

**HOUSING
PROJECT-BASED RENTAL ASSISTANCE
2019 Summary Statement and Initiatives
(Dollars in Thousands)**

PROJECT-BASED RENTAL ASSISTANCE	<u>Enacted/ Request</u>	<u>Carryover</u>	<u>Supplemental/ Rescission</u>	<u>Total Resources</u>	<u>Obligations</u>	<u>Outlays</u>
2017 Appropriation	\$10,816,000	\$561,418	...	\$11,377,418 ^a	\$11,108,274	\$11,194,642
2018 Annualized CR	10,816,000	339,144	-\$73,452	11,081,692 ^b	10,831,000	11,560,000
2019 Request	<u>11,147,000</u>	<u>337,692</u>	<u>-650</u>	<u>11,484,042^c</u>	<u>10,953,000</u>	<u>10,888,000</u>
Change from 2018	+331,000	-1,452	+72,802	+402,350	+122,000	-672,000

- a/ Resources, obligations and outlays for 2017 Appropriation include \$411 million in carryover of unobligated balances, \$51 million from recaptures realized in 2017, \$63 million transferred from the Public Housing Operating Fund and Capital Fund for the Rental Assistance Demonstration (RAD), and \$36 million from Other Assisted Housing for RAD conversions.
- b/ Resources, obligations and outlays for 2018 Annualized Appropriation include \$269 million in carryover of unobligated balances, an estimated \$54 million transfer from the Public Housing Operating Fund for RAD conversions, and \$16 million transferred from Other Assisted Housing for RAD conversions. Public Law 115-56 requires a reduction from the 2018 enacted budget authority of .06791 percent (reflected in the \$73.5 million reduction in the "Supplemental/Rescission" column).
- c/ Resources, obligations and outlays for the 2019 Request include \$250 million in carryover of unobligated balances, an estimated \$83 million transferred from the Public Housing Operating Fund for RAD conversions, and an estimated \$4 million transferred from Other Assisted Housing for RAD conversions. Unobligated balances from PBRA Disaster Assistance (P.L. 110-329 as amended by P.L. 111-32) are permanently cancelled, as reflected in the "Supplemental/Rescission" column.

1. Program Purpose and Fiscal Year 2019 Budget Overview

The Department requests a total of \$11.147 billion to meet Section 8 Project-Based Rental Assistance (PBRA) program needs for 2019. This includes \$10.622 billion for renewals and up to \$280 million for amendments, as well as up to \$245 million for Performance-Based Contract Administration. The total requested funding level for 2019 is \$331 million more than the 2018 annualized full year CR amount. As described further below, the funding request reflects a set of policies, that reduce costs while continuing to assist current residents, and the Administration will submit a legislative package of comprehensive rental assistance reforms consistent with this funding request following submission of the Budget. The request, in combination with previously appropriated resources, is estimated to support all PBRA rental subsidy contracts through the end of calendar year 2019.

Project-Based Rental Assistance

The funding requested allows the renewal or amendment of several types of rental assistance contracts, which provide safe, stable, affordable housing to approximately 1.2 million households each year:

- Project-Based Section 8 contracts (including Public Housing, Rent Supplement, and Rental Assistance Program units converted to PBRA via the Rental Assistance Demonstration)
- Moderate Rehabilitation contracts and Single Room Occupancy contracts
- Performance-Based Contract Administration (PBCA) contracts to support program operations and oversight.

2. Request

The Project-Based Rental Assistance program provides rental assistance on behalf of eligible tenants residing in specific multifamily rental developments, through contracts between the Department and owners of multifamily rental housing. If a tenant moves, the assistance stays with the housing development (which is a major difference between this program and the Tenant-Based Rental Assistance program in which the subsidy moves with the tenant). The amount of rental assistance paid to the owner is the difference between what a household can afford, and the approved contract rent for the unit. This program serves approximately 1.2 million low-income and very low-income households that are primarily seniors, families with children, and persons with disabilities.

Contract Renewals and Amendments - \$10.902 billion

The 2019 request provides annual renewal funding for over 16,500 Section 8 contracts. In 2017, HUD completed the transition to the calendar year funding methodology, which was utilized in 2018 and will continue in 2019. The PBRA request includes renewal funding for public housing properties that converted to PBRA in 2013 through 2017 through the Rental Assistance Demonstration (RAD). HUD will continue the conversion of some Public Housing to long-term Section 8 contracts in 2019 under the RAD program. The request also includes renewal funding for Rent Supplement (RS) and Rental Assistance Payment (RAP) properties converting to PBRA in 2018 under the second component of RAD.

The Section 8 Amendment funds are attributed to the need for long-term project-based contracts executed primarily in the 1970s and 1980s. During those years, the Department provided contracts for terms of up to 40 years. Accurately estimating funding needs over such a long period proved to be problematic, and accordingly, many of these Section 8 contracts were inadequately funded.

Project-Based Rental Assistance

Contract Administration Support - \$245 million

In 2019, the Department proposes up to \$245 million for Performance-Based Contract Administrators (PBCAs) or other supportive services contractors. These entities, which are integral to the Department's efforts to be more effective and efficient in the oversight and monitoring of the PBRA program, are typically responsible for conducting on-site management reviews of assisted properties; adjusting contract rents; and reviewing, processing, and paying monthly vouchers submitted by owners. This request reflects an estimate of potential costs for supporting new contracts that will be competed in 2018, in accordance with Federal Acquisition Regulations (FAR). The request for \$245 million is combined with flexibility to repurpose up to \$40 million in other PBRA funds (in addition to recaptures in the Housing Certificate Fund, as necessary) to ensure uninterrupted services in the event of delays in the procurement process.

Tenant Education and Outreach Activities – up to \$3 million

In 2019, the Department seeks to allocate up to \$3 million (from Contract Renewals and Amendments funds) to continue funding for assistance to tenant groups, nonprofit groups, and public entities to support their efforts to assist tenants of troubled properties and improve tenant access to community services to support self-sufficiency. This technical assistance may also involve education efforts related to the proposed cost savings measures impacting tenants. Section 514(f) of Multifamily Assisted Housing Reform and Affordability Act (MAHRA) authorizes the Secretary to utilize appropriations for project based rental assistance for tenant assistance activities and for technical assistance for preservation activities. PBRA appropriations authority for "administrative and other expenses associated with project-based activities and assistance" enables implementation of this MAHRA authorization.

3. Justification

Addressing the need for quality affordable rental homes

The PBRA program is one of three major federal rental assistance programs for providing low-income families with decent, safe and affordable housing. The program currently provides affordable housing for over 1.2 million families, many of whom are vulnerable populations. Approximately 47 percent of assisted households are headed by elderly persons, 17 percent by persons with disabilities, and 26 percent by females with children. The program supports a stock of affordable housing and maintains and protects the long-term Federal investment in these assets, which would be costly to recreate.

Reducing the number of families with severe housing needs and reduces or prevents homelessness

HUD's *Worst Case Housing Needs: 2017 Report to Congress* reveals that among very low-income renter households that lacked assistance, 8.3 million had worst case housing needs resulting from severe rent burden (paying more than one-half of their monthly

Project-Based Rental Assistance

income for rent) or living in severely inadequate housing units. The likelihood that a very low-income renter household has worst case needs increased to 43 percent in 2015, approaching the record rate of 44 percent observed in 2011. Public-sector housing assistance and private-sector housing development have substantially failed to keep up with the growing demand for affordable rental housing.

PBRA funding directly reduces worst case housing needs by providing affordable housing to populations likely to face worst-case needs, included families with children, senior citizens, and persons with disabilities. Without assistance, housing costs would effectively diminish the already-limited incomes of these families, even for necessities such as utilities, food, health care, child care, education and transportation costs. Many would be placed at risk of homelessness.

Preserving the affordability and condition of privately owned 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, 43 percent of very low-income renters had worst case housing needs in 2015. Only 66 affordable units exist nationwide per 100 extremely low-income renters, and because many of these units are occupied by higher-income renters, only 38 units per 100 extremely low-income renters are available to renters in this category (only 33 of the affordable, available units are also physically adequate). The 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 9.7 percent in 2015. Therefore, it is increasingly important that PBRA supports a stock of long-term affordable rental housing for the lowest-income American families.

Expanding choices of affordable rental homes located in a broad range of communities

The preservation of affordable units assures that units will continue to become available in a wide range of housing markets throughout the nation as vacancies occur. Many projects are in neighborhoods where low-income families may otherwise be unable to find affordable housing, while other projects serve as anchors providing well-maintained properties in areas that might experience downward investment. Many projects also provide badly needed affordable housing in rural areas, as some projects were developed with financing through the USDA Rural Housing Service's Section 515 Multifamily program.

PBRA's spillover benefits to local communities and economies

Multifamily housing assisted by PBRA stabilizes neighborhoods and contributes to local economic bases. In addition to local revenue generation and job retention associated with ongoing project operation, the PBRA program is also a redevelopment and preservation

Project-Based Rental Assistance

tool for private owners of low-income multifamily rental housing. PBRA contracts act as a critical credit enhancement for project financing, allowing owners to leverage private debt and equity to permit project refinancing and recapitalization. The periodic refinancing of the debt underlying projects assisted by PBRA generates significant capital available for investment in construction repairs and improvements. If funding for the PBRA program is not provided, the value of this underlying debt to FHA and private lenders as well as existing equity in the physical structures could be severely eroded, contributing to significant loss of privately held wealth and community investment.

PBRA has maintained a stock of long-term affordable rental housing for the lowest-income American families while a long-term affordable housing shortage was growing increasingly severe. The number of very low-income renters increased by 5.1 percent between 2013 and 2015 (from 13.7 to 14.4 million households) while the number of affordable units for these renters decreased by 234,000 units (1.9 percent). In the face of this affordable rental shortage, PBRA continues to account for over 6 percent of the nation's affordable housing stock for very low-income renters.

Cross-cutting Rent Reform Proposals

The current rent structure in HUD's rental assistance programs creates disincentives to employment and stable family formation, imposes large administrative burdens, generates significant costs to the Federal government, and represents a one-size-fits-all approach that does not take into consideration local community needs. HUD is committed to the reformation of its rental assistance programs with the following goals:

1. Encouraging work and stable family formation;
2. Simplifying program administration;
3. Increasing local control and choice;
4. Reducing costs to the federal government; and
5. Protecting current elderly and disabled households from adverse impacts.

In furtherance of these goals, while also continuing to assist current residents, HUD will submit a rental reform legislative proposal to Congress in March. This Budget reflects key elements of that proposal, including:

- Establishing or increasing mandatory minimum rents;
- Simplifying rent calculations and increasing tenant rent contributions;
- Preventing rent increases for the most vulnerable current tenants, the elderly and disabled, when the new rent policies are implemented;
- Limiting income recertification for all households to once every three years, which supports stable family formation and incentivizes work by deferring increases in tenant rent payments as a result of increased wages;

Project-Based Rental Assistance

- Providing a hardship exemption for tenants who, in certain circumstances, are unable to pay their rents; and
- Giving PHAs and property owners the option to choose alternative rent structures, approved by the Secretary, that work best for their communities, as well as the option to implement minimum work requirements for work-able residents. These alternative rent structures must incur the same overall program costs.

Proposed funding levels, while significantly reduced from the 2017 enacted level, should support currently assisted households while strategically reshaping the Federal footprint of HUD's rental assistance programs over time.

Please see the "Enhance Rental Assistance" justification for more information.

In addition to these cross-rental reforms, the Budget re-proposes a one-year freeze on annual rent adjustment increases in the PBRA program, which may include those made using an annual operating cost adjustment factor, annual adjustment factor, budget based rent increase, or updated market rent study.

General Provisions

The President's budget request the following General Provisions for Project-based Rental Assistance:

- This general provision governs the sharing of savings that result from refunding the existing bonds for certain Section 8 contracts. The savings provided to State Housing Finance Agencies can be used for social services, for professional services essential to carry McKinney-funded activities, project facilities or mechanical systems, and office systems (Sec. 201).
- This provision will allow the Secretary to authorize the transfer of some or all project-based assistance, debt held or insured by the Secretary and statutorily required low-income and very low-income use restrictions if any, associated with one or more multifamily housing project or projects to another multifamily housing project (Sec 206).
- This general provision will enhance HUDs ability to exercise oversight within the PBRA program, allowing for HUD to mandate corrective action, contract transfers or change in management due to failure to meet physical condition standards (Sec. 213).
- This provision would authorize the Department to suspend the requirement to provide annual rent increases for fiscal year 2019 to multifamily property owners (Sec. 226).

Project-Based Rental Assistance

**HOUSING
PROJECT-BASED RENTAL ASSISTANCE
Summary of Resources by Program
(Dollars in Thousands)**

<u>Budget Activity</u>	<u>2017 Budget Authority</u>	<u>2016 Carryover Into 2017</u>	<u>2017 Total Resources</u>	<u>2017 Obligations</u>	<u>2018 Annualized CR</u>	<u>2017 Carryover Into 2018</u>	<u>2018 Total Resources</u>	<u>2019 Request</u>
Contract Renewals and Amendments	\$10,334,000	\$288,067	\$10,622,067	\$10,535,690	\$10,266,801	\$236,704	\$10,503,505	\$10,704,000
Contract Administrators	235,000	6,525	241,525	241,507	233,404	18	233,422	245,000
Tenant Resources								
Network	3,000	...	3,000	2,930	...	...	...	3,000
Vouchers for Disaster Relief - (P.L. 111-32)	...	650	650	...	...	650	650	...
Rental Assistance								
Demonstration .....	...	119,673	119,673	84,147	...	35,526	35,526	...
Mod Rehab and SRO								
Renewals	244,000	146,503	390,503	244,000	242,343	66,246	308,589	195,000
Research and								
Technology(transfer) .	...	...	...	...	...	...	...	...
Total	10,816,000	561,418	11,377,418	11,108,274	10,742,548	339,144	11,081,692	11,147,000

NOTES:

- For fiscal year 2017, Resources and Obligations include \$411 million in carryover of unobligated balances, \$51 million from recaptures realized in 2017, \$63 million transferred from the Public Housing Operating Fund and Capital Fund for the Rental Assistance Demonstration (RAD), and \$36 million from Other Assisted Housing for RAD conversions.
- For the fiscal year 2018 Annualized CR, Resources and Obligations include \$269 million in carryover of unobligated balances, an estimated \$54 million transfer from the Public Housing Operating Fund for RAD conversions, and \$16 million transferred from Other Assisted Housing for RAD conversions. Public Law 115-56 requires a reduction from the 2018 enacted budget authority of .06791 percent.
- For the fiscal year 2019 Request, included is \$250 million in carryover of unobligated balances, an estimated \$83 million transferred from the Public Housing Operating Fund for RAD conversions, and an estimated \$4 million transferred from Other Assisted Housing for RAD conversions. Additionally, unobligated balances from PBRA Disaster Assistance (P.L. 110-329 as amended by P.L. 111-32) are permanently cancelled (rescinded).

**HOUSING
PROJECT-BASED RENTAL ASSISTANCE
Appropriations Language**

The fiscal year 2019 President's Budget includes the appropriation language listed below.

For activities and assistance for the provision of project-based subsidy contracts under the United States Housing Act of 1937 (42 U.S.C. 1437 et seq.) ("the Act"), not otherwise provided for, \$10,747,000,000, to remain available until September 30, 2021, shall be available on October 1, 2018 (in addition to the \$400,000,000 previously appropriated under this heading that became available October 1, 2018), and \$400,000,000, to remain available until September 30, 2022, shall be available on October 1, 2019: Provided, That the amounts made available under this heading shall be available for expiring or terminating section 8 project-based subsidy contracts (including section 8 moderate rehabilitation contracts), for amendments to section 8 project-based subsidy contracts (including section 8 moderate rehabilitation contracts), for contracts entered into pursuant to section 441 of the McKinney-Vento Homeless Assistance Act (42 U.S.C. 11401), for renewal of section 8 contracts for units in projects that are subject to approved plans of action under the Emergency Low Income Housing Preservation Act of 1987 or the Low-Income Housing Preservation and Resident Homeownership Act of 1990, and for administrative and other expenses associated with project-based activities and assistance funded under this paragraph: Provided further, That of the total amounts provided under this heading, not to exceed \$285,000,000 shall be available for performance-based contract administrators or contractors for section 8 project-based assistance, for carrying out 42 U.S.C. 1437(f): Provided further, That the Secretary may also use such amounts in the previous proviso for performance-based contract administrators or contractors for the administration of: interest reduction payments pursuant to section 236(a) of the National Housing Act (12 U.S.C. 1715z-1(a)); rent supplement payments pursuant to section 101 of the Housing and Urban Development Act of 1965 (12 U.S.C. 1701s); section 236(f)(2) rental assistance payments (12 U.S.C. 1715z-1(f)(2)); project rental assistance contracts for the elderly under section 202(c)(2) of the Housing Act of 1959 (12 U.S.C. 1701q); project rental assistance contracts for supportive housing for persons with disabilities under section 811(d)(2) of the Cranston-Gonzalez National Affordable Housing Act (42 U.S.C. 8013(d)(2)); project assistance contracts pursuant to section 202(h) of the Housing Act of 1959 (Public Law 86-372; 73 Stat. 667); and loans under section 202 of the Housing Act of 1959 (Public Law 86-372; 73 Stat. 667): Provided further, That amounts recaptured under this heading, the heading "Annual Contributions for Assisted Housing", or the heading "Housing Certificate Fund", may be used for renewals of or amendments to section 8 project-based contracts or for performance-based contract administrators or contractors, notwithstanding the purposes for which such amounts were appropriated: Provided further, That, notwithstanding any other provision of law, upon the request of the Secretary, project funds that are held in residual receipts accounts for any project subject to a section 8 project-based Housing Assistance Payments contract that authorizes HUD or a Housing Finance Agency to require that surplus project funds be deposited in an interest-bearing residual receipts account and that are in excess of an amount to be determined by the Secretary, shall be remitted to the Department and deposited in this account, to be available until expended: Provided further, That amounts deposited pursuant to the previous proviso shall be available in addition

Project-Based Rental Assistance

to the amount otherwise provided by this heading for uses authorized under this heading: Provided further, That any unobligated balances made available of obligation under the heading "Department of Housing and Urban Development – Public and Indian Housing – Project-Based Rental Assistance" in chapter 10 of title I of division B of the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009 (Public Law 110-329; 122 Stat. 324) (as amended by section 1203 of Public Law 111-32; 123 Stat. 1859) are hereby permanently cancelled.

Note.—A full-year 2018 Annualized CR for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Act, 2018 (Division D of P.L. 115-56, as amended). The amounts included for 2018 reflect the annualized level provided by the continuing resolution.