Meeting the Need for Quality Affordable Rental Homes

Several recent national indicators have pointed to increasing stress in the U.S. rental housing market. Vacancy rates are on the rise as a result of the dampened demand and additional supply repurposed from the ownership market. Spreads between asking rents and effective rents are widening, asking rents are now $65 higher than effective rents (6.6% of the effective rent) - the largest gap over the past four years. While some new renters have been the beneficiaries of this softness, drawing concessions from distressed property owners, the budgets of many more low-income renters have been strained as household incomes fall, as a result of unemployment and lost hours worked.

Unfortunately, this softness in the broader rental market has done little to ease affordability concerns for low-income renters. Loss of income stemming from the recession is likely offsetting affordability gains from declining rents. Vacancies in HUD's assisted stock remain considerably lower than market levels, and the number of cost burdened low-income renters is on the rise. Based on estimates from the 2008 American Community Survey, 8.7 million renter households paid 50% or more of their income on housing, up from 8.3 million renter households in 2007.

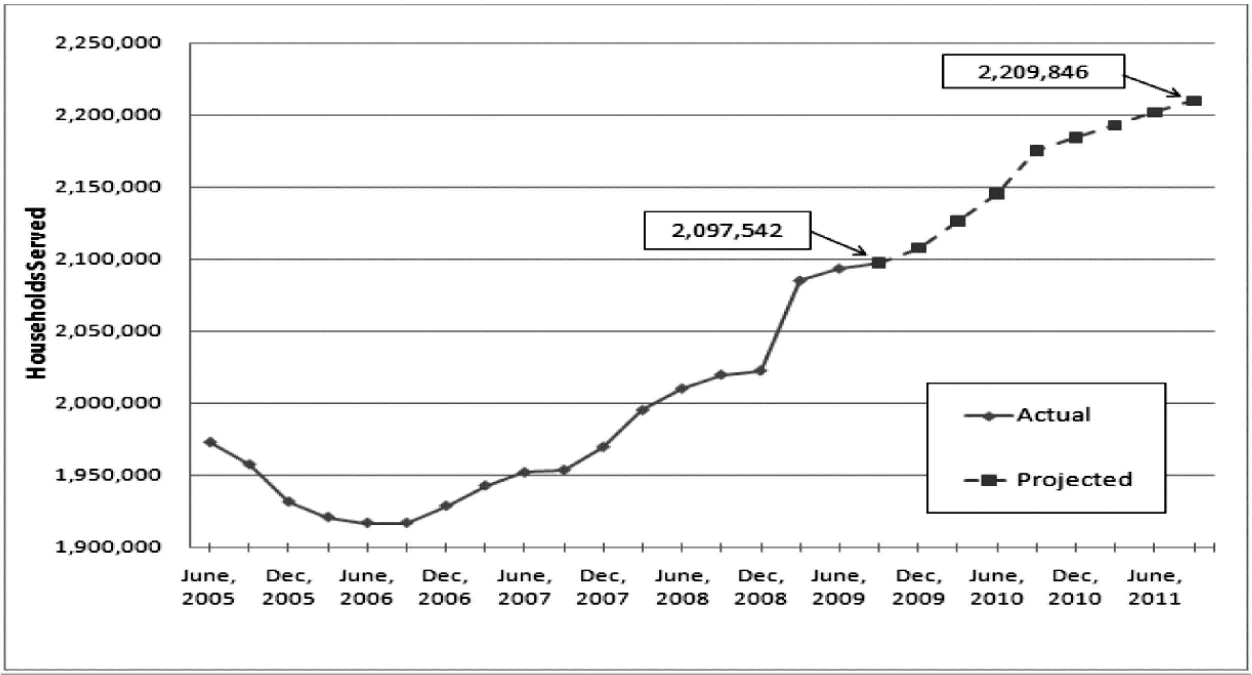
In short, the Department's rental assistance programs have never been more needed nor has the imperative to operate them efficiently been clearer. This budget takes three critical steps to meet this challenge.

Increases investment in core rental assistance and operating subsidy programs

Tenant-based Rental Assistance

The Section 8 Tenant-Based Rental Assistance (TBRA) or Housing Choice Voucher (HCV) program is a cost-effective means for delivering decent, safe, and sanitary housing to low-income families in the private market, providing assistance so that participants are able to find and lease privately owned housing. In fiscal year 2009, the Department assisted over two million families with this program; and, in fiscal year 2010, the Department plans to assist over 76,000 more families through new incremental vouchers. Through the fiscal year 2010 budget, the Department is maximizing the effectiveness of the HCV program and is initiating plans to transform the program through investments in a Next Generation Voucher Management System (VMS), HCV Administrative Fee Study. Area Rent Survey, Moving to Work (MTW) Evaluation Study, and an Assessment of Recovery Efforts for Troubled PHAs.

This Budget represents the Department's renewed commitment to the transformation efforts initiated in fiscal year 2010. The calendar year request for 2011 is $19.6 billion, a $1.4 billion increase from the 2010 Consolidated Appropriations Act and estimated to suffice to assist 2.2 million households, an increase of 34,466 families from fiscal year 2010 projections and 112,304 more than at the end of fiscal year 2009.



Of the $19.6 billion request, $17.3 billion will cover the renewal of expiring annual contribution contracts (ACC) in calendar year 2011; $1.8 billion for Administrative Fees; $125 million for Tenant Protection vouchers; $60 million will support Family Self-Sufficiency (FSS) activities; and $66 million will support disaster vouchers for families affected by Hurricanes Ike and Gustav. In addition, this Budget requests $85 million for incremental vouchers to help homeless individuals and families with special needs stabilize their housing situation and improve their health status, as well as $114 million for the shift of the renewal of mainstream vouchers from the Section 811 account to the TBRA account.

Through this Budget, the Department reaffirms its commitment to improving the Section 8 program by revolutionizing its line-of-business including: designing a comprehensive development strategy to improve HUD Information Technology systems to better manage and administer the Voucher program; implementing an improved Section 8 Management Assessment Program (SEMAP) that will ensure strengthened oversight, quality control, and performance metrics for the voucher program; continuing the study to develop a formula to allocate administrative fees based on the cost of an efficiently managed PHA operating the voucher program; developing a study to evaluate current Housing Quality Standards and improve the unit inspection process; and eliminating unnecessary caps on the number of families that each PHA may serve (imposed by recent Appropriations Acts.

Project-based Rental Assistance

Project-Based Rental Assistance (PBRA) assists more than 1.3 million low- and very low-income households in obtaining decent, safe, and sanitary housing in private accommodations. This critical program serves families, elderly households, disabled households, and provides transitional housing for the homeless. Through PBRA funding, HUD renews Section 8 Project-Based assistance contracts with owners of multifamily rental housing. HUD makes up the difference between what a household can afford and the approved rent for an adequate housing unit in a multifamily development.

The Department is requesting a total of $9.376 billion to meet PBRA program needs. This includes $8.976 billion to be available in FY 2011 and $400 million to be available in FY 2012. Within this amount, a contract renewals and amendments set-aside provides funding for the Department to renew and amend PBRA contracts. For fiscal year 2011, HUD requests $9.044 billion of new Budget Authority for contract renewals and amendments. The need for Section 8 Amendment funds results from insufficient funds provided for long-term project-based contracts funded primarily in the 1970's and 1980's. During those years, the Department provided contracts for terms of up to 40 years. Estimating funding needs over such a long period of time proved to be problematic, and as a result, many of these Section 8 contracts were inadequately funded. The current practice of renewing expiring contracts for a 1-year term helps to ensure that the problem of inadequate funded contracts is not repeated. However, older long-term contracts that have not reached their termination dates and have not entered the 1-year renewal cycle must be provided amendment funds for the projects to remain financially viable and thus maintain the inventory of affordable rental housing. The Department estimates that total Section 8 Amendment needs in 2011 will be $662 million. The Budget request is estimated to enable full 1 year renewal funding of expiring contracts and amendment needs.

Public Housing Operating Fund

The public housing Operating Fund operating subsidy payments to over 3,100 public housing authorities (PHAs) which serve 1.2 million households in public housing. The fiscal year 2011 Budget requests $4.8 billion, which will fully fund the Operating Fund. Full funding is essential to the proper operation of public housing, provision of quality housing services to residents, and effective use of Capital Fund resources.

Investing in Core Rental and Operating Assistance Programs ($ in millions)			
	2010 Enacted	2011 Request	Difference 2011 vs 2010
Tenant-Based Rental Assistance			
Section 8 Contract Renewals	$16,339.2	$17,310.0	$970.8
Administrative Fees	$1,575.0	$1,791.0	$216.0
Family Self-Sufficiency (FSS) Coordinators	$60.0	$60.0	......
Section 8 Rental Assistance (Tenant Protection Vouchers)	$120.0	$125.0	$5.0
Mainstream Voucher Renewals	......	$113.7	$113.7
Housing and Services for Homeless Persons Demonstration	......	$85.0	$85.0
Disaster Housing Assistance Program (DHAP)	......	$66.0	$66.0
Veterans Affairs Supportive Housing (VASH)	$75.0	......	($75.0)
Family Unification Program	$15.0	......	($15.0)
Advanced Appropriation	[$4,000]	[$4,000]	......
Total, Tenant-Based Rental Assistance	*$18,184.2*	*$19,550.7*	*$1,366.5*
Operating Subsidy	$4,775.0	$4,829.0	$54.0
Project-Based Rental Assistance			
Section 8 Contract Renewals (Housing)	$8,325.9	$9,044.0	$718.1
Tenant Resources Information and Outreach (TRIO)	......	$10.0	$10.0
Contract Administrators	$232.0	$322.0	$90.0
Advanced Appropriation	[$393.7]	[$400.0]	[$6.3]
Total, Project-Based Rental Assistance	*$8,557.9*	*$9,376.0*	*$818.1*

Begins to streamline the Department's rental assistance programs

It does not take a housing expert to see that HUD's rental assistance programs are in need of consolidation and simplification. The Department currently provides deep rental assistance to more than 4.6 million households through at least thirteen different programs (each with its own rules) administered by three operating divisions with separate field staff. The deep rental assistance programs (those with income-based rents) are implemented through an infrastructure of some 4,200 Public Housing Agencies (PHAs), 17,000 private owners with individual federal contracts, and hundreds of non-profit rental program administrators. This structure increases transaction costs for developers and communities.

The numerous programs and administrative entities also present many barriers to eligible low-income families seeking an effective, accessible rental assistance program. For example, an eligible low-income family seeking HUD rental assistance cannot apply at one location for all programs; instead, the family must apply on separate waiting lists at various locations. Depending on the type of assistance received, the family may be required to reside in a specific location and may lose its subsidy upon relocation to another dwelling.

The welter of entities that administer HUD rental assistance, combined with the geographical limits under which most operate, impede fair access to scarce resources, resulting in waiting times that vary substantially and often with adverse racial and other impacts. In addition, this balkanized administrative geography limits the use of federal rental assistance to decrease concentrations of poor and minority families or to expand opportunities to live in mixed -income sustainable neighborhoods.

Another challenge is the capital needs of the aging public and assisted housing stock, which hinders Federal efforts to provide safe, high-quality affordable housing. The Public Housing program in particular has long wrestled with an old physical stock with a backlog of unmet capital needs. Moreover, highly prescriptive government regulations and the isolation of the program from market forces undermine effective and efficient property management.

To address these issues, HUD proposes to initiate a multi-year effort called the Transforming Rental Assistance (TRA) initiative. In 2011, the first phase of this initiative will provide $350 million to preserve approximately 300,000 units of public and assisted housing, increase administrative efficiency at all levels of program operations, and enhance housing choice for residents. When fully implemented, TRA will also improve families' access to HUD rental assistance. PHAs and private owners will be offered the option of converting to long-term property-based rental assistance contracts that include a resident mobility feature. Some $290 million will be used to fill the gap between the funds otherwise available for the selected properties and the first-year cost of the new contracts. These funds will place participating properties on a sustainable footing from both a physical and a financial standpoint, and enable owners to leverage private financing to address immediate and long-term capital needs and implement energy-efficiency improvements.

Up to $50 million will be available to PHAs for two purposes: (1) to offset the one-time costs of combining Housing Choice Voucher (HCV) program administrative functions in approximately 50 regions or areas where PHAs submit locally-designed plans to increase efficiency and effectiveness; and (2) for outreach to encourage landlords in a broad range of communities to participate in the program and to provide additional services to expand families' housing choices. Together with other policy changes HUD plans for 2011, these funds and the administrative changes they support will streamline and improve the delivery and oversight of rental assistance and increase the share of housing choice vouchers used in lower poverty communities.

Under this voluntary initiative, HUD will prioritize for conversion public housing owned by agencies that do not operate HCV programs and public housing or assisted multifamily properties owned by PHAs that also administer HCV programs and agree to combine HCV administration with PHAs serving adjacent communities. In addition to achieving economies of scale, this effort will enable residents, if they choose, to move with a portable voucher that becomes available. This resident mobility feature will not reduce the number of units with property-based assistance. Three types of privately-owned HUD-assisted properties will also be eligible for conversion to the proposed new form of rental assistance: Section 8 Moderate Rehabilitation contracts administered by PHAs, and properties assisted under the Rent Supplement or Rental Assistance Programs.

By the spring of 2010, the Administration will transmit to the Congress proposed legislation to amend the project-based voucher program under section 8(o)(13) of the U.S. Housing Act and authorize the long-term property-based rental assistance contracts (with a resident mobility feature) that would be funded by the Budget request. Enactment of a number of the provisions in the Section 8 Voucher Reform Act is also an integral part of the Transforming Rental Assistance initiative. The Administration will work with the Congress to finalize this vital legislation.

Increases investment in proven and restructured HUD homeless assistance programs

This budget requests $2.055 billion for homeless assistance funding—nearly $200 million over the fiscal year 2010 enacted level-- reflecting the Administration's commitment to address homelessness, the successful track record of HUD's Homeless Assistance Grants program, and recent improvements made by the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act, signed by President Obama on May 20th, 2009, which restructured this program to incorporate nearly two decades of research and on-the-ground experience in ending homelessness.

HUD homeless assistance funds are distributed through a unique competitive process called the Continuum of Care ("CoC") in which Federal funding is driven by the local decision-making process. The CoC systemis a community-based process that provides a coordinated housing and service delivery system that enables communities to plan for and provide a comprehensive response to homeless individuals and families. Communities have worked to establish more cost-effective continuums that identify and fill the gaps in housing and services that are needed to move homeless families and individuals into permanent housing. The CoC is an inclusive process that is coordinated with non-profit organizations, State and local government agencies, service providers, private foundations, faith-based organizations, law enforcement, local businesses, and homeless or formerly homeless persons. This planning model is based on the understanding that homelessness is not merely a lack of shelter, but involves a variety of unmet needs-—physical, economic, and social.

Among other things, the HEARTH Act codified the CoC process in statute. Fiscal year 2011 marks the first year for implementation of this and other key features of the HEARTH legislation including: increased investment in the evidence-based practices of homelessness prevention and permanent supportive housing for homeless individuals and families with special needs; improvement in the accuracy of the definition of homelessness; support for the project operation and local planning activities needed to continue the movement of the HUD-supported homeless assistance system to a more performance-based and outcome-focused orientation; and provision of assistance that better recognizes the needs of rural communities. This funding level will enable the Administration to continue progress in reducing chronic homelessness (20 percent reduction between 2006-2008) and meet the growing needs among homeless families during this period of economic hardship (9 percent increase from 2007-2008).

Investing in Restructured Programs
($ in millions)

	2010 Enacted	2011 Request	Difference 2011 vs 2010
Transforming Rental Assistance	……	$350.0	$350.0
Rental Assistance and Administrative Fees	……	[$290]	[$290]
Resident Mobility	……	[$50]	[$50]
Technical Assistance and Evaluation	……	[$10]	[$10]
Homeless Assistance Grants	$1,865.0	$2,055.0	$190.0