March 12, 2024

MEMORANDUM

TO: NCSHA Members
FR: NCSHA's Policy and Government Affairs Team
RE: NCSHA's Analysis of the Administration's FY 2025 Budget Request

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Executive Summary

On March 11, the Biden Administration released its $7.3 trillion Fiscal Year (FY) 2025 Budget request, outlining its fiscal priorities. The budget proposes an overall increase in federal spending, including increases in most existing HUD and rural housing programs and several new housing programs, offset by a range of new revenue measures, and projects deficit reduction of approximately $3.2 trillion over the 10-year window used for budget planning and reporting purposes.

Overall, the budget provides for $1.9 trillion in discretionary spending in FY 2025. This includes $72.6 billion in discretionary budget authority for the U.S. Department of Housing and Urban Development (HUD), an approximately $1.9 billion or 2.7 percent increase from the 2024 enacted level, and $29.2 billion for the U.S. Department of Agriculture (USDA), a $3 billion or 11.3 percent increase from the 2024 enacted level.

In addition, the administration proposes additional measures related to affordable housing, including a significant expansion of and improvements to the Housing Credit; the Neighborhood Homes Tax Credit, which NCSHA has endorsed; new targeted tax credits for certain eligible first-time home buyers and some home sellers; investments in new project-based rental assistance contracts; new mandatory spending for capital investments in public housing; funding for 50,000 new Housing Choice Vouchers as well as two new entitlement-type voucher programs targeted to youth aging out of foster care and extremely low-income veterans; a first-generation down payment assistance program; and funding and policy changes related to HUD and USDA homeownership and multifamily housing programs.

HUD Program Funding Highlights

The Biden Administration's FY 2025 budget requests $72.6 billion in discretionary authority for HUD programs, approximately $1.9 billion or 2.7 percent above the FY 2024 level enacted as part of the "minibus" legislation recently signed into law. In addition, the budget proposes approximately $185 billion in new mandatory spending for a variety of programs and investments related to production of new housing, targeted voucher programs, and new forms of home buyer assistance. Of this amount, $81.3 billion would be for HUD-administered programs; the remainder is attributable to various revenue provisions, including expansion of the Housing Credit, administered by the U.S. Department of the Treasury.

Proposed Mandatory Affordable Housing Programs: The budget proposes $81.3 billion in new mandatory spending on affordable housing administered by HUD, broken down as follows.

Innovation Fund for Housing Expansion	$20 billion
Targeted Housing Vouchers for Vulnerable Populations	$22.3 billion
Extremely Low-Income Veterans	*$13.1 billion*
Youth Aging out of Foster Care	*$9.2 billion*
Extremely Low-Income Housing Supply Subsidy	$15 billion
New Project-Based Rental Assistance	*$7.5 billion*
Preservation of Distressed Public Housing	*$7.5 billion*
First-Generation Down Payment Assistance	$10 billion
Homelessness Grants	$8 billion
Eviction Prevention Grants	$3 billion
Emergency Rental Assistance for Older Adults at Risk of Homelessness	$3 billion

The budget describes the proposed $20 billion Innovation Fund for Housing Expansion as issuing "large, flexible grants to States, communities, Tribes, and other eligible entities to implement locally driven plans to dramatically expand housing supply, lower rental costs, and promote homeownership." Enumerated eligible uses of proceeds from the fund would include:

- Low-interest loans, grants, and subsidies to support multifamily production with long-term affordability requirements for all or part of the units created, focused on creating both rental and ownership units through adaptive reuse, commercial-to-residential conversions, and mixed-use development.
- Planning and implementation grants to remove barriers to the production of affordable housing, such as restrictive land use and permitting policies, and to adopt policies that help increase supply, such as allowing accessory dwelling units and middle-density housing.
- Construction, conversion, and rehabilitation of starter homes, including condominiums, and manufactured or modular housing to expand homeownership opportunities for low- and middle-income and first-time home buyers.

Other proposed mandatory programs included in the budget are described throughout this memorandum.

<u>HOME</u>: The budget proposes $1.25 billion for the HOME Investment Partnerships program, level with the FY 2024 enacted level but less than the $1.8 billion proposed in the FY 2024 budget. Up to $50 million of this amount would be available for the FirstHOME down payment assistance initiative. The budget further proposes extending the suspension of the 24-month commitment period as well as extending the suspension of the provision that requires Community Housing Development Organization funding to be recaptured if uncommitted after 24 months.

<u>Tenant-Based Rental Assistance/Housing Choice Vouchers</u>: The budget proposes $32.8 billion in discretionary authority for the Housing Choice Voucher (HCV) program, an increase of $369 million over FY 2024, broken down as follows:

- $29.3 billion for contract renewals
    - $701 million for Section 811 Mainstream Vouchers
    - Up to $200 million for HAP contract renewal adjustments
    - Up to $5 million for renewal of Tribal HUD-VASH grants
    - Up to $50 set-aside to support long-term financial stability and promote energy or water efficiency, climate resilience or other preservation efforts
- $3 billion for administrative fees
- $300 million for Tenant Protection Vouchers
- $241 million for new incremental vouchers

These amounts are in addition to the aforementioned $13.1 billion and $9.2 billion, respectively, in proposed mandatory spending over the 10-year window for new vouchers targeted at extremely low-income veterans and for youth aging out of foster care.

In addition, the budget proposes a number of programmatic changes to the HCV program, including consolidating Section 811 Mainstream Vouchers within the regular HCV program and creating new administrative flexibilities for the Mainstream Voucher and other special-purpose voucher programs; expanding the use of HCV administrative fees for landlord incentive payments, security deposits, and renter insurance costs; allowing public housing authorities to conduct pre-qualifying inspections of prospective HCV units; and new flexibilities for Moving to Work jurisdictions.

<u>Section 8 Project-Based Rental Assistance</u>: The budget proposes $16.7 billion for Section 8 Project-Based Rental Assistance (PBRA), a $676 million increase from the final FY 2024 enacted level. Of that total, $16.1 billion is for renewing expiring Section 8 project-based contracts; $62 million is for the Rental Assistance Demonstration (RAD) program, including $50 million for conversions from public housing, $10 million for conversions from Section 202 Project Rental Assistance Contracts, and $2 million for contract support for small property owners converting through RAD; $5 million to support budget-based rental increases for at-risk Mark-to-Market Section 8 properties; and $492 million for performance-based contract administrators' (PBCAs) administrative fees, an increase of $24 million over FY 2024.

In addition, the budget contains the same legislative language that last year's budget included to allow HUD to award cooperative agreements for PBCAs through a Notice of Funding Opportunity (NOFO) rather than a Federal Acquisition Regulations procurement.

The budget also proposes $7.5 billion in mandatory spending for new PBRA contracts targeted to serve ELI households. Under the proposal, HUD would allocate new PBRA contracts to encourage mixed-income housing in places of greatest need, with priority given for desirable, "resource-rich" neighborhoods in urban, suburban, and rural areas.

Homeless Assistance Grants: The budget proposes $4.1 billion, an increase of $9 million, for Homeless Assistance Grants. This request includes $3.7 billion for the Continuum of Care (CoC) Program, $290 million for Emergency Solutions Grants, and $10 million for the National Homeless Data Analysis Project for Homeless Management Information Systems, data analysis, and technical assistance. Of the amount allocated for the CoC program, $52 million would be for rapid re-housing projects serving survivors of domestic violence, sexual assault, and other gender-based violence, while $82 million would be for additional Youth Homeless Demonstration Program projects.

These discretionary amounts are in addition to $8 billion in proposed new mandatory funding to expand temporary and permanent housing strategies for people experiencing or at risk of homelessness. Eligible activities would include development and operational costs for temporary and permanent housing, non-congregate shelter solutions, interim housing, rapid rehousing, permanent supportive housing, and rental housing for ELI households experiencing housing instability or homelessness. The budget also proposes $3 billion for targeted emergency rental assistance for low-income older adults experiencing or at risk of homelessness.

Community Development Block Grants: The budget requests $2.9 billion for the Community Development Block Grant (CDBG) program, a decrease of $370 million from FY 2024. $100 million is set aside for the Pathways to Removing Obstacles to Housing grant program (otherwise known as the "Yes in My Backyard" grant program) and $30 million is set aside for the Recovery Housing program (otherwise known as the SUPPORT program). The budget also includes language to permanently authorize the Community Development Block Grant-Disaster Recovery (CDBG-DR) program.

The budget proposes new programs funded through mandatory spending that would be allocated via formula grants to states and eligible CDBG grantees, including $8 billion of the new $10 billion First-Generation Home Buyer Down Payment Assistance program and $3 billion in eviction prevention funds for states and entitlement communities for eviction diversion, emergency rental assistance, and expanded access to legal counsel and housing counselors.

<u>Section 202 Housing for the Elderly</u>: The budget provides $931 million, $18 million higher than the final FY 2024 enacted level, for the Section 202 Housing for the Elderly program. This amount includes $813.4 million to renew contracts, $115 million to support service coordinators, and $3 million for property inspections and related administrative costs. In addition, the budget notes that existing Section 202 property owners may be eligible for grants or loans for energy efficiency and climate resilience improvements under the Green and Resilient Retrofit Program (GRRP).

<u>Section 811 Housing for Persons with Disabilities</u>: The budget requests $257 million, a decrease of $49 million from FY 2024, for the Section 811 Housing for Persons with Disabilities program. This includes $253 million for Project Rental Assistance Contracts, renewals, and amendments and $3.7 million for inspections and related administrative costs. In addition, the budget notes that existing Section 811 property owners may be eligible for grants or loans for energy efficiency and climate resilience improvements under GRRP.

<u>Housing Opportunities for Persons with AIDS</u>: The budget proposes $505 million for Housing Opportunities for Persons with AIDS, equal to funding enacted in FY 2024. Of this amount, 90 percent or $454.5 million would be distributed by formula based on cases of people living with HIV/AIDS, adjusted for an area's fair market rent and poverty rates; and 10 percent or $50.5 million would be allocated for competitive grants to be awarded for innovative model projects that address special needs or populations.

<u>Self-Sufficiency Programs</u>: The budget proposes $175 million, a decrease of $20 million from the FY 2024 enacted level, for self-sufficiency programs. This includes $125 million for the Family Self-Sufficiency program, $15 million for the Jobs Plus Initiative, and $35 million for the Resident Opportunity and Self-Sufficiency program.

<u>Lead Hazard and Healthy Homes</u>: The budget proposes $350 million for the Office of Lead Hazard Control and Healthy Homes program, a $5 million increase from the final FY 2024 enacted amount. This amount reflects recissions of $155 million in carryover funding due to undersubscription in recent fiscal years.

In part to alleviate undersubscription attributable to a lack of grantee capacity, the budget proposes 80 percent of funding for all lead hazard reduction grant programs be awarded on a formula basis that considers the rate of low-income families residing in older housing (either pre-1978 or pre-1940 for the lead hazard control and lead hazard reduction demonstration programs, respectively) and the rate of children under age six with elevated blood lead levels. The remaining 20 percent of lead hazard reduction grant funds would continue to be awarded through a NOFO competition.

<u>Rental Assistance Demonstration</u>: The budget proposes $112 million towards the RAD program to support conversion of approximately 30,000 public housing units and 3,000 Section

202 Project Rental Assistance Contract units; of this amount, $62 million and $50 million, respectively, would be for conversion to either the PBRA or tenant-based rental assistance platforms.

Housing Trust Fund: The budget estimates $255 million will be provided to the Housing Trust Fund (HTF) account and proposes a number of legislative changes to the HTF program, including authorizing a Part 58 environmental review process to align HTF with other HUD programs, applying Davis-Bacon wage rate requirements to HTF, and eliminating the two-year commitment requirement.

Federal Housing Administration Single-Family Insurance Program: The budget requests $400 billion in loan authority for FHA's Mutual Mortgage Insurance Fund, which supports FHA's single-family "forward" and home equity conversion mortgage (HECM) "reverse" mortgages. This is the same level as FY 2024. The administration estimates FHA will insure $220 billion in single-family forward mortgages in FY 2025, compared to an estimated $214.3 billion in FY 2024, and $18 billion in HECMs.

The administration also requests $155 million for administrative expenses to support a range of FHA functions, such as loan underwriting, claims processing, and risk monitoring, a $5 million increase from FY 2024.

FHA Multifamily/Title I Manufactured Housing and Property Improvement Loan Programs: The budget requests a limitation of $35 billion on loan guarantees from FHA's General Insurance and Special Risk Insurance (GI/SRI) fund for financing FHA's affordable multifamily activity, manufactured housing loans originated through FHA's Title I program, and health care facility loan insurance programs. This is the same level of commitment authority the GI/SRI fund received in FY 2024.

FHA estimates the GI/SRI fund will insure nearly $18 billion in loans in FY 2025, including $411 million for Federal Financing Bank Risk-Sharing Loans, $13 billion in loans to finance multifamily housing, $5 billion in financing for healthcare facilities, and $20 million for Title I manufactured housing and property improvement projects.

Ginnie Mae: The budget requests $650 billion in commitment authority for FY 2025 for Ginnie Mae, the same as the FY 2024 enacted level. Ginnie Mae issuance in FY 2023 was over $404 billion. The budget also requests $67 million in spending authority from offsetting collections ($158 million) for Ginnie Mae salaries and expenses.

Housing Counseling: The budget proposes $57.5 million for housing counseling, the same amount as FY 2024. Of the total requested, $53 million is for grants to housing counseling agencies, HFAs, and housing counseling intermediaries. Of this $53 million, $2.5 million would be earmarked for housing counselor training, $5 million to expand outreach to diverse markets and increase counseling services to historically underserved communities, and $3 million in support to housing counseling agencies that partner with Historically Black Colleges and Universities (HBCUs). The remaining $4.5 million is for administrative expenses.

USDA Rural Housing Program Funding Highlights

The budget requests $29.2 billion in discretionary funding for USDA programs, a nearly $3 billion or 11.3 percent increase over the recently enacted FY 2024 funding levels.

The budget also asks for authority to decouple USDA rental assistance from the Section 514, 515, and 516 mortgage insurance programs, which would allow USDA to continue providing rental assistance to tenants residing in properties with an expired or matured USDA mortgage. A pilot program to allow USDA to decouple rental assistance for 1,000 units was established in the final FY 2024 USDA appropriations legislation.

The budget proposes to eliminate a provision of the Section 502 Direct Loan Program that requires low-income borrowers to repay subsidy costs known as "recapture." Loans made in 2025 or later would no longer require the homeowner to repay the subsidy associated with their Section 502 loan after the sale of their home.

The budget also seeks to improve the handling of distressed single-family properties with USDA mortgages. The administration proposes to dispose of USDA's Real Estate Owned properties more rapidly to reduce the property management costs. Additionally, the budget proposes to standardize the foreclosure process across every state to align with HUD's foreclosure process.

<u>Section 502 Single-Family Direct Loan Program</u>: The budget requests $1.25 billion for the Section 502 direct loan program, an increase of $370 million over FY 2024.

<u>Section 502 Single-Family Guaranteed Loan Program</u>: The budget proposes $30 billion for the Section 502 unsubsidized guaranteed loan program, $5 billion more than enacted in FY 2024.

<u>Section 515 Rural Rental Direct Loan Program</u>: The budget requests $70 million for the Section 515 multifamily housing direct loan program, an increase of $10 million over FY 2024 levels.

<u>Section 521 Rural Rental Assistance Program</u> and **<u>Section 542 Rural Development Voucher Program</u>:** The budget requests $1.728 billion in FY 2025 for rural rental assistance; $1.69 billion for existing rental assistance contract renewals and $38 million for new Section 542 vouchers. Section 521 rental assistance was funded at $1.608 billion in FY 2024, with the Section 542 voucher program receiving $48 million in funding. The administration believes decoupling rental assistance vouchers from USDA multifamily programs will mean fewer rental assistance vouchers are required. The appropriations request for the Section 542 voucher program reflects just enough funding needed for existing voucher renewals.

Section 538 Guaranteed Rural Rental Housing Program: The budget proposes $400 million for the Section 538 guaranteed multifamily housing loan program, level funding with FY 2024.

Multifamily Housing Revitalization Demonstration Program: The budget proposes a significant increase in funding for the demonstration program aimed at preserving and revitalizing Section 514, 515, and 516 properties. The program would receive $90 million in FY 2025; the program received $34 million in FY 2024.

Other Budget Proposals Related to Housing

Housing Credit: The description of the Revenue Proposals that accompany the President's Budget (commonly referred to as the "Green Book") includes several of NCSHA's top Housing Credit priorities to increase the supply of affordable housing financed with the Housing Credit and ensure existing Housing Credit developments remain affordable for the full development-specific extended use period. Specifically, the budget would:

- Establish a cap at the greater of $4.37 per capita or $5,039,154 for 9 percent Housing Credit authority in 2025, increase the cap to the greater of $4.99 per capita or $5,754,271 in 2026, and index the caps thereafter for inflation. The proposed 2025 authority would be an increase of just over 50 percent compared to the 2024 Housing Credit volume cap, currently set at $2.90 per capita or $3,360,000. The proposed 2026 authority is approximately 72 percent higher than the current 2024 Housing Credit volume cap.
- Permanently reduce the bond financing threshold to 25 percent (from the 50 percent threshold under current law) for 4 percent Housing Credit buildings placed in service after December 31, 2024.
- Repeal the statutory qualified contract provision for future developments while establishing a purchase price of fair market value for existing properties that retain the qualified contract right.
- Replace the Housing Credit's Right of First Refusal (ROFR) with a safe harbor purchase option for future properties. The administration also commits to working with Congress to develop an approach to the ROFR agreements in existing properties.

The administration estimates the Housing Credit provisions would cost $37 billion over the 10-year budget window.

The administration also proposes increasing the corporate tax rate from 21 to 28 percent and raising the minimum corporate tax from 15 to 21 percent. These modifications would likely increase investor demand for the Housing Credit and other tax credits, potentially leading to higher pricing.

<u>Neighborhood Homes Investment Credit</u>: The budget proposes Congress pass legislation establishing the Neighborhood Homes Investment Credit (NHIC) to promote new construction or substantial rehabilitation of affordable, owner-occupied housing in distressed neighborhoods. This credit is substantially similar to the credit established under the Neighborhood Homes Investment Act (S. 657), passage of which is one of NCSHA's legislative priorities. The administration included a similar proposal in its FY 2022 budget request. It was not included in the request for FY 2023 because the administration hoped it would pass as part of the Build Back Better bill.

The NHIC would allow project sponsors to claim a credit to cover the difference between the cost to rehabilitate a home in a distressed neighborhood, or build a new home on an empty lot, and the price for which the home is sold. The tax credit would be provided on the condition that the home is occupied by low- or middle-income homeowners. The administration projects the credit will cost nearly $19 billion over 10 years.

<u>Initiatives to Expand Homeownership</u>: The budget includes several proposals for increasing access to homeownership, including increasing access to down payment assistance. For the second year in a row, the administration proposes the establishment of the First-Generation Down Payment Assistance Program, which would fund down payment assistance for first-time home buyers whose parents do not own a home and who have incomes at or below 120 percent of the area median (140 percent in high-cost areas). As described above, the budget requests $10 billion in mandatory funding over 10 years for the program.

The new initiative would be administered at the federal level by HUD, which would award nearly $8 billion in funding to states and other eligible CDBG grantees through a formula. The remaining $2 billion would be awarded to eligible entities that have demonstrated the capacity to deliver down payment assistance. HUD estimates this program would help more than 400,000 home buyers in 10 years. HUD also expresses optimism that the initiative would help lead to the establishment of a common down payment assistance offering, which other down payment assistance programs could adopt and which could increase lender involvement in down payment assistance programs.

This proposal is substantially similar to the Down Payment Toward Equity Act, introduced by House Financial Services Committee Chair Maxine Waters (D-CA) and included in the House-passed version of the Build Back Better bill. NCSHA advocated in support of the legislation.

The budget also requests to set aside up to $50 million of HOME Investment Partnerships program funding for a down payment assistance pilot program for first-generation and/or low-wealth first-time home buyers.

<u>Homeownership Tax Credits</u>: The budget proposes two new tax credits designed to increase liquidity in the housing market and help low- and middle-income families purchase homes. The Mortgage Relief Credit would provide first-time home buyers with an annual tax credit of $5,000 a year for two years. The full credit would be limited to households with incomes of $100,000 or less and would phase out for households on a sliding scale until reaching zero for households with incomes more than $200,000. The administration estimates such a credit would be the equivalent of lowering recipients' mortgage interest rate by more than 1.5 percent and would help more than 3.5 million middle-income families purchase homes.

To address the lack of affordable homes for sale, the budget proposes a one-year tax credit of up to $10,000 for middle-class families who sell their starter home (defined as a home priced below the area median home price) to another owner-occupant. As with the Mortgage Relief Credit, the full credit would be limited to households with incomes of $100,000 or less and would phase out for households with incomes up to $200,000. The administration estimates that nearly three million households would claim this credit.

FHLB Affordable Housing Program Contributions: The Biden Administration proposes that Congress pass legislation increasing the Federal Home Loan Banks' (FHLBs) minimum contribution to their Affordable Housing Programs (AHP) from 10 percent of their revenues to 20 percent. The Federal Housing Finance Agency proposed such a change in its comprehensive report on the FHLBs introduced last November. NCSHA has long supported increasing the minimum AHP contribution.