding for U.S. Dept. of Agriculture rural housing programs, including:

- ❖ **\$75 million** to subsidize \$1.2 billion in **Section 502 Single Family Direct Loans**
- ❖ **\$173 million** to subsidize \$12 billion in **Section 502 Unsubsidized Loan Guarantees**
- ❖ **\$32 million** to subsidize \$95 million in **Section 515 Rural Rental Housing Direct Loans**



The Administration's request does not include funding for *Multi-Family Preservation Revolving Loans* or the *Rural Community Development Initiative*. The request also prohibits the use of *Section 538 Rental Housing Loan Guarantee* funds for interest rate subsidies.

Finally, the Department of Energy's proposed budget provides **\$385 million** for *Weatherization and Intergovernmental Activities*, a 30% increase over the FY 2010 funding level. This account includes the *Weatherization Assistance Program (WAP)*, which funds energy efficiency retrofits for low-income families. Additionally, the American Recovery and Reinvestment Act included \$4.7 billion for WAP. To date only 50% of these funds have been awarded, and the Government Accountability Office reports that only 15% of a planned 593,000 homes had been weatherized as of December 31, 2009. It is expected that the Department of Energy will face pressure from Congress to accelerate expenditure of these funds.