U.S. Department of Housing and Urban Development

Investing in People and Places

FY 2011 Budget

U.S. Department of Housing and Urban Development

Investing in People and Places

FY 2011 Budget

Table of Contents

Message from Secretary Donovan

I am pleased to submit the fiscal year 2011 Budget for the Department of Housing and Urban Development, Investing in People and Places.

This Budget is proposed in a far different environment from that faced by the nation and the Department just one year ago. At that time, the economy was hemorrhaging over 700,000 jobs each month, foreclosures were taking place at record rates, residential investment had dropped over forty percent in just eighteen months, and credit was frozen nearly solid. Many respected economic observers warned that a second Great Depression was a real possibility, sparked of course by a crisis in the housing market. Meanwhile, communities across the country—from newly built suburbs to small town rural America-- faced neighborhoods devastated by foreclosure, even as soaring jobless rates and eroding tax base crippled their ability to respond.

One year later, it is clear that the nation's housing market has made significant progress toward stability, with home prices having risen for two quarters in a row after two and one-half years of decline, interest rates near record lows, and home sales having rebounded to levels not seen since February 2007. Other promising economic indicators are also emerging steadily. This is due in significant part to the capacity of the Federal Housing Administration (FHA) to fulfill its counter-cyclical role -- growing from less than 2 percent of the home mortgage market in 2006 to nearly a third of it today, as it steps in to temporarily provide necessary liquidity while also working to bring private capital back to credit markets.

HUD has been essential to the Administration's efforts to confront the housing crisis directly and to spur economic recovery more broadly. HUD also played a central role in Administration efforts to help homeowners avoid foreclosure, by providing affordable and sustainable refinance and modification opportunities for at-risk borrowers. HUD partnered with the White House, the Department of Treasury, and other Federal regulatory agencies to develop the Making Home Affordable plan, and implement its two major initiatives – the Home Affordable Refinance Program and Home Affordable Modification Program. These programs have helped to preserve homeownership for more than 1 million families. In addition, the FHA has in the past year alone helped more than 800,000 homeowners refinance into stable, affordable fixed-rate mortgages and deployed its loss mitigation tools to protect more than half a million families from foreclosure. Coupled with record low interest rates and the successful homebuyer tax credit, the increased liquidity provided by FHA has enabled first-time homebuyers to enter the market, helped over 3.8 million homeowners refinance, and pumped $13 billion annually into local economies and businesses– generating additional revenues for our nation's cities, suburbs, and rural communities.

HUD is also a key player in implementing the American Recovery and Reinvestment Act (ARRA), which has put millions of Americans back work and the nation on track toward a full economic recovery. At present, HUD has allocated 98 percent of the $13.6 billion in ARRA funds stewarded by the Department, all of which will be obligated by late spring. Because HUD's ARRA funding is paid once construction or other work is complete, these obligated funds are already generating jobs in the hard hit sectors of housing renovation and construction by modernizing and 'greening" public and assisted housing, reviving stalled low-income housing tax credit projects, and stabilizing neighborhoods devastated by foreclosures, while also providing assistance to families experiencing or at risk of homelessness.

The Department's fiscal year 2010 Budget reflected a singular economic and organizational moment. During the last Administration, HUD's programs were chronically underfunded, and many came to regard the agency as slow moving, bureaucratic, and unresponsive to the needs of its partners and customers. HUD's fiscal year 2010 budget request, $43.72 billion (net of receipts generated by FHA and the Government National Mortgage Association, or 'Ginnie Mae') -- a 9 percent increase over the fiscal year 2009 enacted level of $40.045 billion-- sent the clear message that HUD's programs merited funding at levels sufficient to address the housing and community development needs of the economic crisis. It also represented the Administration's vote of confidence that HUD could transform itself into more the nimble, results-driven organization required by its status as an indispensable agency .

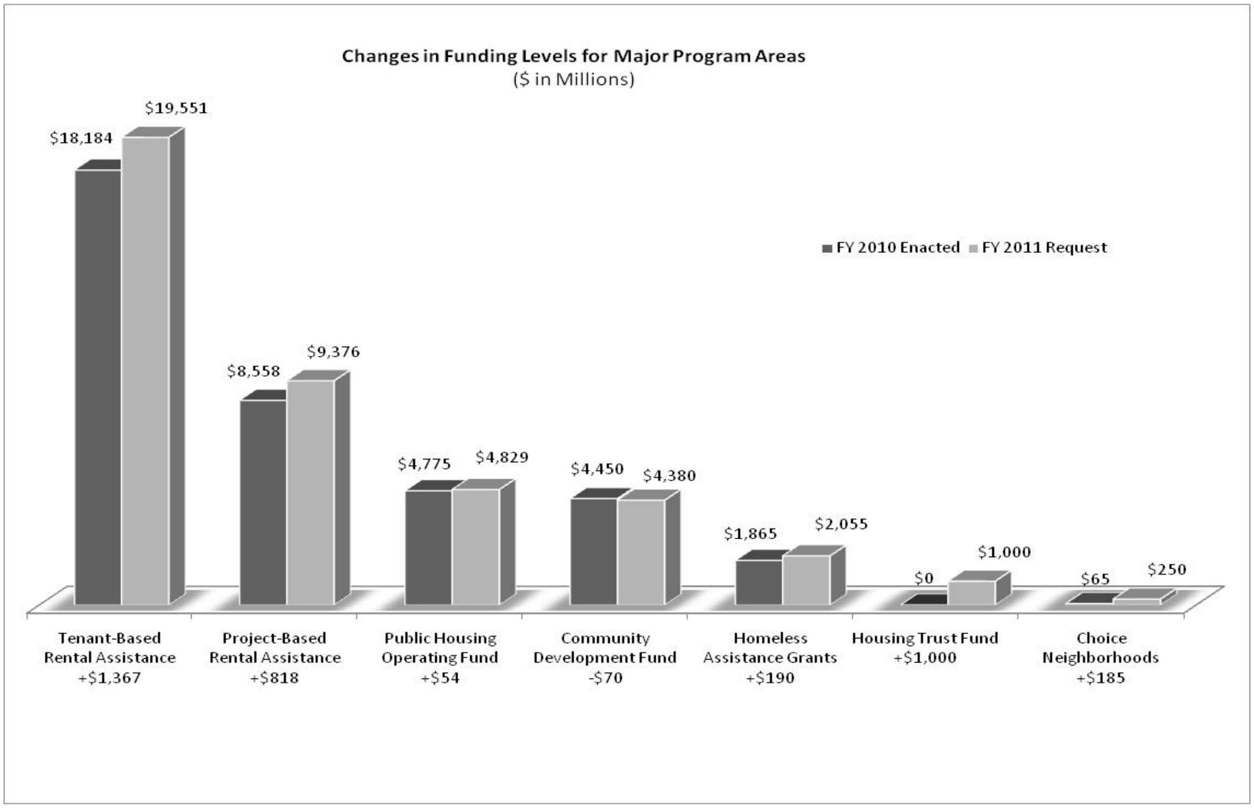
Congress agreed. Fiscal year 2010 appropriations legislation provided HUD programs $43.58 billion (net of receipts). Equally important, the Budget targeted $258.8 million to the Department's proposed Transformation Initiative, the cornerstone of the agency's efforts to change the way that HUD does business. For the first time, the Department has the flexibility to make strategic, cross-cutting investments in research and evaluation, major demonstration programs, technical assistance and capacity building, and next generation technology investments to bring the agency fully into the 21st century.

After a year of progress, we no longer confront an economy or a Department in extreme crisis. As a nation, we have pulled back from the abyss. And as HUD's full leadership team hit the ground running over the course of 2009, supported by a workforce re-energized by glimpses of what HUD could become, the Department proved itself up to the tasks of carrying out ARRA and reviving neglected programs. Moreover, these ARRA initiatives established a new standard of transparency and accountability across the agency and its partner organizations – exemplified by quarterly reporting, posted to the Web, on jobs, housing production and rehabilitation, people served by homelessness prevention programs, and energy savings.

But much work remains, in much changed fiscal circumstances. Now that the economic crisis has begun to recede, President Obama has committed to reducing the federal deficit. HUD's fiscal year 2011 budget reflects that fiscal discipline. Net of $6.9 billion in projected FHA and Ginnie Mae receipts credited to HUD's appropriations accounts, this Budget proposes overall funding of $41.6 billion, 5% below fiscal year 2010. This budget also makes difficult decisions to cut funding for a number of programs including the public housing capital fund, HOME Investment Partnerships, Native American Housing Block Grants (NAHBG), the 202 Supportive Housing Program for the Elderly, and the Section 811 Supportive Housing Program for Persons with Disabilities.

In some instances, these are programs that received substantial ARRA funding (e.g., public housing capital and NAHBG) or ones (e.g., HOME) for which we expect reduced production to be at least partially offset by other funding mechanisms (e.g., first year capitalization of the National Housing Trust Fund). In the case of reductions to new capital grants-- in public housing, Section 202, and 811-- the Department is recognizing that HUD's partners must increasingly access other private and public sources of capital. During this fiscal year, when we simultaneously propose to modernize these programs while also facing severe resource constraints, HUD's housing investments must be targeted to their most crucial and catalytic uses, primarily rental and operating assistance that best enables those partners to leverage additional resources.

Nonetheless, this is a bold budget—one that will achieve more with less. The carefully targeted investments in this Budget will enable HUD programs to: house over 2.4 million families in public and assisted housing (over 58% elderly or disabled); provide tenant based vouchers to more than 2.1 million households (over 47% elderly or disabled), an increase of 35,000 over 2009; more than double the annual rate at which HUD assistance creates new permanent supportive housing for the homeless; and create and retain over 112,000 jobs through the Department's housing and economic development investments in communities across the country. In total, by the end of fiscal year 2011, HUD expects its housing programs to assist nearly 5.5 million households, over 200,000 more than at the end of fiscal year 2009.



And in terms of reform, this Budget proposes fundamental change beyond the Department's fiscal year 2010 proposal. Then, urgent circumstances called for HUD's programs to be taken largely 'as is' in order to pump desperately needed assistance into the economy in time to make a critical difference. With the infusion of ARRA and fiscal year 2010 funding having stabilized HUD's programs after years of slow starvation, the time has come to begin transforming them—to make HUD's housing and community development programs, and the administrative infrastructure that oversees them, more streamlined, efficient, and accountable.

This Budget is a major step in that direction. Specifically, it seeks to achieve five overarching goals:

First, the fiscal year 2011 budget will *strengthen the Nation's housing market to bolster the economy and protect consumers.* Since late 2007, the availability of FHA and Ginnie Mae credit guarantees have been important counter-cyclical responses to the tightening of the private credit markets. With fewer conventional options, borrowers and lenders have flocked to FHA and the ready access it provides to the secondary markets through securitization by Ginnie Mae. FHA's presence has supported the home-purchase market – FHA insures thirty percent of all home purchase loans today and nearly half of those for first-time homebuyers --and enabled existing homeowners to refinance at today's low rates, reducing their risk of foreclosure. FHA's reverse mortgage program, the Home Equity Conversion Mortgage (HECM) has also grown steadily in recent years, to a volume of $30.2 billion in FY 2009.

HUD is projecting that FHA will continue to play a prominent role in the mortgage market in fiscal year 2011 and, accordingly, requests increases in the mortgage insurance commitment limitations for its single and multifamily programs. But the Budget also shows the Department's commitment to striking the right balance between managing FHA's risk, continuing to provide access to underserved communities, and supporting the nation's economic recovery. Notably, it reflects the impact of a set of policy changes announced over the past several months designed to strengthen FHA's capital reserves and better position the FHA to manage risk. These measures-- which include increasing the mortgage insurance premium, updating the combination of FICO scores and down payment required of new borrowers, reducing seller concessions, and increasing lender enforcement-- not only put FHA on firmer footing, but also generate additional revenues in fiscal year 2011 to offset spending within HUD programs and contribute to deficit reduction.

The Department is equally committed to increasing consumer knowledge of mortgage products, helping them through the homeownership process more generally, and protecting them from fraud in any phase of that process. The Budget, therefore, includes $88 million for Housing Counseling Assistance, which is the only dedicated source of Federal funding for the full spectrum of housing counseling services and continues the FHA Combating Mortgage Fraud initiative ($20 million) launched in fiscal year 2010.

Second, the fiscal year 2011 Budget will *meet the need for quality affordable rental homes,* continuing the Department's effort to rebalance national housing policy and reassert Federal leadership on rental housing. The need for affordable rental housing among our nation's poorest and most vulnerable citizens is great. 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. These figures do not include the over 664,000 people who experience homelessness on any given night.

As HUD Secretary, as well as the first Chair of the Interagency Council on Homelessness under President Obama, I am committed to making real progress in reducing these tragic figures. To do so requires substantial investment even in this difficult fiscal year. For this reason, the Budget provides for $1 billion for capitalization for the National Housing Trust Fund, to increase development of housing affordable to the nation's lowest income families.

This Budget also substantially increases funding for the Department's core rental assistance programs—investing over $2.2 billion more than in fiscal year 2010 to meet the funding needs of the Tenant-based Rental Assistance (TBRA) program, the Project-based Rental Assistance (PBRA) program, and the public housing Operating Fund. TBRA, the Department's largest program, will assist an estimated 2.2 million households, approximately 35,000 more than was supported in the fiscal year 2010 appropriation and 112,304 more than at the end of fiscal year 2009. Full funding of the PBRA and Operating Fund accounts will help to preserve the over 2.3 million units within those programs' portfolios.

This submission also marks the launch of a long-term, Transforming Rental Assistance (TRA) initiative. It does not take a housing expert to see that HUD's rental assistance programs desperately need simplification. HUD currently provides deep rental assistance to more than 4.6 million households through thirteen different programs, each with its own rules, administered by three operating divisions with separate field staff. Too often over time, additional programs designed to meet the needs of vulnerable populations were added without enough thought to the disjointed system that would result. This unwieldy structure ill serves the Department, our government and private sector partners, and —most importantly—the people who live in HUD-supported housing.

Ultimately, TRA is intended to move properties assisted under these various programs toward a uniform funding stream, governed by a single set of rules and regulations, while retaining deep affordability. Equally important, TRA will help to preserve the millions of units receiving HUD rental assistance by opening them up to other public and private sources of financing to meet their capital needs[2] and ensure their long-term quality through the market discipline brought to bear in mixed finance projects. Additionally, TRA reflects the Department's commitment to enhancing tenant mobility—providing more tenants in HUD-assisted housing the option to 'vote with their feet' if their current housing is poorly operated or they have the chance to move to a neighborhood of greater opportunity—while simultaneously meeting the need for reliable, adequate rental assistance funding among project operators.

In fiscal year 2011, the initial phase of the initiative is focused on the preservation of public housing and a subset of HUD-assisted multifamily properties through their voluntary conversion to a simplified form of rental assistance that draws upon the desirable features of existing programs. More precisely, the Budget requests $350 million to preserve approximately 300,000 units of public and assisted housing and to increase the efficiency of operations of the tenant-based assistance program. Public and private owners will be offered the option of converting to long-term, property-based rental assistance contracts that include a resident mobility feature. These contracts will place participating properties on sound physical and financial footing, leveraging private financing to address properties' immediate and long-term capital needs and implement energy-efficiency improvements. Funding will also be made available to PHAs to offset costs of combining tenant-based rental assistance program administrative functions to increase efficiency and effectiveness and to recruit landlords in a broad range of neighborhoods. The results will include greatly stream-

[2] *These are drawn from HUD's current draft of its strategic plan, which will be posted to hud.gov for public comment.*

lined delivery and oversight of rental assistance as well as an increase in the share of vouchers used in lower poverty communities.

Fiscal year 2011 also marks the first year for implementation of the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act, which – when signed by President Obama in the spring of 2009--restructured HUD's homeless assistance programs to incorporate nearly two decades of research and on-the-ground experience in addressing homelessness. To support implementation of this important legislation, the Budget proposes a nearly $200 million dollar increase in homeless assistance funding compared to fiscal year 2010 to increase investment in evidence-based practices, support the shift of local homeless assistance systems to a performance-based orientation, and to better meet the unique needs of rural communities. This will allow the Administration to maintain progress in reducing chronic homelessness and meet the growing needs among homeless families resulting from this period of economic hardship.

Third, the fiscal year 2011 Budget will *utilize housing as a platform for improving quality of life.* Stable housing is the foundation upon which all else in a family's or individual's life is built--absent a safe, affordable place to live, it is next to impossible to achieve good health, positive educational outcomes, or reach one's full economic potential. Indeed, for many persons with disabilities living in poverty, lack of stable housing leads to costly cycling through crisis-driven systems like emergency rooms, psychiatric hospitals, detoxes, and even jails.

By the same token, stable housing provides an ideal platform for the delivery of healthcare and other social services focused on improving life outcomes for individuals and families. A substantial body of research evidence has established, for example, that providing permanent supportive housing to chronically ill, chronically homeless individuals and families not only ends their homelessness, but also yields substantial cost savings in public health, criminal justice, and other systems—often nearly enough to fully offset the cost of providing the permanent housing and supportive services.

This Budget capitalizes on this insight through provision of 10,000 new homeless and special needs vouchers to support groundbreaking collaborations with the Department of Health and Human Services (HHS) and the Department of Education to: (1) bring Medicaid and other mainstream health funding resources—systems which stand to gain the most, financially, from expansion of permanent supportive housing-- to bear on the supportive services needs of formerly homeless tenants in HUD-assisted supportive housing; (2) ensure that homeless children identified by the Department of Education receive the support they require to maintain housing and educational stability; and (3) provide HHS-funded income support such as the Temporary Assistance for Needy Families (TANF) to homeless families receiving tenant-based assistance. This unprecedented, 'silo-busting' alignment of federal resources to address the needs of some of the country's most vulnerable individuals and families has the distinction of being both compassionate and cost-effective.

Fourth, the fiscal year 2011 Budget will help to *build inclusive and sustainable communities free from discrimination.* Its approach to this objective is informed by the Obama Administration's landmark, federal government-wide review of 'place-based' policies for the first time in over three decades.

Place is already at the center of every decision HUD makes. HUD's programs today reach nearly every neighborhood in America -- 58,000 out of the approximately 66,000 census tracts in the U.S. have one or more unit of HUD assisted housing. But we have taken this opportunity to renew our focus on place, with the result that the proposed FY 2011 Budget allows HUD to better nurture sustainable, inclusive neighborhoods and communities across America's urban, suburban, and rural landscape.

One aspect of HUD's refined place-based approach involves making communities sustainable for the long-term. Sustainability includes improving building level energy efficiency, cutting carbon emissions through transit-oriented development, and taking advantage of other locational efficiencies. But sustainability also means creating "geographies of opportunity," places that effectively connect people to jobs, quality public schools, and other amenities. Today, too many HUD-assisted families are stuck in neighborhoods of concentrated poverty and segregation, where one's zip code predicts poor educational, employment, and even health outcomes. These neighborhoods are not sustainable in their present state.

This Budget lays the groundwork for advancing sustainable and inclusive growth patterns at the metropolitan level, communities of choice at the neighborhood scale, and energy efficiency at the building scale. Central to the Department's place-based efforts is delivering on the President's commitment to fully fund the Community Development Block Grant (CDBG) program at $4.38 billion.

Within CDBG, the Budget includes $150 million for a second year of the Sustainable Communities Initiative, which will expand upon our burgeoning partnership with the Department of Transportation and the Environmental Protection Agency to stimulate more integrated regional planning to guide state, metropolitan, and local decisions to link land use, transportation and housing policy. Better coordination of transportation, infrastructure and housing investments will result in more sustainable development patterns—more walkable, transit-oriented, mixed-income and mixed-use communities that substantially reduce transportation costs (now as large a part of many family budgets as housing costs), create energy savings, reduce carbon emissions and enhance access to employment and education.

Also within CDBG, the Budget proposes an innovative, new $150 million Catalytic Investment Fund. A number of distressed communities –urban, suburban, and rural-- have been developing innovative approaches to create jobs and repurpose their economies for the decades to come. This competitive fund is intended to be the seed capital necessary to encourage development of more such plans and provide the catalytic investment to begin implementation of the best plans at scale. The proposed fund will provide economic development and gap financing to capitalize and implement innovative, targeted economic investment for neighborhood and community revitalization.

The Budget also proposes to expand Choice Neighborhoods from its $65 million funding level in 2010, for a demonstration of this important initiative, to $250 million in 2011. This will enable HUD and our local partners to transform distressed neighborhoods and public and assisted housing into functioning, sustainable mixed-income neighborhoods by linking housing improvements with appropriate services, schools, transportation, and access to jobs. A strong emphasis will be placed on local community planning and educational improvements including early childhood initiatives and on HUD's coordination with other federal agencies, with the expected result that federal investments in education, employment, income support, and social services will be better aligned.

Finally, I want to emphasize that as HUD works through the Choice Neighborhoods initiative and across all of its programs to revitalize these neighborhoods, as well as enable families to make the choice to move to other neighborhoods with lower poverty and greater economic opportunity, HUD will strive to ensure that newly revitalized neighborhoods remain affordable, inclusive places for low-income people to live. The Budget also proposes $61.1 million in support of the Department's fair housing activities, through the Fair Housing Assistance Program (FHAP), at $28.5 million, and the Fair Housing Initiatives Program (FHIP), at $32.6 million, to redress discrimination in both the homeownership and rental housing markets.

Fifth, the fiscal year 2011 Budget will continue to *transform the way HUD does business*

In fiscal year 2010, HUD acknowledged a pressing need for adaptability and change. To become an innovative agency with the capacity to move beyond legacy programs, shape new markets and methods in the production and preservation of affordable housing, green the nation's housing stock, and promote sustainable development in communities across America, the Department had to remake itself.

We laid the foundation for this reinvention in 2009, with an extensive strategic planning process that engaged over 1500 internal and external stakeholders in defining the Department's high priority transformation goals and strategies. This initiative will focus on the following – building internal capacity; managing performance; simplifying programs, rules and regulations; and building a culture that embraces innovation and results. We followed up this work in 2010, when we launched a process for allocating resources from the Transformation Initiative Fund, which complements the transformation priorities defined in the strategic plan. The Fund provides targeted project investments to develop metrics to gauge our performance, research to evaluate our programs, demonstrations to test the impact of new federal interventions, technical assistance to identify and diffuse innovation and technology to increase efficiency, track spending, inform decisions and curb fraud, waste and abuse. The Budget again requests that up to one percent of program funding be transferred to the Transformation Initiative Fund. Building on this idea, the Budget requests the creation of a Salaries and Expenses Central Fund, funded through a one percent transfer from each of HUD's salaries and expenses accounts. The Fund will provide targeted, temporary infusions of resources to any of HUD's program offices in order to increase our responsiveness to unanticipated crises and new challenges– such as natural disasters or the recent need for FHA to step up its participation in the hobbled mortgage markets--- through the hiring of staff with appropriate expertise.

In sum, this Budget continues the transformation begun by the 2010 Budget. With the housing market showing signs of stabilization and the economy entering recovery, now is the time to exert fiscal discipline while retooling the Department and its programs to ensure that they serve American households and communities more effectively and more efficiently over decades to come. I am proud of the progress the fiscal year 2011 Budget will make on both fronts.

Secretary Shaun Donovan