

HOUSING
PROJECT-BASED RENTAL ASSISTANCE
2018 Summary Statement and Initiatives
(Dollars in Thousands)

PROJECT-BASED RENTAL ASSISTANCE	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2016 Appropriation	\$10,620,000	\$471,140	...	\$11,091,140 ^a	\$10,679,677	\$10,667,522
2017 Annualized CR	10,620,000	523,980	-\$20,189	11,123,791 ^b	11,123,791	10,764,000
2018 Request	<u>10,751,100</u>	<u>139,000</u>	...	<u>10,890,100^c</u>	<u>10,890,100</u>	<u>10,941,000</u>
Change from 2017	+131,100	-384,980	+20,189	-233,691	-233,691	+177,000

- a/ Resources, obligations and outlays for 2016 Appropriation include \$328 million in unobligated funds, and \$58.7 million from recaptures realized in fiscal year 2016. It includes \$43.6 million transferred from the Public Housing Operating Fund and Capital Fund for the Rental Assistance Demonstration (RAD), and \$40.8 million from Other Assisted Housing for RAD conversions.
- b/ Resources, obligations and outlays for 2017 Annualized Appropriation include an estimated \$62.5 million transfer from the Public Housing Operating Fund and Capital Fund for RAD conversions, and \$30 million transferred from Other Assisted Housing for RAD conversions. Carryover also includes an estimated \$20 million of unobligated balances to be transferred to PBRA from Other Assisted Housing for RAD conversions. Public Law 114-254 requires a reduction from the fiscal year 2016 enacted budget authority of 0.1901 percent (reflected in the \$20.2 million reduction in the "Supplemental/Rescission" column).
- c/ Resources, obligations and outlays for the 2018 Request exclude an estimated \$125 million transfer from the Public Housing Operating Fund and Capital Fund for RAD conversions, and \$14 million transferred from Other Assisted Housing for RAD conversions.

1. Program Purpose and Fiscal Year 2018 Budget Overview

The Department requests a total of \$10.751 billion to meet Section 8 Project-Based Rental Assistance (PBRA) program needs for fiscal year 2018. This includes \$10.035 billion for renewals and \$431 million for amendments, as well as \$285 million for Performance-Based Contract Administration. The total requested funding level for fiscal year 2018 is \$151 million more than the fiscal year 2017 Annualized CR level of \$10.600 billion. The funding request reflects a set of policies, described further below, that reduce costs while continuing to assist current residents; these policies serve as a starting point as the Administration works towards a more comprehensive package of rental assistance reforms. The request also provides 12 months of funding for all contracts in the portfolio, and with the 2017 Enacted bill, is sufficient to fund those contracts through the calendar year. 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 Rental Assistance

- 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 - \$10.466 billion

The Department's fiscal year 2018 request provides for 12 months of renewal funding for over 16,000 Section 8 contracts. In fiscal year 2017, HUD is completing the transition to the calendar year funding methodology, which resulted in a one-time reduction of renewal funding needs. A small portion of the portfolio will receive less than 12 months of funding in 2017 to conform to the new calendar year model. In fiscal year 2018, the Department will return to a full 12-month funding baseline for all contracts, representing a significant increase in baseline renewal needs. However, savings initiatives planned for fiscal year 2018, as described in Section 3, will allow for annual funding of all renewal contracts and the continuation of rental assistance for same number of units currently served, with only a modest increase over 2017 CR levels.

The PBRA request includes renewal funding for public housing properties that converted to PBRA in 2013 through 2016 through the Rental Assistance Demonstration (RAD). HUD will continue the conversion of some Public Housing to long-term Section 8 contracts in 2018 under the RAD program. The request also includes renewal funding for Rent Supplement (RS) and Rental Assistance Payment (RAP) properties converting to PBRA in 2017 under the second component of RAD (under authority provided in the 2015 Appropriations Act).

The need for Section 8 Amendment funds results funding needs for long-term project-based contracts executed primarily in the 1970's and 1980's. 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 - \$285 million

The Department proposes up to \$285 million for Performance-Based Contract Administrators (PBCAs) in fiscal year 2018, which will be combined with funds recaptured in the Housing Certificate Fund to fully support this activity. These contract administrators are responsible for conducting on-site management reviews of assisted properties; adjusting contract rents; and reviewing, processing, and paying monthly vouchers submitted by owners. PBCAs are integral to the Department's efforts to be more effective and efficient in the oversight and monitoring of this program. This request estimates for the program reflects the cost of extending current PBCA contracts for a portion of fiscal year 2018, as well as the execution of new cost-saving contracts competed in accordance with Federal Acquisition Regulations (FAR).

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

In fiscal year 2018, 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 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: 2015 Report to Congress* reveals that among very low-income renter households that lacked assistance, 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.

Project-Based Rental Assistance

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

PBRA supports a stock of long-term affordable rental housing for the lowest-income American families. This is increasingly important, as 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 nationwide per 100 very low-income renters, and 39 units per 100 extremely low-income renters. 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 2013¹. Without project-based rental assistance, the gap in affordable and available rental housing would worsen further to as few as 59 units per 100 very low-income renters and 31 units per 100 extremely low-income renters.

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 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

¹ Worst Case Housing Needs: 2015 Report to Congress: https://www.huduser.gov/portal/publications/affhsg/wc_HsgNeeds15.html

Project-Based Rental Assistance

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 18 percent between 2003 and 2013 (from 15.7 to 18.5 million households) while the number of affordable units for these renters *decreased* by 10 percent (from 20.0 to 18.0 million units). 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 Budget proposes a set of policies in its core rental assistance programs to reduce costs while at the same time continuing to assist current residents, encouraging work, and promoting self-sufficiency. They also seek to provide administrative flexibilities and to streamline the complex and administratively burdensome calculation of income and rent. These policies serve as a starting point as the Administration works towards a more comprehensive package of rental assistance reforms for 2019. Changes to PBRA included in the 2018 President's Budget include:

- An increase in the tenant contribution toward rent from 30 percent of adjusted income to up to 35 percent of gross income (i.e., income adjusted by exclusions but not deductions). Hardship exemptions, as defined by the Secretary, will be available for tenants. Note: The Department will implement this provision as a pilot in PBRA, 202, and 811 in 2018; it does not plan to implement this in the Public Housing or HCV programs in 2018.
- Establishing minimum tenant rental payments of \$50 per month, with hardship exemptions.
- Elimination of utility reimbursement payments to tenants, sometime referred to as "negative rents." These payments have occurred when tenant-paid utility costs exceeded the minimum rent due. Hardship exemptions, as defined by the Secretary, will be available for tenants.
- A one-year freeze on annual rent adjustment increases, which may include those made using an annual operating cost adjustment factor, annual adjustment factor, budget based rent increase, or updated market rent study.

Project-Based Rental Assistance

General Provisions

The President's budget proposes the following General Provisions for Project-Based Rental Assistance:

- 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).
- Raising rent contributions to 35% of gross rents (Sec. 226).
- Establishing a minimum rent of \$50 (Sec. 227).
- Elimination of utility allowance reimbursements (Sec. 228).
- Freeze on rent adjustment increases (Sec. 229).
- Section 579 of the Multifamily Assisted Housing Reform and Affordability Act of 1997 (42 U.S.C. 1437f note) is amended. (Sec. 234)

Project-Based Rental Assistance

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

<u>Budget Activity</u>	<u>2016 Budget Authority</u>	<u>2015 Carryover Into 2016</u>	<u>2016 Total Resources</u>	<u>2016 Obligations</u>	<u>2017 Annualized CR</u>	<u>2016 Carryover Into 2017</u>	<u>2017 Total Resources</u>	<u>2018 Request</u>
Contract Renewals and Amendments	\$10,109,000	\$259,669	\$10,368,669	\$10,136,910	\$10,111,741	\$275,554	\$10,387,295	\$10,466,000
Contract Administrators	215,000	33,376	248,376	241,850	234,553	6,526	241,079	285,100
Tenant Resources								
Network	3,000	1,070	4,070	3,930	3,992	...	3,992	...
Vouchers for Disaster Relief - (P.L. 111-32) .....	...	650	650	...	...	650	650	...
Rental Assistance Demonstration .....	...	84,440	84,440	63,582	...	133,375	133,375	...
Mod Rehab and SRO Renewals	293,000	91,935	384,935	233,405	249,525	107,875	357,400	...
Research and Technology (transfer) .....	...	...	...	...	...	...	...	...
Total	10,620,000	471,140	11,091,140	10,679,677	10,599,811	523,980	11,123,791	10,751,100

NOTES: Total resources for 2016 Total Resources includes \$328 million in unobligated funds, and \$58.7 million from recaptures realized in fiscal year 2016. It includes \$43.6 million transferred from the Public Housing Operating Fund and Capital Fund for the Rental Assistance Demonstration (RAD), and \$40.8 million from Other Assisted Housing for RAD conversions.

Total resources for 2017 Total Resources include an estimated \$62.5 million transfer from the Public Housing Operating Fund and Capital Fund for RAD conversions, and \$30 million transferred from Other Assisted Housing for RAD conversions. Carryover also includes an estimated \$20 million of unobligated balances to be transferred to PBRA from Other Assisted Housing for RAD conversions and \$20.8 million of unobligated PBRA RAD funds. Public Law 114-254 requires a reduction from the fiscal year 2016 enacted budget authority of 0.1901 percent.

Resources for the 2018 Request anticipate an estimated \$125 million transfer from the Public Housing Operating Fund and Capital Fund for RAD conversions, and \$14 million transferred from Other Assisted Housing for RAD conversions. When added to the President's request, total resources will be \$10.890 billion. Of this amount, up to \$3 million may be used for Tenant Resource Network.

Project-Based Rental Assistance

HOUSING PROJECT-BASED RENTAL ASSISTANCE Appropriations Language

The fiscal year 2018 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, \$10,351,100,000, to remain available until September 30, 2020, shall be available on October 1, 2017 (in addition to the \$400,000,000 previously appropriated under this heading that became available October 1, 2017), and \$400,000,000, to remain available until September 30, 2021, shall be available on October 1, 2018: 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 for section 8 project-based assistance, for carrying out 42 U.S.C. 1437(f): Provided further, That the Secretary of Housing and Urban Development may also use such amounts in the previous proviso for performance-based contract administrators 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, notwithstanding the purposes for which such amounts were appropriated: Provided further, That, notwithstanding any other provision of law, upon the request of the Secretary of Housing and Urban Development, 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

Project-Based Rental Assistance

deposited in this account, to be available until expended: Provided further, That amounts deposited pursuant to the previous proviso shall be available in addition to the amount otherwise provided by this heading for uses authorized under this heading.

Note.—A full-year 2017 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 Further Continuing Appropriations Act, 2017 (P.L. 114–254). The amounts included for 2017 reflect the annualized level provided by the continuing resolution.