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POLICY POINTS

President, Congress Have Conflicting Perspectives on Taxes and Budget; But Plans Contain Potential Compromises

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As outlined in his 2015 State of the Union address, including several liberal "leaks" released to the media beforehand, President Barack Obama set out an ambitious fiscal year (FY) 2016 budget that sought to push forward "middle-class economics."

As part of that theme, the president included many tax reform proposals in his FY 2016 budget that would largely increase tax revenue from higher-income Americans to fund his priorities, such as increased spending and tax benefits for higher education and transportation, among others.

While congressional Republicans may not agree with those priorities, there is greater overlap between the president's business tax reform proposals and those of former House Ways and Means Committee Chairman David Camp, R-Mich., than meets the eye. These grounds for potential compromise was evidenced by the friendly words exchanged between current Chairman Paul Ryan, R-Wis., and Treasury Secretary Jack Lew on business tax reform at a Feb. 3 hearing on the FY 2016 budget.

There is less overlap on the spending front than on business tax reform. However, there is growing bipartisan agreement on the need to address budget sequestration, which could provide more breathing room for the discretionary budget, including housing and community development funding.

FY 2016 Budget Request

On Feb. 2, the Obama administration released the details on its nearly $4 trillion FY 2016 budget, requesting $1.09 trillion in FY 2016 discretionary spending, $74 billion more than the caps set in the Budget Control Act of 2011. This $74 billion increase, about $38 billion more for defense and about $37 billion more for non-defense spending, would be fully offset by revenue raising and mandatory spending reforms to remain deficit-neutral. The proposal, much like administration budget requests from prior years and those from prior administrations, will be substantially altered as it goes through the annual congressional appropriations process.

That doesn't mean that the president's budget request is entirely meaningless. The president's spending priorities will affect how Congress acts. On programs where the administration is generally perceived to be an advocate, it will be difficult for the House to support more money than the administration's request. This presents a challenge

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for programs such as the Community Development Block Grant (CDBG), which was cut in the FY 2016 request. Similarly, programs that have strong, bipartisan congressional support rarely go below what the president's budget requests, even in austere budgets.

Selected funding highlights of key housing and community development programs in the FY 2016 budget request follow.

U.S. Department of Housing and Urban Development

The FY 2016 budget request includes $49.3 billion of total appropriated funding for the U.S. Department of Housing and Urban Development (HUD). This is about $4 billion, or 8.7 percent, more than the amount appropriated under FY 2015 funding levels, but because FHA and Ginnie Mae receipts help offset the cost of HUD programs, the net appropriations is about $6 billion more than FY 2015.

Project-Based Rental Assistance

The budget requests $10.8 billion for Project-Based Rental Assistance (PBRA), which is about $1 billion more than the FY 2015 funding level of $9.7 billion. The administration is in the process of implementing a shift to a calendar-year funding cycle for the PBRA program, as it provides for Tenant-Based Rental Assistance. This shift is making the annual renewal funding needs more predictable, but it also means that contracts expiring in the course of FY 2016 will not receive a full 12 months of renewal funding, unless Congress provides the program a substantial increase in the FY 2016 HUD spending bill. HUD claims that the proposed increase is sufficient, but it should be noted that HUD is also once again proposing rent reforms that would save $85 million that Congress has rejected in the past.

The budget proposes a Multifamily Performance-Based Energy Conservation demonstration from FY 2016 through 2018. This program would allow HUD to facilitate the financing of energy and water conservation improvements in up to 20,000 assisted multifamily housing units. The term for payments made under agreements would last up to 12 years and includes a provision for energy savings audits.

Tenant-Based Rental Assistance

Tenant-Based Rental Assistance (TBRA) is proposed to be funded at $21.1 billion. Of that amount, $18.3 billion is for Section 8 Housing Choice Voucher contract renewals, which is a 4.8 percent increase over FY 2015 and sufficient to renew all vouchers in use. Furthermore, the budget proposes to provide more than $500 million to restore funding for 67,000 vouchers lost due to sequestration. As part of that increase, the budget requests $178 million for additional 22,500 vouchers for families, veterans, tribal families and victims of domestic or dating violence. The HUD-Veteran Affairs Supportive Housing (HUD-VASH) program does not receive a specific set-aside as in previous budgets. HUD also proposes $150 million for Tenant Protection Vouchers as requested in previous budgets, a $20 million increase from the FY 2015 enacted level.

The budget once again proposes several voucher program reforms, including improving the project-based voucher program, addressing homelessness through an expansion of the "sponsor-based" assistance model and streamlining the process for establishing annual fair market rents.

Public Housing Capital and Operating Funds

Both the Public Housing Capital and Operating funds would receive funding increases: The proposal provides $1.97 billion for the Public Housing Capital Fund and $4.6 billion for the Public Housing Operating Fund (representing a 5.1 percent and 3.6 percent increase over FY 2015 levels, respectively).

The administration also proposes several legislative reforms to HUD's main rental assistance programs by expanding the Moving To Work (MTW) program for high-capacity PHAs, allowing fixed-income families to recertify their incomes every three years and increasing the threshold used to determine medical deductions from 3 to 10 percent of family income.

Rental Assistance Demonstration

The FY 2015 CR-Omnibus bill increased the cap on the Rental Assistance Demonstration (RAD) program from 60,000 to 185,000 public housing units, enabling all pending applications to go forward as well as a few others.

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The administration is proposing once again to remove the unit cap and requests $50 million for incremental funding to enable RAD conversions where such incremental funding is needed for financial feasibility.

Community Planning and Development (CPD) Programs
The CDBG program is proposed to be funded at $2.8 billion, representing a $186 million–or 6.7 percent–decrease from FY 2015-enacted levels ($3.07 billion). The HOME Investment Partnerships program (HOME) is proposed to be funded at $1.06 billion, with $10 million set-aside from this amount for the Self-Help Homeownership Opportunities Program (SHOP), a $150 million, or 16.7 percent, increase. HOME program funding would remain 34 percent below nominal FY 2011 levels ($1.61 billion).

Homeless and Supportive Housing Programs

McKinney-Vento Homeless Assistance Grants are proposed to be funded at $2.5 billion, a $345 million (16 percent) funding increase over FY 2015 funding. This amount includes a $2.2 billion set aside for the continuum of care and rural housing stability assistance programs and $250 million for Emergency Solutions Grants. The proposal provides $455 million for the Housing for the Elderly (Section 202) program, an 8.3 percent increase over FY 2015 levels. The Housing for Persons with Disabilities (Section 811) program is funded at $177 million, a 31.1 percent increase from FY 2015 funding levels. The budget would provide $332 million for the Housing Opportunities for Persons with AIDS (HOPWA) program to provide housing and supportive services to persons living with HIV and AIDS, which is slightly above the FY 2015 enacted funding level and equal to the FY 2012 level.

Obama Administration Initiatives

Housing Trust Fund

The administration is not proposing to provide a $1 billion mandatory appropriation for the Housing Trust Fund, as it has in the past. However, in December 2014, Federal Housing Finance Agency Director Mel Watt directed Fannie Mae and Freddie Mac to start setting aside contributions to the Housing Trust Fund through the course of 2015. On Jan. 30, HUD published interim program regulations, but funding is not expected to be available until 2016. The latest estimate of the contributions as originally authorized by the Housing and Economic Recovery Act of 2008 is about $260 million. However, the FY 2016 budget estimates that only $120 million will be allocated to the Housing Trust Fund in FY 2016. This estimate is notably lower than initial estimates, in part because an additional $61 million will come out of the assessment to capitalize the Treasury's HOPE Reserve account.

Last Congress, the Senate Banking Committee advanced legislation to reform U.S. housing finance and the housing government-sponsored enterprises, Fannie Mae and Freddie Mac. Under that legislation, Fannie Mae and Freddie Mac would set-aside a 10 basis point fee on mortgage securitization to support affordable housing, which is estimated based on current securitization volume to generate about $5 billion. Seventy-five percent of these funds would be allocated to the Housing Trust Fund.

Choice Neighborhoods Initiative

The Choice Neighborhoods Initiative, which is designed to comprehensively revitalize high-poverty public and assisted housing communities, is proposed to be funded at $250 million, which is more than double the FY 2015-enacted level.

U.S. Department of the Treasury

The administration proposes to fund the Community Development Financial Institutions (CDFI) Fund at $234 million, a slight increase from FY 2015 funding levels. The administration also proposes to extend the CDFI Bond Guarantee program's authorization by one year, through FY 2016, at $1 billion, a $250 million increase from FY 2015. ❖

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