**COMMUNITY PLANNING AND DEVELOPMENT**
**HOUSING TRUST FUND**
**2014 Summary Statement and Initiatives**
**(Dollars in Thousands)**

| HOUSING TRUST FUND | Enacted/ Request | Carryover | Supplemental/ Rescission | Total Resources | Obligations | Outlays |
|---|---|---|---|---|---|---|
| 2012 Appropriation ................ | ... | ... | ... | ... | ... | ... |
| 2013 Annualized CR ................ | ... | ... | ... | ... | ... | ... |
| 2014 Request ...................... | $1,000,000 | ... | ... | $1,000,000 | $1,000,000 | $10,000 |
| Program Improvements/Offsets ...... | +1,000,000 | ... | ... | +1,000,000 | +1,000,000 | +10,000 |

## 1. What is this request?

The fiscal year 2014 Budget proposes direct spending of $1 billion for the Housing Trust Fund (HTF). The Housing and Economic Recovery Act of 2008 directs the Secretary of Housing and Urban Development to establish and manage a HTF, to be funded with amounts that may be appropriated, transferred, or credited to such fund under any provisions of law.

The Administration remains committed to funding the Housing Trust Fund and will continue to work with Congress to capitalize the fund. The fiscal year 2014 funds will be used to finance the development, rehabilitation, and preservation of affordable housing for very low-income residents. It is a high priority to address the huge affordable housing gap through the production of new affordable housing units. With $1 billion in fiscal year 2014 funding, the HTF funding will leverage approximately 60 percent of the other private and public funds needed to pay for the production of approximately 16,000 units of housing affordable to extremely low-income households. For the first year of funding, 100 percent of the funds provided to rental or homeownership projects must be used for the benefit of extremely low-income families (ELI) (less than 30 percent of AMI) or families with incomes at or below the poverty line.

## 2. What is this program?

The Housing Trust Fund (HTF) was established by the Housing and Economic Recovery Act of 2008 (Public Law 110-289). The purpose of the Housing Trust Fund is to provide grants to States: 1) to increase and preserve the supply of rental housing for extremely low-income and very low-income families, including homeless families; and 2) to increase homeownership for extremely low-income and very low-income families, limited to no more than 10 percent of each formula allocation. The authorizing statute provided a dedicated source of funding for the HTF through annual assessments on the government-sponsored enterprises, Fannie Mae and Freddie Mac; however, these assessments have been suspended due to the housing and foreclosure crisis.

Grant amounts allocated to a state or state-designated entity are eligible for use, or for commitment for use, only for assistance for: 1) the production, preservation, rehabilitation, and operating costs of rental housing; and 2) the production, preservation, and rehabilitation of housing for homeownership, including such forms as down payment assistance, closing cost assistance, and assistance for interest rate buy-downs.

Affordability problems have been exacerbated by the recession and the increasing demand for rental housing generated by the foreclosure crisis. At the same time, the freeze in the credit markets and the reduction in demand for LIHTC have greatly diminished the private capital available to improve and expand the supply of affordable rental housing.

In addition, because the residential sector is responsible for 20 percent of the nation's greenhouse gas emissions, the Department believes that the Housing Trust Fund can contribute towards energy efficiency and green retrofits once enacted. HUD will encourage and guide states to use their Housing Trust Fund grants to build energy-efficient rental housing and to make their current housing stock more energy efficient, as well as to provide opportunities for expanded sustainable community practices.

On December 4, 2009, the Department published in the Federal Register a proposed rule that would codify the allocation formula for the HTF. A second rule was published October 29, 2010, which proposed requirements and procedures for governing operation of the HTF. Comments were received by December 28, 2010. The following highlights key aspects of the proposed rule.

**Program Functions and Eligible Activities**

- Allocation of Amount. The proposed allocation formula includes the following factors: 1) the shortage of rental units both affordable and available to extremely low-income renter households; 2) the shortage of rental units both affordable and available to very low-income renter households; 3) the ratio of ELI renter households with worst case housing needs; 4) the ratio of very low-income renter households paying more than 50 percent of income on rent; and 5) the relative cost of construction. By statute, the each state will receive a minimum allocation of $3 million.

- Distribution of Assistance. States or state-designated entities responsible for distributing HTF funds shall develop allocation plans based on priority housing needs, as identified in the State's approved consolidated plan, and in accordance to any priorities that may be established by HUD. The allocation plans must include a description of the eligible activities and a description of funding eligibility requirements, including demonstrated experience and financial capacity to undertake the activity and demonstrated familiarity with the requirements of any other federal, state, or local housing program that will be used in conjunction with such grant amounts to ensure compliance with all applicable requirements and regulations of such programs. Funds for housing will go to "recipients", which may be non-profit or for-profit developers or owners.

- Accountability. Each grantee's allocation plan must include performance goals and benchmarks, and HUD will evaluate the performance of each grantee at least annually. To further hold grantees and recipients accountable for ensuring HTF funds are used properly and efficiently, sanctions may be imposed on grantees and recipients that fail to provide proper oversight or misuse funds. All grant amounts must be committed for use within 2 years of the date that grant amounts are made available to the grantee; any amounts not committed within 2 years will be recaptured and reallocated.
- Eligible and Prohibited Activities. Activities include: production, preservation, and rehabilitation of affordable rental housing and affordable housing for homeownership through the acquisition (including assistance to homebuyers), operating cost assistance and operating cost assistance reserves, new construction, reconstruction, or rehabilitation of non-luxury housing with suitable amenities, including real property acquisition, site improvements, conversion, demolition, financing costs, relocation expenses, operating costs of HTF-assisted rental housing, and reasonable administrative and planning costs.
- Income Targeting. For the first year of funding, 100 percent of the funds provided to rental or homeownership projects must be used for the benefit of ELI families (<30 percent of AMI) or families with incomes at or below the poverty line. HUD will revise this percentage of funds in subsequent years, per statute, at least 75 percent of funds must always be used for extremely low-income families.
- Period of Affordability. Income targeting continues to apply for a unit throughout the HTF affordability period, which shall be 30 years. In rental projects, if a tenant becomes over-income, the HTF designation may float to another comparable unassisted unit in the project.
- Eligible Project Costs. Eligible project costs include: development hard costs, refinancing costs, acquisition costs, related soft costs, operating cost assistance (or operating cost reserve), relocation costs, and costs related to payment of loans.
- Cost Caps. For rental housing, the grantee must establish annual maximum per unit amounts of HTF funds that may be invested in an HTF-assisted unit, with adjustments for the number of bedrooms and the geographic location of the project. This requirement will require that grantees focus on the cost per unit and ensure that these costs are reasonable. For homeownership, modest homeownership caps will be applied. New construction units must have an appraised value that does not exceed 95 percent of the median purchase price for the type of single family housing for the area. For acquisition with rehabilitation, the estimated value of the housing after rehabilitation may not exceed 95 percent of the median purchase price for the area.

- Energy and Water Efficiency Property Standards. Both rental and homeownership projects must have energy and water efficiency features. For new construction and gut rehabilitation projects *ENERGY STAR* will be required for properties up to 3 stories or for properties over 3 stories, ASHRAE 90.1-2007, Appendix G plus 20 percent will be required. In addition, *WaterSense*, a water efficiency standard established by the EPA, will be required. For other rehabilitation, *ENERGYSTAR* and *WaterSense* features will be required when feasible.
- Ongoing Habitability Property Standards for Rental Housing. The grantee must establish ongoing property standards that apply throughout the affordability period. At a minimum, these standards must meet local code and address all items in HUD's most recent Uniform Physical Condition Standards (UPCS) Comprehensive Listing of "Inspectable" Areas. Project owners must address any identified deficiencies within a reasonable timeframe. On-site inspections will be performed by grantees during the period of affordability.
- Transit Oriented Development. The HTF proposed rule provides for the opportunity to use HTF funds in a unique way to participate in transit oriented development. Transit oriented development is considered mixed-use, mixed-income development within a half mile of a transit facility. The proposed rule allows for a longer commitment period (than standard) for HTF funds for transit oriented development projects in order to facilitate inclusion of HTF units in these types of projects.

**Staffing and Key Functions**

Salaries and Expenses (S&E) and Full-Time Equivalents (FTE) Request

A total of 8 FTEs are requested for Housing Trust Fund, which is an increase of 8 FTE compared to fiscal year 2012 request, as the program will be initiated. For fiscal year 2014, the total S&E funding is approximately $1.05 million. For personnel services, the Housing Trust Fund is requesting $1.02 million. The Housing Trust Fund's fiscal year 2014 non-personnel services budget request is $23 thousand.

Headquarters staff within the Office of Affordable Housing will be responsible for managing and providing policy guidance while representative staffs in the field will be tasked with providing technical assistance and monitoring of the HTF grantees.

Workload by Function

The below workload by function distribution is an estimate as the majority of CPD employees work on several programs. The FTE allocation is consistent with the fiscal year 2012 request of 8 FTE.

- 1 FTE is allocated to Program Administration: Technical Assistance and Training.

- 1 FTE is allocated to Customer Service.
- 1 FTE is allocated for Consolidated Plan.
- 1 FTE is allocated to Compliance: Monitoring and Risk Assessment.
- 4 FTE are allocated to Formula Grant Management.

**3. Why this program is necessary and what will we get for the funds?**

In February 2013, HUD released a summary of its biennial Worst Case Housing Needs Report. HUD found that the number of very low-income renters facing severe housing problems continues to grow. In 2011 nearly 8.5 million households had worst case housing needs, up from 7.1 million in 2009. This represents a 19 percent increase since 2009 and 43 percent since 2007. Worst case needs are defined as renters with very low incomes (below half the median in their areas) who do not receive government housing assistance and who either paid more than their monthly incomes in rent, lived in substandard conditions, or both. Housing needs cut across all regions of the country and included all racial and ethnic groups, regardless of whether they lived in cities, suburbs, or rural areas. In addition, large numbers of worst case needs were also found across various household types including families with children, senior citizens, and persons with disabilities.

The rise in hardships among renters is due to substantial increases in rental housing demand and weakening incomes that increased competition for already-scarce affordable units. Increases in demand were so great that they overwhelmed increases in supply of units affordable at incomes below 50 percent of AMI. As a result, the gap between the number of affordable units that were available for very low-income renters and the number of renters who need these units not only failed to improve in percentage terms, but worsened in absolute terms. In particular, conversion of owner-occupied to rental units following foreclosure helped offset some of the sharp increase in rental demand. The stock of owner-occupied housing decreased by almost 760,000 units during 2009-2011 while the rental stock increased by 3.33 million units (8.4 percent). The 3.47 million new renter households absorbed all the net increase of rental units while also occupying 140,000 previously vacant units. Despite these substantial shifts in supply, the number of affordable and available rental units decreased to 65 units per 100 very low-income renters and 36 units per 100 extremely low-income renters. (See U.S. Department of Housing and Urban Development (February 2013) Worst Case Housing Needs 2011: Report to Congress--Summary.")

In most of the nation, it is infeasible for builders and housing providers to construct and operate a sufficient supply of rental housing at rents that will both enable them to service the debt and yet be affordable to the ELI and VLI renters in the area. Moreover, due to competition for affordable housing, the majority, 54 percent, of units that would have been affordable for ELI renters in 2009 were occupied by higher income households. The result is that in 2009, for every 100 ELI renters nationwide, only 36 rental units were both affordable and available for rent or currently occupied by households in this income range, 8 fewer units were affordable and available per 100 ELI renters in 2007. As a comparison, for every 100 VLI and ELI renters together, there were only 67 affordable units available in 2009, 7 fewer than in 2007. In 2014, the Housing Trust Fund will provide funds to produce additional units affordable to ELI households with the greatest need, thus increasing the supply and reducing the most critical component of the existing shortage.

Currently, only about one in five families that are eligible for HUD/federal rental assistance programs receives assistance. The number of families struggling to make ends meet in the face of severe rent burdens has increased substantially during this decade. One of HUD's critical strategic goals is to address the persistent un-affordability of housing in four ways:

- Supplementing incomes via maximizing available rental vouchers;
- Preserving existing affordable housing through smart investments in public, Native American and assisted housing;
- Expanding supply by capitalizing the new National Housing Trust Fund; and
- Continued HOME and CDBG housing efforts.

For the first year of funding, 100 percent of the funds provided to rental or homeownership projects must be used for the benefit of ELI families (less than 30 percent of AMI) or families with incomes at or below the poverty line. HUD will adjust this percentage of funds in subsequent years; however, per statute at least 75 percent of funds must always be used for ELI families. The other families served by HTF must be very low-income (VLI) families with incomes between 30 and 50 percent of area median income. The targeting ensures the priority, efficacy and efficiency of the program by helping those with the greatest needs.

Approximately 16,000 units of housing affordable to ELI households are expected to be produced as part of mixed-income affordable housing projects. With $1 billion in funding, the NHTF funding will leverage approximately 60 percent of the other private and public funds needed to pay for the production of these units.

ELI renters are particularly burdened with severe housing problems. Among ELI and VLI renters lacking housing assistance during 2009, 55 percent have worst case housing needs. The incidence of worst case needs reached 77 percent among unassisted ELI renters, compared with 33 percent among unassisted VLI renters. Because of their severe housing needs, in a recently published program rule for the Housing Trust Fund, HUD proposed direction of 100 percent of the funds to benefit ELI households.

**4. How do we know this program works?**

Each grantee's allocation plan must include performance goals and benchmarks. HUD will evaluate the performance of each grantee at least once a year (annually). To further hold grantees and recipients accountable for ensuring HTF funds are used properly and efficiently, sanctions may be imposed on grantees and recipients that fail to provide proper oversight or misuse of funds. All grant amounts must be expended or obligated for use within 2 years of the date that grant amounts are made available to the grantee; any amounts not used or committed within 2 years will be recaptured and reallocated.

<u>HUD's Information Technology Portfolio Improvements</u>

Investments in developing new Information Technology (IT) capabilities will enhance grants management systems such as e-snaps, Integrated Disbursement and Information System (IDIS), Disaster Recovery Grants Reporting System (DRGR), and CPD Maps. These investments will automate, centralize, and standardize business processes on modern, web-based, enterprise architecture-compliant, best-of-breed platforms, and add significant business capabilities while reducing operational costs. Investments in DRGR will streamline and automate paper-based Technical Assistance (TA) grant program for OneCPD. By automating the paper-based Consolidated Plan, Annual Action Plan, and performance reporting forms, duplicative grantee data entry and manual processing is reduced by at least 65,000 grantee hours for CDBG, HOME, HOPWA, and HESG program grantees (based on estimated paperwork burden hours associated with the current forms).

HUD will also automate paper-based environmental review process for CPD grant programs; more than 5,000 environmental reviews are conducted every year to assess a project's potential environmental impacts and determine whether they meet federal, state, and local environmental standards. These investments create and enhance customer-facing systems for carrying out HUD's mission, enable grantees to draw down funds and report performance results and program outcomes, streamline administrative processes for both customers and HUD, and speed time to award for our competitive grants. Future IT development projects will further enhance system and business capabilities, automate additional grant programs and processes throughout HUD, and aspire to consolidate multiple grant systems to a centralized, integrated solution of two or three enterprise systems.

# COMMUNITY PLANNING AND DEVELOPMENT
# HOUSING TRUST FUND
# SUMMARY OF RESOURCES BY PROGRAM
# (DOLLARS IN THOUSANDS)

| Budget Activity | 2012 Budget Authority | 2011 Carryover Into 2012 | 2012 Total Resources | 2012 Obligations | 2013 Annualized CR | 2012 Carryover Into 2013 | 2013 Total Resources | 2014 Request |
|---|---|---|---|---|---|---|---|---|
| Formula Grants ........ | ... | ... | ... | ... | ... | ... | ... | $1,000,000 |
| Total ............... | ... | ... | ... | ... | ... | ... | ... | 1,000,000 |