Housing Assistance Council

FROM BAD TO WORSE: RURAL HOUSING IN THE ADMINISTRATION'S FY 2008 BUDGET

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This report was prepared by Mark Kudlowitz and Jennifer Wichmann of the Housing Assistance Council (HAC). HAC, founded in 1971, is a nonprofit corporation that supports the development of rural low-income housing nationwide. HAC provides technical housing services, loans from a revolving fund, housing program and policy assistance, research and demonstration projects, and training and information services. HAC is an equal opportunity lender.

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KEY ITEMS IN THE PROPOSED 2008 BUDGET

This report analyzes selected portions of the Administration's proposed Fiscal Year (FY) 2008 budget and discusses their implications for rural housing. The analysis includes a program-by-program review of funding requests for the Rural Development (RD) Housing and Community Facilities Programs of the U.S. Department of Agriculture (USDA) and for the U.S. Department of Housing and Urban Development (HUD), as well as a few relevant programs in other departments.

USDA Rural Development Housing and Community Facilities Programs

The proposed budget for fiscal year 2008 would dramatically change the federal funding landscape for rural housing. For the U.S. Department of Agriculture (USDA) rural housing programs, the budget pursues trends from past years, such as favoring loan guarantees over direct lending, but goes drastically farther than previous proposals.

- *Direct lending programs devastated*. As it did last year, the Administration proposes no funding for the Section 515 rental housing loan program, which produces rental units affordable for the lowest-income rural residents. In a surprising move, the budget also zeroes out funding for the popular and productive Section 502 single-family direct program.

- *Guaranteed program funding increased.* Funding for the Section 502 single-family and Section 538 multifamily guarantee programs would be substantially increased. While these programs provide much needed funding for homeownership and rental housing development, they serve residents with more moderate incomes than the direct lending programs that have been cut from the proposed budget.

- *Self-help grant program funding slashed.* The budget significantly cuts Section 523 grants to nonprofit organizations that administer rural self-help programs. This change, along with the deletion of funds for the Section 502 direct loans most rural self-help homebuyers receive, would significantly alter the rural self-help housing program. Production of new rural self-help homes would drop sharply, and homebuyers with incomes too low to qualify for other mortgages would no longer be able to participate in the program.

- *Farm labor housing funding reduced.* The budget would sharply reduce funding for Section 514 farm labor housing loans and 516 farm labor housing grants, cutting the program to only one-third of its FY 2007 level, despite the great need for decent, affordable homes for farmworkers, whose wages are low and inconsistent.

- *Rental housing preservation jeopardized.* The FY 2008 budget would provide only $27.8 million for vouchers and rental property revitalization. This is about the same amount Congress appropriated for preservation initiatives in FY 2006 and 2007, but those initiatives are by no means the total preservation funding available for those years. The budget overlooks the facts that in FY 2006 $61.8 million in Section 515 funds were used for preservation and that, even so, USDA could fund less than 2 percent of the revitalization applications it received.

- ⌂ *Repair grants steady.* Funding would hold steady for Section 504 repair grants, which aid very low-income elderly homeowners, and Section 533 Housing Preservation Grants, used for rehabilitation of both owner-occupied and rental units. Section 504 loans, however, would be cut from $35 million in FY 2007 to $22.9 million.

Department of Housing and Urban Development

Continuing the Administration's past trends, total funding for HUD's discretionary program would be $38.2 billion in fiscal year 2008, $1 billion (2.8 percent) less than funding in 2006 and $4.3 billion (10.6 percent) below 2004 funding levels, adjusted for inflation (Sard and Rice 2007).

- ⌂ *CDBG funding reductions continue*. Unlike previous years' versions, the 2008 HUD budget does not propose to consolidate the Community Development Block Grant (CDBG) program with other HUD programs. Instead it proposes cutting CDBG formula grants by $735 million or almost 20 percent. The budget also states the Administration's intent to reintroduce its proposal to modify the formula under which CDBG funding is allocated while also creating a new "bonus program" for high performing communities. The new bonus program would reward communities that "target and leverage funds to the most distressed areas within a community" (HUD 2007).

- ⌂ *Elimination of RHED, HOPE VI, and other programs*. Similar to those of previous years, the FY 2008 budget proposes eliminating the Rural Housing and Economic Development program, Brownfields Redevelopment grants, HOPE VI program, and the Community Development Loan Guarantee (Section 108) program.

- ⌂ *Significant cuts in many rental housing programs and others*. The budget proposes significant cuts for project based rental assistance, public housing, programs for elderly people and those with disabilities, and lead hazard control.

- ⌂ *Funding increases for some targeted and flexible programs*. Increases are proposed for tenant-based rental assistance, HOME, programs for homeless people, Housing for People with AIDS (HOPWA), and the Self-Help Homeownership Opportunity Program (SHOP).

Other Federal Housing and Community Development Programs

- ⌂ *CDFI funding reduced and special initiatives unfunded*. The U.S. Department of Treasury's Community Development Financial Institutions (CDFI) Fund is proposed in FY 2008 for $29 million, a significant reduction from FY 2007's $55 million appropriation. In contrast to previous years, there would be no separate set-aside for Native Initiatives or for the Bank Enterprise Award (BEA) program.

Table 1 includes proposed budget numbers for selected housing programs. More detailed program by program analysis is provided below, along with HAC's recommendations for USDA RD housing programs.

Table 1
FY 2008 Proposed Budget
for Selected Housing and Community Development Programs
(dollars in millions)

Program	FY 2007 Appropriation	2008 Proposed Budget
USDA Rural Development Programs		
Loans		
502 Single Family Direct	$1,141	$0
502 Single Family Guaranteed	3,681	4,848
504 Very Low-income Repair	35	22.9
514 Farm Labor Housing	38	14
515 Rental Housing Direct	100	0
538 Rental Housing Guaranteed	100	200
Grants & Payments		
504 Very Low-income Repair	30	30
516 Farm Labor Housing Grants	14	4
523 Self-Help TA	34	9.5
533 Housing Preservation Grants	10	9
521 Rental Assistance	616 (a)	567 (a)
542 Rural Housing Voucher Prog.	16	27.8
Rental Preservation Revolving Loans	3	0
Rental Preservation Demonstration	9	0
Rural Community Development Init.	6	0
HUD Programs		
CDBG	$3,771.9	$3,035.6
HOME	1,750	1,967 (b)
Tenant-Based Assistance	15,920	16,000
Project Based Assistance	5,976	5,813
Public Housing Capital Fund	2,464	2,024
Public Housing Operating Fund	3,864	4,000
HOPE VI	99	0
Native American Hsg Block Grant	630	627
Homeless Assistance Grants	1,441.6	1,561
HOPWA	289	300
202 Housing for the Elderly	743.6	575
811 Housing for the Disabled	236.6	125
Housing Counseling	42	50 (c)
Fair Housing	45.5	45
RHED	17	0
SHOP	19.8 (d)	40 (d)
Lead Hazard Control	152	116

(a) Rental Assistance contracts were for four years in FY 2005 and FY 2006. The FY 2007 appropriation shortened them to two years. The FY 2008 budget reduces them to one year.
(b) Includes $50 million proposed for American Dream Downpayment Act.
(c) In prior years was part of HOME.
(d) Funded as part of Self-Help and Assisted Homeownership Opportunity Program account.

USDA RURAL DEVELOPMENT HOUSING AND COMMUNITY FACILITIES PROGRAMS

The most significant changes proposed in the FY 2008 U.S. Department of Agriculture's Rural Development Housing and Community Facilities programs budget relate to single-family direct loans and rental housing programs. Direct lending for single-family home purchases under Section 502 and for multifamily housing development under Section 515 would be eliminated. Direct loans cost the government more, per program dollar, than loan guarantees. Thus, expanded guaranteed loan programs are intended to provide the aid currently available from the direct loan programs.

The RD budget proposes no funding for the Section 515 Rural Rental Housing loan program or for recent congressional initiatives designed to help preserve the rental housing stock. Instead, the refinancing and loan restructuring provided in those initiatives would be combined in a single $27.8 million pool with Section 542 vouchers, which are intended to help low-income residents whose landlords prepay their Section 515 mortgages and remove their units from the stock of affordable housing.

The Administration's budget would drastically slash the funding levels of the Section 523 program, already hurting from previous cuts. The budget would double the FY 2007 level for Section 538 guaranteed rental housing. Rental Assistance contracts would be reduced to one year.

Table 2
USDA Rural Development Housing and Community Facilities Programs
(dollars in millions)

Program	FY 2006 Appropriation	FY 2007 Appropriation	2008 Proposed Budget	Percent Change 2007-2008
USDA RD Housing and Community Facilities Programs				
Loans				
502 Single Family Direct	$1,141	$1,141	$0	-100%
502 Single Family Guaranteed	3,681	3,681	4,848	+31.7%
504 Very Low-income Repair	35	35	22.9	-34.6%
514 Farm Labor Housing	38	38	14	-63.2%
515 Rental Housing Direct	100	100	0	-100%
538 Rental Housing Guaranteed	100	100	200	+100%
Grants & Payments				
504 Very Low-income Repair	30	30	30	0%
516 Farm Labor Housing Grants	14	14	4	-71.4%
523 Self-Help TA	34	34	9.5	-72.1%
533 Housing Preservation Grants	10	10	9	-10.0%
521 Rental Assistance	653	616	567 (a)	-8.0%
542 Rural Housing Voucher Prog.	16	16	27.8	+73.8%
Rental Preserv. Revolving Loans	3	3	0	-100%
Rental Preservation Demonstration	9	9	0	-100%
Rural Community Dev't Initiative	6	6	0	-100%

a. Rental Assistance contracts were for four years in FY 2005 and FY 2006. The FY 2007 budget shortened them to two years. The FY 2008 budget reduces them to one year.

Section 502 Homeownership Loans. Section 502 encompasses two distinct mortgage loan programs, direct loans and guaranteed loans, which serve two different income groups. The Section 502 direct loan program provides 100 percent financing for low- and very low-income persons to purchase an existing dwelling, purchase a site and construct a dwelling, or purchase newly constructed dwellings located in rural areas. Interest rates are subsidized to as low as 1 percent. Low-income is defined as being between 50 and 80 percent of area median income (AMI), while very-low income is defined as being below 50 percent of AMI. The unsubsidized loan guarantee program serves households with incomes up to 120 percent of AMI.

The Section 502 direct program is the only federal program targeting mortgage lending opportunities to low- and very-low income rural households. The annual average income of a direct borrower is 55 percent of AMI, and some 46 percent of Section 502 families have incomes at 40 percent of AMI. The average income of households assisted under Section 502 is $18,500, and about 3 percent of participating households have annual incomes of less than $10,000 (NRHC 2006a).

Demand for the Section 502 direct loan program is consistently high. At the end of August 2006, RD had more than 37,000 pre-qualified loan applications, totaling over $3.5 billion – over three times the amount appropriated for 2006 – from qualified families.

In a surprising and disappointing move, the Administration proposes no funding for the Section 502 direct loan program in the FY 2008 budget. The Administration's proposal transfers the amount currently appropriated to Section 502 direct to the Section 502 single-family guaranteed program. USDA plans to propose legislation to authorize subsidized guaranteed single-family housing loans for very low- and low-income rural residents, according to the budget. It explains that "funding requests for these new loans will follow authorization." While HAC cannot now evaluate the future proposal, it sees no reason to eliminate the direct loan program before putting the subsidized guarantee program in place.

The $4.8 billion proposal for the Section 502 guarantee program assumes Congress will increase guaranteed loan fees from the current 2 percent to 3 percent. Without this increase, the same government outlay would fund guarantees for fewer loan dollars. The budget text claims that a fee increase would not affect borrowers because they could add the fee to the loan amount and borrow as much as 103 percent of a home's appraised value. There is no reason to believe lenders would see this as an improvement, however, since it would increase their risk.

Given the centrality of the Section 502 single-family direct program to improving the nation's rural housing, HAC is particularly shocked and concerned to see no funding proposed for it. This is one of the largest and most successful programs available for low- and very-low income rural families. The Section 502 guarantee program, while important in its own right, cannot take the place of Section 502 direct program because its market-rate loans are not affordable for most of the low- and very low-income households. In addition, providing no funding for the Section 502 single-family direct loan program contradicts the Administration's stated efforts of increasing homeownership rates for low-income persons. HAC strongly discourages de-funding this program and instead proposes restoring it to $1.25 billion.

Table 3
Section 502 Homeownership Programs
(dollars in millions)

	Direct	Guaranteed	Total	Percent Guaranteed
FY 2006 Appropriation	$1,141	$3,681	$4,822	76.3%
FY 2007 Appropriation	$1,141	$3,681	$4,822	76.3%
FY 2008 Budget	$0	$4,848	$4,848	100%
Percent Change From FY 2007	-100%	+31.7%	+0.5%	+23.7%

Section 504 Very Low-Income Repair Loans and Grants. The Section 504 program is generally used to improve poor housing conditions for homeowners below 50 percent of area median income. Section 504 has loan and grant components. The grants are available only to homeowners 62 years or older who cannot repay loans. In FY 2006, the average per unit loan repair cost was $7,012 while the grant program averaged $6,825 per unit.

Table 4
Section 504 Very Low-Income Repair Program
(dollars in millions)

	Loans	Grants
FY 2006 Appropriation	$35	$30
FY 2007 Appropriation	$35	$30
FY 2008 Budget	$23	$30
Percent Change From FY 2007	-34.3%	0%

Section 515 Rural Rental and Cooperative Housing. The Section 515 program provides low-interest loans to finance multifamily rental and cooperative housing development. Since the program's implementation in 1963, USDA has approved more than 27,000 loans to produce 529,979 units. For several years, however, there has been little funding for new units. At its peak in 1979 the program produced 38,000 new multifamily units, but in FY 2006 it supported only 486 units and the 2008 budget, like the budgets of the last few years, calls for no new unit production. Section 515 projects are very important in rural areas, where they are often the only source of affordable rental housing.

Significant funding reductions for Section 515 began in 1994, motivated by program cost and by reports that some developers were making large profits. Admittedly, Section 515 is more expensive than some government rental programs, but this is due to the extremely low incomes of the tenants, averaging under $10,000 annually. In order to serve these tenants, the program must include deep subsidy. The program's former problems have long since been addressed by regulatory changes.

Table 5
Section 515 Rural Rental Housing Loans and Other RD Preservation Initiatives
(dollars in millions)

	Sec. 515 Rural Rental Housing	*Sec. 542 Vouchers*	*Preservation Revolving Loan Fund*	*Rental Preservation Demo.*
FY 2006 Appropriation	$100	$16	$3	$9
FY 2007 Appropriation	$100	$16	$3	$9
FY 2008 Budget	0	$27.8	0	0
Percent Change From FY 2007	-100%	+73.8%	-100%	-100%

Preservation has become a major issue for the over 464,000 units remaining in USDA's Section 515 portfolio. A recent property assessment conducted for USDA concluded that 92 percent of those properties will need significant capital improvements in the next 20 years, and no project in the portfolio has sufficient reserves to meet its needs (ICF Consulting 2004). At the same time, numerous owners have sought to prepay their Section 515 mortgages, often motivated by a desire to remove the program's restrictions and turn their properties into market rate rentals or condominiums; some prepaid units remain affordable for low-income people, but it is not known how many. Thus preservation means not only physical maintenance and renovation of the units, but also keeping them in the stock of rentals affordable to low-income people.

The FY 2008 budget replaces current preservation initiatives with a single line item, $27.8 million for the Section 542 voucher program. It asserts that the Administration will request congressional authorization to use those funds for debt restructuring and revitalization as well as for vouchers for tenants displaced by prepayments. Similarly, the budgets for FY 2006 and 2007 assumed preservation legislation would be adopted, but Congress has not yet passed a bill.

A bill was introduced in the last Congress. H.R. 5039, based on an Administration proposal, would have removed existing restrictions on prepayments of Section 515 mortgages, provided vouchers for tenants in prepaid properties, and funded revitalization of Section 515 properties. A House of Representatives committee passed H.R. 5039, but it was not considered by the full House and similar legislation was not introduced in the Senate. A revised version of the bill is expected to be introduced in the current Congress.

Even if legislation is passed – an assumption HAC believes to be premature – significantly more than $27.8 million will be needed for preservation efforts in FY 2008. As the budget documents note, few vouchers have been used to date. Even if that trend continues, however, it is counterbalanced by the extremely high demand for RD's preservation demonstration program in FY 2006. With a $9 million appropriation, the program was able to fund only 78 of the more than 4,100 applications received for debt deferral, debt restructuring, grants, and other financial assistance.

Far more units were preserved using Section 515 funds in FY 2006. Of the $99 million available that year, $61.8 million was used to repair or rehabilitate 4,001 Section 515 units. RD saved another 1,096 units by providing their owners with incentives: Section 515-funded equity loans and/or new Section 521 Rental Assistance commitments (HAC 2006). By defunding Section 515, the budget would not only eliminate new construction but would also severely damage preservation efforts.

HAC cannot agree with the elimination of funding for the Section 515 program. Currently, more than 2.4 million rural renters have housing problems. Elimination of the Section 515 program would have a dire impact on the existing housing stock as well as the possibility of adding more units affordable to those with the lowest incomes. HAC proposes restoring Section 515 funding levels to at least $100 million.

The Section 538 guarantee program, while important in its own right, cannot take the place of Section 515. In 2005, the administrator of USDA RD's housing programs told Congress that the average adjusted income for tenants in the Section 515 program was $8,158 per year, while the average income of those in Section 538 was $18,400. Section 538 is authorized to serve people with somewhat higher incomes (up to 115 percent of AMI), but it is also important to note that tenants with incomes low enough to qualify for Section 521 Rental Assistance (RA) cannot obtain that aid if they live in Section 538 properties. By statute, RA is available only to Section 514 and 515 developments.

Nor are HUD or USDA vouchers a satisfactory solution to the affordable housing problems faced by rural renters. In many rural areas, Section 515 projects are the only affordable rental housing.

Section 514/516 Farm Labor Housing Loans and Grants. It has been estimated that more than 800,000 affordable units of housing for farmworkers are needed to meet current demand. RD farm labor housing funds are an important resource for developers; funding has always been to low compared to the need, however. The Section 514/516 program has produced only 35,989 units since it began obligating funds in 1962. HAC does not agree with the sizeable decreases proposed for both the loan and grant programs in the Administration's 2008 budget. HAC proposes funding levels of at least $50 million for the combined loan/grant program.

Table 6
Section 514/516 Farm Labor Housing
(dollars in millions)

	Program 514 Loans	*Program 516 Grants*	*Total Program Dollars*
FY 2006 Appropriation	$38	$14	$52
FY 2007 Appropriation	$38	$14	$52
FY 2008 Budget	$14	$4	$18
Percent Change From FY 2007	-63.2%	-71.4%	-65.4%

Section 521 Rental Assistance. The Section 521 Rental Assistance (RA) program is used in conjunction with housing developments funded under the Section 515 and 514 programs only. Section 521 RA ensures that residents pay no more than 30 percent of their income towards rent.

In FY 2006, 43,597 units received Rental Assistance. A few years ago Congress cut the formerly five-year contracts to four years in order to lower the total dollar costs for RA. The FY 2007 appropriation further reduced contracts to two-year terms and the 2008 budget follows this trend by reducing contracts to one year.

Whatever contract length is used, RA will be costly in FY 2008. Five-year contracts from 2003, four-year contracts from 2004, and one-year contracts from early 2007 will all be due for renewal in 2008.

Table 7
Rental Assistance Funding
(dollars in millions)

FY 2006 Appropriation	$653
FY 2007 Appropriation	$616
FY 2008 Budget	$567
Percent Change From FY 2007	-8.0%

Section 523 Self-Help Technical Assistance Grants. Currently 134 organizations in 36 states and two territories participate in the Section 523 self-help housing program, which covers their administrative costs to prepare lots, qualify borrowers (many of whom obtain mortgages through the Section 502 direct loan program), and oversee construction. These organizations support groups of eight to 12 self-help families who construct their own and each others' homes. The Section 523 program requires families to contribute up to 65 percent of the labor needed to build their homes. Thus each homeowner earns considerable "sweat equity" in his or her home, decreasing the cost of homeownership and investing in the community.

Self-help construction, coupled with Section 523 support for sponsoring organizations and direct Section 502 mortgages for participants, puts homeownership within the reach of low- and very low-income families who could not otherwise purchase homes. At least 40 percent of the families participating in the self-help housing programs have incomes at or below 50 percent of AMI. In addition, some 68 percent of the participants in self-help housing are minority households. Despite the fact that families participating in self-help housing have lower incomes than others receiving Section 502 loans, default and delinquency rates for self-help families are also lower (NRHC 2006b).

USDA recently announced that in 2007, because of funding shortages, current self-help sponsors could apply for only 60 percent of their previous grant amounts (Villano 2007). Yet the 2008 budget proposes to reduce Section 523 funding by more than two-thirds, from $34 million to $10 million, a level that would force many local self-help organizations to cease operations. This change, along with the deletion of funds for the Section 502 direct loans most rural self-help homebuyers receive, would significantly alter the rural self-help housing program. Production of new rural self-help homes would drop sharply, and homebuyers with incomes too low to qualify for other mortgages would no longer be able to participate in the program.

HAC strongly recommends against the Administration's reduction in funding levels and instead proposes $60 million for the Section 523 program. Such an amount would be consistent with the Administration's stated goal of increasing homeownership in the United States, particularly for minority families.

Section 523 Self-Help Land Development Fund. This program is authorized as a revolving fund, but in the past only a small portion of revolved monies has been made available through the budget and appropriation process. It has always been underfunded. Congress appropriated $4 million for FY 2007 and the FY 2008 budget proposes no funding.

Table 8
Section 523 Self-Help Land Development Program
(dollars in millions)

FY 2006 Appropriation	$4.0
FY 2007 Appropriation	$4.0
FY 2008 Budget	$0
Percent Change From FY 2007	-100%

Section 524 Rural Housing Site Development Loans. Section 524 is a small, market-rate loan program, used to purchase and/or develop sites to be used for housing low- and moderate-income households. Homes constructed on sites developed with Section 524 loans are not required to use USDA RD mortgage financing. This program has never been well funded; traditionally it receives a small appropriation, which is then underused. The 2008 budget requests $5 million.

Table 9
Section 524 Rural Housing Site Development Loans
(dollars in millions)

FY 2006 Appropriation	$3.0
FY 2007 Appropriation	$3.0
FY 2008 Budget	$5.0
Percent Change From FY 2007	+66.7%

525 Supervisory and Technical Assistance Grants. RD has used the Section 525 authority to fund small demonstrations and special projects. The 2008 budget proposal requests no funding for supervisory and technical assistance grants. Previous appropriations have been $1 million per year.

Section 533 Housing Preservation Grants. The Housing Preservation Grants (HPG) program makes funds available through local organizations for the rehabilitation of owner-occupied and rental homes in designated areas with concentrated needs. RD state directors have the authority to interchange funds between the Section 533 and 504 grant programs. Faced with a shortage of funds for rehabilitation and repair, they have favored Section 504 because it is available in all rural areas, whereas HPG is geographically limited.

Appropriations for the HPG program have never exceeded $23 million in any fiscal year. In FY 1996 the appropriation was cut to $11 million and in FY 2000 it fell to a low of $5.5 million. Funding for the program has been restored somewhat, at close to $10 million per year in the last few years, and the FY 2008 proposal is for $9 million.

Table 10
Section 533 Housing Preservation Grants
(dollars in millions)

FY 2006 Appropriation	$10
FY 2007 Appropriation	$10
FY 2008 Budget	$9
Percent Change From FY 2007	-10%

Section 538 Guaranteed Multifamily Housing Loans. Under the Section 538 program, RD guarantees loans made by private lenders – generally banks and savings and loans institutions – for the development of affordable rural rental housing. The program can be used to guarantee permanent financing, or a combination construction and permanent loan. It cannot be used for a loan that covers only construction.

As funding for Section 515 has been reduced, funding for the guaranteed loan program has steadily increased. The budget would continue that trend, doubling the Section 538 program level to $200 million.

RD intends some of the guaranteed loans to be used to refinance Section 515 direct loans. While Section 538 may seem attractive because these loans cost the government less than Section 515 loans, the Section 538 program serves higher income tenants, as noted above. The two programs serve different purposes.

Section 538 is highly leveraged. For example, in FY 2006, the program guaranteed $100 million in 2,884 units where total development costs were almost $420 million. Of that total, 76 percent was leveraged – that is, provided by sources other than the loan guaranteed by RD. This is a 17 percent increase in leveraged funds from 2004.

Table 11
Section 538 Guaranteed Multifamily Housing Loans
(dollars in millions)

FY 2006 Appropriation	$100
FY 2007 Appropriation	$100
FY 2008 Budget	$200
Percent Change From FY 2007	+100%

Section 542 Rural Housing Vouchers. As explained above, the Administration has proposed to increase the Section 542 Rural Housing Voucher Program from $16 million in FY 2007 to over $27.8 million in 2007 and to expand the program to cover other rental preservation activities.

Table 12
Section 542 Rural Housing Vouchers
(dollars in millions)

FY 2006 Appropriation	$16
FY 2007 Appropriation	$16
FY 2008 Budget	$27.8
Percent Change From FY 2007	+73.8%

Rural Community Development Initiative. Like the Administration's budgets for the last four years, the FY 2008 budget proposes to eliminate USDA's Rural Community Development Initiative (RCDI). By funding intermediary organizations to provide capacity building aid to community-based rural nonprofits, this program can be very useful for local rural housing producers. Congress provided over $6 million in funding for this program in 2007. HAC recommends restoring this program to previous funding levels.

Community Facilities Programs. In addition to RD housing appropriations, the 2008 budget proposal for USDA Rural Development includes other non-housing programs of great importance to rural communities. The 2008 proposed budget includes $302 million in funding for the direct community facility guaranteed loan program and $210 million in loan guarantees under this program. The community facility grants, which had been funded at around $50 million in previous years, would receive no funding in 2008.

Rural Empowerment Zones and Enterprise Communities. The Administration's FY 2008 budget proposes no funding for rural Empowerment Zones (EZs) and Enterprise Communities (ECs).

Rural Development Utilities and Business Programs

Although much progress has been made in regards to bringing safe, clean water and basic water and sanitation services to rural America, needs remain. For instance, nearly one million rural households still do not have indoor plumbing. In addition, water systems in communities serving fewer than 10,000 residents are more than twice as likely to violate drinking water standards for microbes and chemicals as larger systems. The Environmental Protection Agency estimates that $13.8 billion is required to meet clean water needs of small communities.

For many rural communities, USDA RD provides a critical source of funding for water and waste water infrastructure finance. Under the Rural Development Utilities Program, the 2008 budget proposes to maintain water and waste disposal direct loans at a funding level of approximately $1 billion. Water and wastewater grants, though, would drop significantly from their FY 2006 level of $447 million to $349 million in 2007. Due to the continued infrastructure needs of rural communities, HAC recommends restoring the water and wastewater grants to $450 million.

The budget also proposes to eliminate the Rural Business Enterprise Grant (RBEG) and the Rural Business Opportunity Grant (RBOG) programs.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Community Planning and Development

The most drastic changes relative to the housing programs in the Department of Housing and Urban Development's (HUD) FY 2008 proposed budget occur with regard to programs under the Office of Community Planning and Development. The HUD budget proposes to reduce CDBG funding by almost 20 percent from fiscal year 2007 levels, to just over $3 billion.

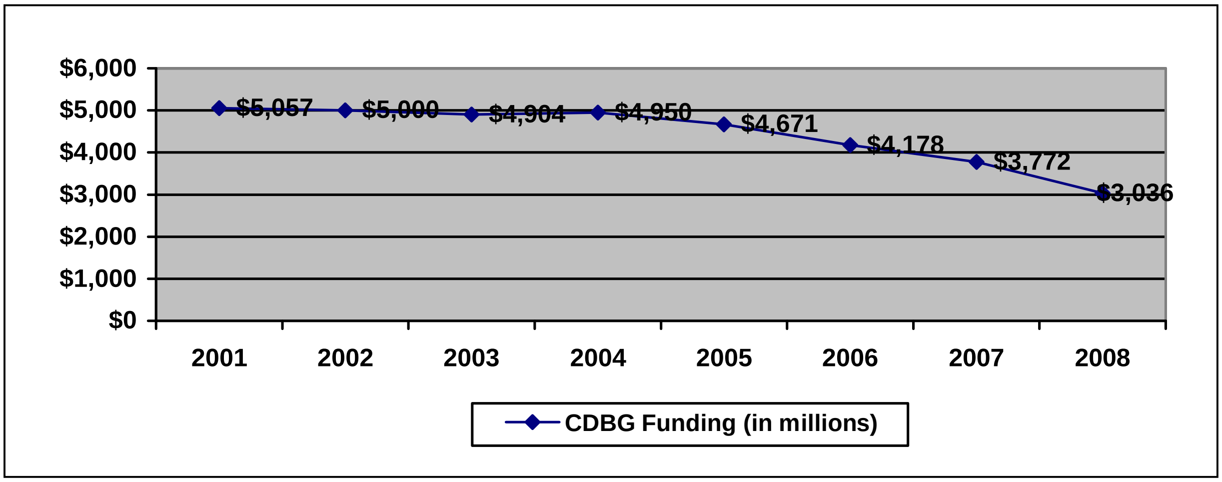
Table 13
Community Planning and Development
(dollars in millions)

Program	2006 Appropriation	2007 Appropriation	2008 Budget Request	Percent Change 2007-2008
Community Development Block Grants	$4,178	$3,771.9	$3,035.6	-19.5%
Indian CDBG	$59	$59	$57	-3.4%
Self-Help Homeownership Opportunity Program (SHOP)	$20 (a)	$20 (a)	$40	+100%
Rural Housing & Economic Development	$17	$17	$0	-100%
HOME Investment Partnerships Program	$1,750	$1,750	$1,967	+12.4%
American Dream Downpayment Initiative	$25	$25	$50	+100%
Housing Counseling	$42	$45	$50	+11.1%
Lead Hazard Control	$152	$152	$116	-23.7%
Homeless Assistance Programs	$1,326	$1,441.6	$1,586	+10.0%
Prisoner Re-Entry Init.	NA	NA	$25	NA

a. Funded through the Self-Help and Assisted Homeownership Opportunity Program account.

Community Development Block Grant. Unlike the budgets of the last two years, the 2008 budget does not propose to consolidate CDBG with other programs or transfer it to the Commerce Department. However, the Administration plans to establish a new CDBG distribution formula for states and localities while also creating a new "bonus program" for high performing communities. The new bonus program would reward communities that "target and leverage funds to the most distressed areas within a community" (HUD 2007, 10).

Figure 1. CDBG Funding Levels



CDBG funds are divided into two categories. Rural communities, specifically, utilize the State CDBG program to build housing and infrastructure and create economic development opportunities. Most rural areas apply for CDBG funds from the State CDBG program, administered by state government agencies.[1] The second pool of funds is distributed by formula to "entitlement" jurisdictions, which are generally cities with populations of 50,000 or more and counties with populations of 200,000 or more.

Within the larger CDBG program, the 2008 proposed budget would fund the Indian CDBG program at $57 million. This program provides Native American communities with flexible funds to solve pressing community development issues on reservations. The program was cut by 13.2 percent from 2005 to 2006 and the 2008 proposal would reduce funding by another 3.4 percent. The National American Indian Housing Council (2006) has voiced concern over this trend and recommended the program be funded at $77 million.

Self-Help Homeownership Opportunity Program. Funding for the Self-Help Homeownership Opportunity Program (SHOP), a popular resource for rural self-help development organizations, is proposed at $40 million in FY 2008, double the 2007 level. This program, which was once a CDBG set-aside, was transferred to a new Self-Help and Assisted Homeownership Opportunity Program (SHAHOP) account in 2006. Despite the similar name, this account is not identical to SHOP; it includes funding for some other programs as well.

[1] Hawaii is the only state that has chosen not to administer its own program, so HUD administers the State CDBG program there.

Table 14
SHOP Funding History
(in millions)

Year	Amount
FY 2003 Appropriation	$25
FY 2004 Appropriation	$27
FY 2005 Appropriation	$25
FY 2006 Appropriation	$20
FY 2007 Appropriation	$20
FY 2008 Budget	$40

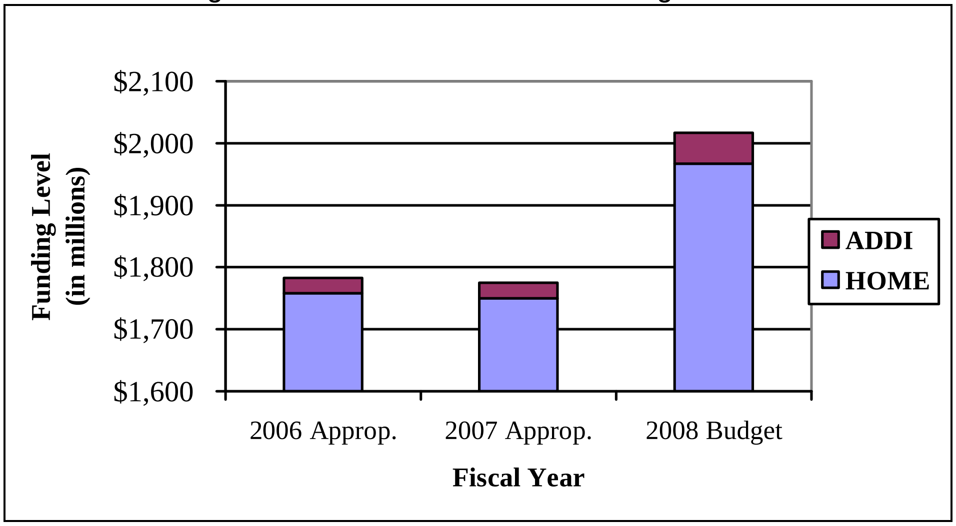
Rural Housing and Economic Development. The Administration has proposed to eliminate the RHED program in every fiscal year since FY 2003, including 2008, but Congress has funded it every year. RHED is an important resource for rural affordable housing organizations since it provides scarce federal capacity building and project funding for organizations serving small rural communities. From 1999 through 2005, the RHED program has provided 701 grants to rural organizations, totaling approximately $176 million, with an emphasis on Appalachia, the border Colonias, the Mississippi Delta, farmworkers, and Native American lands.

The Administration has repeatedly stated that RHED is duplicative of other programs operated by USDA Rural Development. Yet USDA programs are mostly loans to families in carefully prescribed programs. Very little federal support exists to build the capacity of nonprofit organizations, the institutions that serve low-income persons. RHED is one of the few flexible grant programs directed to rural nonprofits. HAC does not agree with eliminating this vitally important support program, and believes it should be funded at $50 million.

HOME Investment Partnerships Program. The HOME Investment Partnerships Program, which provides flexible funding through state and local governments for both ownership and rental housing, would receive a slight increase in 2008.

Of the total $1.97 billion, $50 million is proposed for the American Dream Downpayment Initiative (ADDI). This HOME set-aside received appropriations of $25 million in FY 2006 and 2007. HUD describes the initiative as a critical part of its efforts to increase minority homeownership. The Administration also plans to submit a proposal to Congress to reauthorize the ADDI program, which sunsets at the end of 2007 (HUD 2007).

Figure 2. HOME & ADDI Funding Levels



Housing Counseling. HUD's housing counseling program funds HUD-approved agencies to provide pre- and post-purchase housing counseling. This program has traditionally been funded as a set-aside within the HOME program; however, in 2008 the Administration has again proposed to separate it from HOME. Funding would be increased from $44.5 million in 2007 to $50 million in 2008.

Homeless Assistance. The budget reconfirms the Administration's stated intention to end chronic homelessness. Specific steps proposed towards this goal are:

- to provide $1.59 billion in Homeless Assistance Grants; and
- to shift $25 million to a Prisoner Reentry Initiative administered by the Department of Labor.

Advocates such as the National Alliance to End Homelessness commend HUD for increasing homeless assistance grants, but also assert the need for increased funding for mainstream housing and service programs to meet homeless persons' basic and long term needs (NAEH 2007).

Public and Indian Housing

Table 15
Public and Indian Housing
(dollars in millions)

Program	2006 Appropriation	2007 Appropriation	2008 Budget Request	Percent Change 2007-2008
Sec. 8 Project Based Rental Assistance	$5,037	$5,976	$5,813	-2.7%
Sec. 8 Tenant Based Rental Assistance	$15,808	$15,920	$16,000	+0.5%
Public Hsg. Operating Fund	$3,564	$3,864	$4,000	+3.5%
Public Hsg. Capital Fund	$2,439	$2,464	$2,024	-17.9%
Revit. of Severely Distressed Public Hsg. (HOPE VI)	$99	$99	$0	-100%
Nat. Amer. Hsg. Block Grants	$624	$630	$627	-0.5%
Nat. Hawaiian Block Grants	$9	$9	$6	-33.3%
Sec. 184 Indian Hsg. Loan Guar.	$115	$251	$367	+46.2%
Nat. Hawaiian Loan Guar.	$1	$1	$1	0%

Section 8. The Administration requests $16 billion for Section 8 tenant based rental assistance for fiscal year 2008. According to the National Low Income Housing Coalition (NLIHC) (2007), "the slight increase in tenant based rental assistance funding will be insufficient to cover increases in inflation and would lead to insufficient funding." The shortfall in funding for tenant-based vouchers is not a new phenomenon. Since early 2004, "funding shortfalls and policy changes in the Section 8 tenant-based voucher program have contributed to the loss of more than 150,000 vouchers, a loss unprecedented in the nation's history" (CBPP 2007, 4). If the President's voucher renewal funding levels are enacted, the CBPP estimates 40,000-80,000 vouchers could be cut in FY 2008 (CBPP 2007).

The budget proposes other changes to the tenant-based program, including lifting the cap on the number of vouchers a public housing authority is authorized to issue. In addition, future voucher funding would be based on its most recent year's spending (NLIHC 2007). The Administration also proposes a new initiative to assist small agencies that choose to consolidate, hoping to create greater efficiencies. Legislation to implement the Administration's reform proposal is scheduled to be submitted in early 2007 (HUD 2007). NLIHC (2007) recommends increasing the total number of incremental, new vouchers in FY 2008 by 100,000 and believes that the approach in the FY 2008 budget request will not add new vouchers to use.

Project-based Section 8 would receive $5.8 billion in fiscal year 2008, $776 million more than was allocated in fiscal year 2006. This request would allow HUD to renew all existing contract renewals.

Public Housing. HUD estimates that there are approximately 1.2 million occupied public housing units operated by 3,400 public housing authorities (PHAs). The budget would increase funding for the Public Housing Operating Fund, which covers maintenance, utilities, protective services, and other services, to $4 billion. However, the budget would reduce the Public Housing Capital Fund, which gives grants to PHAs for major repairs and modernization, by $440 million from fiscal year 2007 levels.

According to the Center on Budget and Policy Priorities (2007), "the modest increase that the Administration proposed would likely prevent the shortfall in the Operating Fund from getting deeper in 2008 than it was in 2007, but it would still leave agencies receiving far lower amounts of operating subsidies than they are eligible for under HUD's operating cost formula." CBPP (2007) states that over the last decade, the U.S. "has experienced a net loss of approximately 170,000 public housing units due to deterioration and decay, and much of the remaining public housing stock has substantial repair and rehabilitation needs that must be met if public housing is to be revitalized and preserved."

The Public Housing Authorities Directors Association, the National Association of Housing and Redevelopment Officials, and the Council of Large Public Housing Authorities recommend $3.5 billion for public housing capital funds and $4.7 billion for operating funds in FY 2008 (NLIHC 2007).

As in the 2006 and 2007 proposals, the FY 2008 budget would provide no funding for the HOPE VI program, which has made grants to PHAs for demolition of public housing units and creation of replacement housing. Few of these units are in rural areas.

Native American Housing. Most housing assistance from HUD for Native Americans is in the form of flexible block grants to tribes and tribal housing organizations, which decide how to use the money. The Native American Housing Block Grant would receive $627 million in FY 2008, an increase of $3 million from 2006. The National American Indian Housing Council estimates that annual funding of $748 million would be required to meet current needs (NAIHC 2006).

The President's budget proposes a large increase in resources for the Section 184 loan guarantee program, which guarantees loans made by private lenders to Native Americans. The budget would enable Section 184 to guarantee loans worth $367 million – equal to the total expected for FY 2006 and FY 2007 together.

Fair Housing

The Fair Housing Assistance Program (FHAP) supports activities of state and local jurisdictions whose programs have been declared substantially equivalent to the federal Fair Housing Act. The Fair Housing Initiatives Program (FHIP) provides grants to nonprofit agencies that conduct education, outreach, and enforcement. The 2008 budget proposes a $1 million reduction in funding for the FHAP from FY 2006 enacted levels; FHIP would remain the same. The Administration expects fair housing activities to play a role in promoting minority homeownership (HUD 2007).

Special Needs Populations

Table 16
Housing for Special Needs Populations
(dollars in millions)

Program	2006 Appropriation	2007 Appropriation	2008 Budget Request	Percent Change 2007-2008
Elderly Hsg. (Sec. 202)	$735	$735	$575	-21.8%
Hsg. for Persons with Disabilities (Sec. 811)	$237	$237	$125	-47.3%
HOPWA	$286	$289	$300	+3.8%

Section 202. HUD proposes to provide $575 million for the Section 202 program, which produces rental units for elderly people. This is a $160 million decrease from enacted FY 2006 and 2007 levels. Within the total, the budget would allocate $25 million to convert existing units to assisted living facilities, and the provision of service coordinators would receive $71 million.

Section 811. Funding for the Section 811 program, which assists people with disabilities, would be cut almost in half. The Administration is requesting $125 million for 2008. Up to 25 percent of the program's funds can be used to provide Section 8-type vouchers, and $75 million of the 2008 funds would be used to renew those vouchers.

The Administration is proposing leveraged financing demonstration projects in both Section 202 and Section 811. These would be funded at $25 million for Section 202 and $15 million for Section 811, with the goal of increasing the production of units serving these special needs populations by removing the barriers that discourage Low Income Housing Tax Credit applicants from using Sections 202 and 811 (HUD 2007).

Housing for Persons with AIDS. The FY 2007 budget proposes funding for the Housing Opportunities for Persons with AIDS (HOPWA) program at $300 million, similar to previous years' funding levels. Jurisdictions are eligible for this funding if federal data indicate a certain level of need in their areas. The Administration proposes to request an update to the HOPWA allocation formula in fiscal year 2008 (HUD 2007). The National AIDS Housing Coalition applauds the increase in HOPWA funding, but recommends that the program be funded at $454 million in FY 2008 (NAHC 2007).

OTHER FEDERAL HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS

Tax Credits

Tax credits do not need to be budgeted or appropriated annually, so the Low Income Housing Tax Credit does not appear in the President's budget. This program, which encourages private investment in affordable rental housing, is administered by the Treasury Department and state housing finance agencies.

Community Development Financial Institutions Fund

Unlike the last several years, the Administration's FY 2008 budget proposes new funding for the Treasury Department's Community Development Financial Institutions (CDFI) Fund, although at low levels. The level proposed for 2008 is $29 million, a significant reduction from the $55 million appropriations in FY 2006 and 2007. The budget does not request funding for the Bank Enterprise Award (BEA) program or for the Native Initiatives set-aside. The proposed funds would be used for grant awards, technical assistance, and the New Markets Tax Credit program (Treasury 2007).

The CDFI Fund administers two programs that are potentially relevant for affordable rural housing. The CDFI program provides financial and/or technical assistance to certified Community Development Financial Institutions. Its aid is intended to help CDFIs make loans or development investments and to provide development services that will promote economic revitalization and community development. The New Markets Tax Credit is intended to draw new private investments to businesses in distressed areas by providing tax benefits to equity investors. According to the CDFI Coalition (2007), "CDFI Fund awardees leverage 21 dollars of private sector monies for every dollar of federal investment."

Table 17
CDFI Fund
(dollars in millions)

FY 2006 Appropriation	$55
FY 2007 Appropriation	$55
FY 2008 Budget	$29
Percent Change From FY 2007	-47.3%

Youthbuild

Local organizations have used the Youthbuild program to both develop affordable housing and provide low-income youth with construction training. The Administration transferred the program to the Department of Labor in 2007 and proposes funding the program at $50 million in fiscal year 2008 (DOL 2007).

Table 18
Youthbuild
(dollars in millions)

FY 2006 Appropriation	$49
FY 2007 Appropriation	$49
FY 2008 Budget	$50
Percent Change From FY 2007	+2.0%

Delta Regional Authority

The FY 2008 budget proposes $6 million in funding for the Delta Regional Authority (DRA). The DRA is a federal-state partnership serving a 240-county/parish area in an eight-state region. Led by a federal co-chairman and the governors of the participating states, the DRA is designed to remedy severe and chronic economic distress by stimulating economic development and fostering partnerships that will have a positive impact on the region's economy (DRA 2007). The budget directs the DRA to collect results from grant projects and develop more outcome-based performance measures to better measure the authority's impact in the eight-state region (NADO 2007). In addition, DRA's authorization is set to expire on September 30, 2007 and it is anticipated that Congress will consider reauthorization legislation in the coming months (NADO 2007).

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The Administration's fiscal year 2008 budget proposes a drastic reduction in funding levels for federal rural housing and community development programs. For example, the budget recommends no funding for the highly successful and important Section 502 single-family direct loan program or for the Section 515 rental housing loan program. The U.S. Department of Housing and Urban Development's Community Development Block Grant program would be cut by almost 20 percent, while its Rural Housing and Economic Development program would receive no funding. This report analyzes the Administration's budget and discusses its implications for rural housing.

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