

Low-income Renters Left Behind in Proposed FY 2005 Budget

By Michael J. Novogradac, CPA

In his State of the Union address on January 20, President George W. Bush did not include mention of any affordable housing objectives. Little wonder then that on February 2 when Bush sent his FY 2005 budget proposal to Congress, it didn't contain the news the multifamily affordable housing industry wanted to hear.

Voicing the sentiments of many in the affordable multifamily housing industry, the National Housing Conference (NHC) noted the importance of the Administration's many homeownership proposals (See related story on page 1.) but expressed its discouragement over what many perceive to be the Administration's failure to acknowledge the critical need to preserve and produce affordable rental housing. NHC president and CEO Conrad Egan cautioned that the lack of support for preserving and increasing affordable rental housing is leading to homelessness for many families.

However, according to Housing and Urban Development's (HUD) Acting Secretary Alphonso Jackson, the department is working to meet the needs of those who rent. "Improving the accessibility of public and assisted housing remains a top priority, as does HUD's commitment to inject flexibility, cost efficiency and accountability into our voucher program," he says.

Despite the optimistic face being put on it, HUD's FY 2005 \$31.3 billion budget represents less than a 3 percent increase over 2004's budget, or about \$850 million in overall additional funding. Treasury Secretary John Snow, in a February 3 statement before the Committee on Ways and Means, defended the proposed budget as one that "exercises the kind of spending discipline that is required by a government that respects the source of its money (hard-working taxpayers) and is unwilling to live with a deficit," while at the same time keeping American safe as it provides resources necessary to win the war on terror, increase economic security and strengthen the economy.

Perhaps most distressing to the affordable housing industry is the Administration's proposal to cut more than \$900 million from the Section 8 Housing

Choice Voucher program. It "could result in a \$1.5 billion shortfall if we continue to serve the same number of households" says Sunia Zaterman, executive director of the Council of Large Public Housing Authorities. The budget proposal calls for replacing the present unit-based Housing Choice Voucher Section 8 program to a dollar-based block grant program.

The new Flexible Voucher Program (FVP), as it has been labeled, would feature a set dollar amount for housing assistance payments, adjusted for inflation, based on PHAs' FY2004 outlays. Future incremental funding would be determined by a needs-based formula and no longer be tied to the number of units under lease. PHAs would also have discretion in determining tenant rents and subsidies.

The FVP, according to Johnson, will control the growth in costs and provide a more efficient and effective program over the Housing Choice Vouchers, which has seen "a dramatic increase in costs." The proposal will allow one-time down payment assistance or monthly homeownership subsidies to families participating in the program. PHAs that meet national objectives, such as increasing ownership, would be eligible for performance and incentive bonuses.

Some in the industry see it through different colored lenses. The Center on Budget and Policy Priorities reports that it has found that restructuring of the voucher program would result in funding cuts of as much as 40 percent by 2009, a loss of 800,000 vouchers. "Given PHAs would be under pressure to serve the same number of families with fewer dollars, families with extremely low incomes could be at risk of losing their vouchers to families with higher incomes," says the National Low Income Housing Coalition's president Shelia Crowley.

In other areas, the Administration's FY 2005 budget proposes a little more than \$2 billion for the HOME program, \$200 million of that for the American Dream Downpayment Initiative. This represents a \$113 million increase over its FY2004 appropriation. The Administration proposes to fund the unrestricted HOME formula grant at a little more than \$1.88 billion,

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an increase of \$5 million over 2004.

Eliminated from the proposed budget, as it was in 2004, was the HOPE VI program. In FY 2004, Congress appropriated \$150 million for HOPE VI.

It's too early to tell how these items will emerge in the final budget but now is the time for the multifamily housing industry to voice its support for funding programs important to low-income households. We were successful last year in campaigning successfully for funding those programs left out of the budget. We can do it again this year.

President George W. Bush's Proposed FY 2005 Budget

- ◆ \$18.46 billion for the Housing Certificate Fund (\$791 million less than FY 2004), including \$16.920 billion (\$611 million less than FY 2004) for renewals of expiring project-based contracts and tenant-based contracts funded under the Flexible Voucher Program; and \$100 million for a central fund reserved for emergencies.
- ◆ \$4.618 billion for the Community Development Fund (\$303 million less than FY 2004), including \$4.324 billion for state and local CDBG funding. This includes a \$5 million set-aside pilot program for increasing participation in faith-based and community organizations in community development.
- ◆ \$3.573 for the Public Housing Operating Fund
- ◆ \$2.674 billion for the Public Housing Capital Fund
- ◆ \$2.084 billion for the HOME program, including \$200 million for down payment assistance
- ◆ \$1.485 billion (\$22 million more than in FY 2004) in Homeless Assistance
- ◆ \$773 million for Section 202
- ◆ \$647 million for Indian Housing Block Grants
- ◆ \$295 million for the Housing Opportunities for Persons with AIDS (HOPWA).
- ◆ \$249 million for Section 811
- ◆ \$45 million for a free-standing Housing Counseling Assistance Program. In FY 2003 and FY 2004 housing counseling was a set-aside within HOME.
- ◆ HOPE VI - No Funding

The rural housing budget includes

- ◆ \$2.725 billion for Section 502 guaranteed home loans. The guarantee fee would be increased from 1.5 percent to 1.75 percent but the fee could be financed as part of the loan.
- ◆ \$1.1 billion for Section 502 direct home loans
- ◆ \$592 million for rural rental assistance. This represents an increase of \$8 million over FY 2004.
- ◆ \$100 million for Section 538 guaranteed multifamily loans
- ◆ \$60 million for Section 515 rural rental housing loans, with no funding for new construction. This is \$56.5 million less than in FY 2004.
- ◆ USDA Rural Community Development Initiative - No funding
- ◆ Rural Enterprise Communities and Empowerment Zones. No funding.

(Source: White House Office of Management and Budget, Novogradac & Company LLP 02/04)