COMMUNITY PLANNING AND DEVELOPMENT
HOUSING TRUST FUND
2017 Summary Statement and Initiatives
(Dollars in Thousands)

Housing Trust Fund	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2015 Appropriation	...	...	...	...	...	...
2016 Appropriation	182,000 [a]	...	...	182,000	170,000	2,000
2017 Request	136,000	12,000	...	148,000	136,000	25,000
Program Improvements/Offsets	-46,000	12,000	...	-34,000	-34,000	23,000

a/ This number includes $12 million that is temporarily unavailable.

1. What is included in the 2017 Budget?

The fiscal year 2017 Budget estimates that $136 million will be provided to the Housing Trust Fund (HTF) from assessments from the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). The fiscal year 2017 funds will finance the development, rehabilitation, and preservation of affordable housing for extremely low-income (ELI) residents, and will result in over 1,000 units produced over time. As a mandatory program, States or State-designated entities will have a more stable source of funding to allow them to increase affordable housing for the long-term. This program would also assist with achieving the Administration's goals to prevent and end homelessness consistent with "Opening Doors: Federal Strategic Plan to Prevent and End Homelessness." The Budget estimates that $170 million will be collected for use in fiscal year 2016 and will result in approximately 1,400 units produced over time.

The Housing Trust Fund will be administered by HUD's Office of Community Planning and Development (CPD). For more information about the proposed investment in Salaries and Expenses (S&E) needed for effective administration of the HTF, please see the CPD S&E justification.

2. What is this program?

The Housing Trust Fund is a mandatory program authorized by Housing and Economic Recovery Act of 2008 (HERA). HERA directed the account to be funded from assessments on Fannie Mae and Freddie Mac, but the Federal Housing Finance Agency (FHFA), as regulator of Fannie Mae and Freddie Mac, suspended these assessments in November 2008. On December 11, 2014, FHFA announced that the assessments would be reinstated effective January 2015, subject to the terms and conditions prescribed by FHFA. The Budget reflects the current estimates of those mandatory assessments and projected program activity.

Key aspects of the HTF:

- Formula Allocations. The proposed allocation formula includes the following factors: 1) the shortage of rental units both affordable and available to ELI renter households; 2) the shortage of rental units both affordable and available to VLI renter households; 3) the ratio of ELI renter households with worst case housing needs; 4) the ratio of VLI renter households paying more than 50 percent of income on rent; and 5) the relative cost of construction. By statute, 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 with 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 two 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. At least 75 percent of funds must be used for ELI families, or families with incomes at or below the poverty line (whichever is greater), unless the allocation is below $1 billion, at which point 100 percent of the funds must be used for ELI families.
- Period of Affordability. For rental projects, income targeting continues to apply throughout the HTF affordability period, which shall be 30 years. If a tenant becomes over-income, the HTF designation may float to another comparable unassisted unit in the project. For homeownership units, the affordability period is also 30 years if resale restrictions are used, or range from 10 to 30 years if the state imposes the recapture provisions.
- 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.
- On-going Habitability Property Standards for Rental Housing. The grantee must establish on-going 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 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.

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

- Despite a national shortage of affordable rental housing, only one in four families eligible for federal rental assistance programs receives such assistance. HUD's *Worst Case Housing Needs: 2015 Report to Congress* reveals that among very low-income renter households that lacked assistance in 2013, 7.7 million had worst case housing needs resulting from severe rent burden (paying more than one-half of their monthly income for rent) or living in severely inadequate housing units. From 2003-2013, worst case needs have increased by 49 percent as public-sector housing assistance and private-sector housing development have substantially failed to keep up with the growing demand for affordable rental housing.

- The gap in supply of affordable rental units relative to need has been growing for decades; worst case needs are common in every region and metropolitan category across the United States. Nationwide 41.7 percent of very low-income renters had worst case housing needs in 2013. Only 65 affordable units are available per 100 very low-income renters and 39 units per 100 extremely low-income renters. Availability is restricted because higher income renters occupy 40 percent of the stock affordable for renters with incomes of 0 to 30 percent of median, and 38 percent of stock affordable of 30 to 50 percent of median income. Available rental stock, even at higher rent levels, is being absorbed rapidly, reducing the overall rental vacancy rate from 10.9 percent in 2009 to 9.8 percent in 2011 and 8.4 percent in 2013 (*Worst Case Housing Needs: 2015 Report to Congress*).
- The number of households with housing cost burdens is 34.1 percent; those households paid more than 30 percent of their income for housing in 2013. The share of cost burdened renters increased in all but one year from 2001 to 2011, to just about 50 percent, of which 28 percent paid more than half their incomes for housing. (*State of the Nation's Housing 2015)*
- The rising number of households unable to secure affordable housing reflects both the substantial growth in extremely low-income households and the fact that the private sector struggles to provide housing at a cost that is within reach of these households. Extremely low-income households (earning up to 30 percent of area median) have increasingly few housing choices. In 2013, 11.2 million renters with incomes this low competed for 7.3 million affordable units, leaving a shortfall of 3.9 million. Excluding units that were structurally inadequate or occupied by higher-income households, there were only 34 affordable units for every 100 extremely low-income renters. Despite a slight improvement in recent years, the gap between the number of extremely low-income renters and the supply of units they can afford nearly doubled from 2003-2013. *(State of the Nation's Housing 2015)*.
- At the estimated funding level of $136 million in fiscal year 2017, the HTF funding will leverage approximately 60 percent of other private and public funds needed to pay for the production of over 1,000 units of housing affordable to ELI households. By statute, at least 75 percent of funds must always be used for ELI families. The targeting ensures the priority, efficacy and efficiency of the program by helping those with the greatest needs.

Housing Trust Fund

<u>Proposed IT Enhancements to Improve Program Performance</u> (Fiscal Year 2017 DME)

Grants System Consolidation

Grants management involves internal controls and enhancements to management integrity by separating the program policy duties and responsibilities from grantee selection duties. It also improves management efficiencies by streamlining procedures, facilitating implementation of best practices, and improving internal controls.

In an effort to enhance this activity, HUD will develop an enterprise grants management solution that reaches across multiple program areas, by analyzing common business processes, leveraging mature technologies, and reducing duplicative and redundant systems to decrease costs and infrastructure complexity.

This move to centralize grants management aligns with the HUD Target Enterprise Architecture. Grants management plays a critical role in HUD's Technology Enterprise Roadmap by providing the current and future architecture (Business and Technical) for grants management capabilities, milestones for enhancements, technical dependencies, and timelines for system retirement. This investment will help address audit findings and mitigate future audit risk, support analysis of grant programs and finances, and facilitate proactive, data-driven management decisions.

<u>IT Enhancements Currently in Progress</u>

Phase 1 to Automate Housing Trust Fund (HTF) program in Integrated Disbursement and Information System (IDIS) Carryover HUD IT funds; estimated completion date: June 30, 2016.

This project will automate the new Housing Trust Fund (HTF) program using an existing IT solution, the Integrated Disbursement and Information System (IDIS). IDIS Online is a web-based application providing financial disbursement, tracking, and reporting for HUD grant programs. IDIS Online also supports the Consolidated Plan Management Process for the grantee’s 5-year Strategic Plan and Annual Action Plan submission process.

HUD will build and deploy the first phase of functionality required to automate the HTF program in IDIS Online. Phase 1 focuses on deploying core functionality required for grantees to setup and administer activities, create vouchers to draw funds electronically, and provides HUD with basic program monitoring and oversight of the HTF.

Housing Trust Fund

Managing the HTF program in IDIS provides the most efficient and effective way to accomplish the program mission to provide housing to low-income households across the country, to demonstrate program performance, improve data integrity, enforce funds control, and to provide efficiency gains that reduce administrative burden to both HUD staff and grantees.

This enhancement directly supports strategies and outcomes of the HTF program, and has benefits for both internal and external stakeholders. Internal stakeholders including all HUD staff who manage, oversee, and implement the programs, strategies, and policy around housing and health outcomes. External stakeholders include grantees who directly administer the HUD program and mission as well as communities and persons who benefit from these services.

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4. Proposals in the Budget

Not applicable.